

SK hynix Inc.
(Formerly Hynix Semiconductor Inc.)
and Subsidiaries

Interim Consolidated Financial Statements
September 30, 2012 and 2011

SK hynix Inc. and Subsidiaries
Index
September 30, 2012 and 2011

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Report on Review of Interim Financial Statements

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

Reviewed Financial Statements

We have reviewed the accompanying interim consolidated financial statements of SK hynix Inc.(formerly Hynix Semiconductor Inc.) and its subsidiaries. These financial statements consist of consolidated statement of financial position of SK hynix Inc. and its subsidiaries (collectively the Group) as of September 30, 2012, and the related consolidated statements of comprehensive income for the three-month and nine-month periods ended September 30, 2012 and 2011, and statements of changes in equity and cash flows for the nine-month periods ended September 30, 2012 and 2011, and a summary of significant accounting policies and other explanatory notes, expressed in Korean won.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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Conclusion

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

Other Matters

We have audited the consolidated statement of financial position of the Group as of December 31, 2011, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended and expressed an unqualified opinion on those financial statements in our audit report dated March 12, 2012. These financial statements are not included in this review report. The consolidated statement of financial position as of December 31, 2011, presented herein for comparative purposes, is consistent, in all material respects, with the above audited statement of financial position as of December 31, 2011.

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

A handwritten signature in black ink that reads "Saml PricewaterhouseCoopers". The signature is written in a cursive, flowing style.

Seoul, Korea
November 9, 2012

This report is effective as of November 9, 2012, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying interim consolidated financial statements and notes thereto. Accordingly, the readers of the review report should understand that there is a possibility that the above review report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

SK hynix Inc. and Subsidiaries
Interim Consolidated Statements of Financial Position
September 30, 2012 and December 31, 2011

| <i>(in millions of Korean won)</i> | Notes | September 30, 2012 | December 31, 2011 |
|--|------------|---------------------|---------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 4,6,14 | ₩ 605,655 | ₩ 1,243,788 |
| Short-term financial instruments | 4,6,14 | 1,184,633 | 632,139 |
| Trade receivables | 7,8,13,14 | 1,655,100 | 1,540,925 |
| Loans and other receivables | 7,13,14 | 174,251 | 212,641 |
| Inventories | 9 | 1,557,982 | 1,183,608 |
| Assets classified as held for sale | 18 | 28,154 | 29,033 |
| Other financial assets | 4,14,34 | - | 1 |
| Other current assets | 10 | 177,024 | 94,715 |
| | | <u>5,382,799</u> | <u>4,936,850</u> |
| Non-current assets | | | |
| Investments in jointly controlled entities and associates | 12 | 102,547 | 103,613 |
| Available-for-sale financial assets | 4,11,14 | 50,444 | 47,492 |
| Property, plant and equipment | 15 | 12,112,035 | 10,899,308 |
| Intangible assets | 17 | 999,169 | 707,648 |
| Investment property | 16 | 30,208 | 31,168 |
| Loans and other receivables | 7,13,14 | 18,746 | 38,461 |
| Other financial assets | 6,14,34 | 404 | 3,441 |
| Deferred income tax assets | | 315,355 | 315,718 |
| Other non-current assets | 10 | 210,277 | 154,449 |
| | | <u>13,839,185</u> | <u>12,301,298</u> |
| Total assets | | <u>₩ 19,221,984</u> | <u>₩ 17,238,148</u> |
| Liabilities | | | |
| Current liabilities | | | |
| Trade payables | 14 | ₩ 777,527 | ₩ 678,408 |
| Other payables | 14 | 561,035 | 516,724 |
| Other non-trade payables | 14,19 | 331,627 | 345,878 |
| Provisions | 21 | 382,118 | 353,467 |
| Other financial liabilities | 4,14,22,34 | 9,086 | 38,678 |
| Borrowings | 4,14,20 | 2,657,099 | 2,830,426 |
| Other current liabilities | 23 | 28,146 | 42,535 |
| Current tax liabilities | | 9,109 | 11,170 |
| | | <u>4,755,747</u> | <u>4,817,286</u> |
| Non-current liabilities | | | |
| Borrowings | 4,14,20 | 4,062,754 | 3,946,039 |
| Other non-trade payables | 14,19 | 101,655 | 94,326 |
| Defined benefit liabilities | 24 | 475,309 | 458,699 |
| Other financial liabilities | 4,14,22,34 | 2,001 | 7,796 |
| Other non-current liabilities | 23 | 38,076 | 38,731 |
| | | <u>4,679,795</u> | <u>4,545,591</u> |
| Total liabilities | | <u>9,435,542</u> | <u>9,362,877</u> |
| Equity attributable to owners of the Parent Company | | | |
| Capital stock | 25 | 3,488,252 | 2,978,498 |
| Capital surplus | 25 | 3,049,173 | 1,229,052 |
| Accumulated other comprehensive income | | 13,086 | 107,107 |
| Other components of equity | | 4,100 | 5,762 |
| Retained earnings | | 3,232,602 | 3,555,323 |
| | | <u>9,787,213</u> | <u>7,875,742</u> |
| Non-controlling interest | | <u>(771)</u> | <u>(471)</u> |
| Total equity | | <u>9,786,442</u> | <u>7,875,271</u> |
| Total liabilities and equity | | <u>₩ 19,221,984</u> | <u>₩ 17,238,148</u> |

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

SK hynix Inc. and Subsidiaries
Interim Consolidated Statements of Comprehensive Income
Three-Month and Nine-Month Periods Ended September 30, 2012 and 2011

| <i>(in millions of Korean won, except per share amounts)</i> | Notes | 2012 | | 2011 | |
|---|--------|--------------------|--------------------|--------------------|--------------------|
| | | Three Months | Nine months | Three Months | Nine months |
| Net sales | 5 | ₩ 2,423,482 | ₩ 7,443,823 | ₩ 2,291,105 | ₩ 7,842,652 |
| Cost of sales | 26 | <u>(2,021,426)</u> | <u>(6,362,214)</u> | <u>(2,182,679)</u> | <u>(6,422,073)</u> |
| Gross profit | | 402,056 | 1,081,609 | 108,426 | 1,420,579 |
| Selling, administration and ordinary development expenses | 26, 27 | (433,249) | (1,379,093) | (400,252) | (1,122,919) |
| Other operating income | 28 | 22,385 | 66,009 | 29,438 | 243,710 |
| Other operating expenses | 26, 28 | <u>(6,265)</u> | <u>(20,775)</u> | <u>(14,371)</u> | <u>(48,411)</u> |
| Operating income(loss) | 5 | (15,073) | (252,250) | (276,759) | 492,959 |
| Financial income | 29 | 196,004 | 454,615 | 374,895 | 554,247 |
| Financial expenses | 29 | (177,223) | (509,897) | (651,127) | (840,715) |
| Income from jointly controlled entities and associates | 12 | 4,077 | 11,036 | 1,472 | 7,274 |
| Other non-operating income | | 344 | 1,293 | - | - |
| Other non-operating expenses | 33 | <u>(2,945)</u> | <u>(14,516)</u> | <u>-</u> | <u>(11,392)</u> |
| Profit(loss) before income tax | | 5,184 | (309,719) | (551,519) | 202,373 |
| Income tax expense | 30 | <u>3,143</u> | <u>12,770</u> | <u>11,101</u> | <u>18,456</u> |
| Profit(loss) for the period | | <u>₩ 2,041</u> | <u>₩ (322,489)</u> | <u>₩ (562,620)</u> | <u>₩ 183,917</u> |
| Other comprehensive income(loss) | | | | | |
| Change in value of available-for-sale financial assets | 11 | (449) | 2,962 | (2,110) | (17,128) |
| Currency translation differences | | (71,435) | (96,853) | 264,769 | 163,329 |
| Other comprehensive income from jointly controlled entities and associates | 12 | (2,882) | (220) | 8,374 | 3,807 |
| Actuarial loss on defined benefit liabilities | 24 | <u>(254)</u> | <u>(268)</u> | <u>(8)</u> | <u>(39)</u> |
| Total comprehensive income(loss) for the period | | <u>₩ (72,979)</u> | <u>₩ (416,868)</u> | <u>₩ (291,595)</u> | <u>₩ 333,886</u> |
| Profit(loss) for the period attributable to: | | | | | |
| Equity holders of the Parent Company | | ₩ 1,885 | ₩ (322,392) | ₩ (561,100) | ₩ 183,252 |
| Non-controlling interest | | 156 | (97) | (1,520) | 665 |
| Total comprehensive income(loss) for the period attributable to: | | | | | |
| Equity holders of the Parent Company | | ₩ (73,046) | ₩ (416,673) | ₩ (292,775) | ₩ 333,895 |
| Non-controlling interest | | 67 | (195) | 1,180 | (9) |
| Earnings(loss) per share attributable to the equity holders of the Parent Company for the period | 31 | | | | |
| Basic earnings(loss) per share | | ₩ 3 | ₩ (476) | ₩ (948) | ₩ 309 |
| Diluted earnings(loss) per share | | (12) | (476) | (948) | 309 |

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

SK hynix Inc. and Subsidiaries
Interim Consolidated Statements of Changes in Equity
Nine-Month Periods Ended September 30, 2012 and 2011

| | | Attributable to equity holders of the Parent Company | | | | | | | | | | | | | | | |
|---|--|--|-----------|---------------|------------|----------|-----------|----------|-----------|-----------------|-----------|-------|-----------|---|-------|---|-----------|
| | | Capital | | Accumulated | | Other | | Retained | | Non-controlling | | Total | | | | | |
| | | stock | Surplus | Comprehensive | Components | Earnings | Total | Interest | Equity | | | | | | | | |
| Notes | | | | Income (loss) | of Equity | | | | | | | | | | | | |
| <i>(in millions of Korean won)</i> | | | | | | | | | | | | | | | | | |
| Balance at January 1, 2011 | | ₩ | 2,969,023 | ₩ | 1,193,100 | ₩ | (23,261) | ₩ | 5,762 | ₩ | 3,761,299 | ₩ | 7,905,923 | ₩ | 1,653 | ₩ | 7,907,576 |
| Comprehensive income | | | | | | | | | | | | | | | | | |
| | Profit for the period | - | - | - | - | - | 183,252 | - | 183,252 | - | 665 | - | 183,917 | | | | |
| | Loss on the valuation of available-for-sale financial assets | - | - | (16,352) | - | - | - | - | (16,352) | - | (776) | - | (17,128) | | | | |
| 11 | Currency translation differences | - | - | 163,227 | - | - | - | - | 163,227 | - | 102 | - | 163,329 | | | | |
| 12 | Other comprehensive income from jointly controlled entities and associates | - | - | 3,807 | - | - | - | - | 3,807 | - | - | - | 3,807 | | | | |
| 24 | Actuarial loss on defined benefit liabilities | - | - | - | - | - | (39) | - | (39) | - | - | - | (39) | | | | |
| | Total comprehensive income | - | - | 150,682 | - | - | 183,213 | - | 333,895 | - | (9) | - | 333,886 | | | | |
| Transactions with equity holders of the Parent Company : | | | | | | | | | | | | | | | | | |
| | Dividends | - | - | - | - | - | (88,541) | - | (88,541) | - | - | - | (88,541) | | | | |
| 25 | Exercise of conversion rights | 9,475 | 36,192 | - | - | - | - | - | 45,667 | - | - | - | 45,667 | | | | |
| | Changes in scope of consolidation | - | - | - | - | - | - | - | - | - | (2,055) | - | (2,055) | | | | |
| | Others | - | (240) | - | - | - | (15) | - | (255) | - | - | - | (255) | | | | |
| | Total transactions with equity holders of the Parent Company | 9,475 | 35,952 | - | - | - | (88,556) | - | (43,129) | - | (2,055) | - | (45,184) | | | | |
| Balance at September 30, 2011 | | ₩ | 2,978,498 | ₩ | 1,229,052 | ₩ | 127,421 | ₩ | 5,762 | ₩ | 3,855,956 | ₩ | 8,196,689 | ₩ | (411) | ₩ | 8,196,278 |
| Balance at January 1, 2012 | | ₩ | 2,978,498 | ₩ | 1,229,052 | ₩ | 107,107 | ₩ | 5,762 | ₩ | 3,555,323 | ₩ | 7,875,742 | ₩ | (471) | ₩ | 7,875,271 |
| Comprehensive income | | | | | | | | | | | | | | | | | |
| | Loss for the period | - | - | - | - | - | (322,392) | - | (322,392) | - | (97) | - | (322,489) | | | | |
| 11 | Gain on the valuation of available-for-sale financial assets | - | - | 2,962 | - | - | - | - | 2,962 | - | - | - | 2,962 | | | | |
| | Currency translation differences | - | - | (96,763) | - | - | - | - | (96,763) | - | (90) | - | (96,853) | | | | |
| 12 | Other comprehensive loss from jointly controlled entities and associates | - | - | (220) | - | - | - | - | (220) | - | - | - | (220) | | | | |
| 24 | Actuarial loss on defined benefit liabilities | - | - | - | - | - | (260) | - | (260) | - | (8) | - | (268) | | | | |
| | Total comprehensive income | - | - | (94,021) | - | - | (322,652) | - | (416,673) | - | (195) | - | (416,868) | | | | |
| Transactions with equity holders of the Parent Company : | | | | | | | | | | | | | | | | | |
| 25 | Issuance of share capital | 509,250 | 1,816,726 | - | - | - | - | - | 2,325,976 | - | - | - | 2,325,976 | | | | |
| 25 | Exercise of conversion rights | 36 | 147 | - | - | - | - | - | 183 | - | - | - | 183 | | | | |
| 25 | Exercise of stock options | 468 | 3,322 | - | (1,662) | - | - | - | 2,128 | - | - | - | 2,128 | | | | |
| | Changes in a Parent's ownership interest in subsidiaries | - | (74) | - | - | - | - | - | (74) | - | (105) | - | (179) | | | | |
| | Others | - | - | - | - | - | (69) | - | (69) | - | - | - | (69) | | | | |
| | Total transactions with equity holders of the Parent Company | 509,754 | 1,820,121 | - | (1,662) | - | (69) | - | 2,328,144 | - | (105) | - | 2,328,039 | | | | |
| Balance at September 30, 2012 | | ₩ | 3,488,252 | ₩ | 3,049,173 | ₩ | 13,086 | ₩ | 4,100 | ₩ | 3,232,602 | ₩ | 9,787,213 | ₩ | (771) | ₩ | 9,786,442 |

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

SK hynix Inc. and Subsidiaries
Interim Consolidated Statements of Cash Flows
Nine-Month Periods Ended September 30, 2012 and 2011

| <i>(in millions of Korean won)</i> | Notes | 2012 | 2011 |
|--|-------|--------------------|--------------------|
| Cash flows from operating activities | | | |
| Cash generated from operations | 35 | ₩ 1,761,722 | ₩ 2,262,942 |
| Interest received | | 64,086 | 49,458 |
| Interest paid | | (219,075) | (189,160) |
| Dividends received | | 12,098 | 8,883 |
| Income tax paid | | (20,373) | (11,905) |
| Net cash generated from operating activities | | <u>1,598,458</u> | <u>2,120,218</u> |
| Cash flows from investing activities | | | |
| Decrease in short-term financial instruments | | 1,725,112 | 2,142,482 |
| Increase in short-term financial instruments | | (2,346,962) | (1,773,485) |
| Receipt of government grants | | 153 | - |
| Decrease in loans and other receivables | | 4,485 | 12,693 |
| Increase in loans and other receivables | | (7,308) | (5,371) |
| Proceeds from derivatives | | 2,363 | 17,475 |
| Payments from derivatives | | (44,175) | (2,832) |
| Proceeds from disposal of assets classified as held for sale | | 23 | 6,931 |
| Proceeds from disposal of available-for-sale financial assets | | 9,422 | - |
| Acquisition of available-for-sale financial assets | | (1,621) | (5,587) |
| Proceeds from disposal of property, plant and equipment | | 35,006 | 4,789 |
| Acquisition of property, plant and equipment | | (3,319,569) | (2,915,507) |
| Proceeds from disposal of Intangible assets | | 4 | 13,903 |
| Acquisition of intangible assets | | (108,911) | (143,599) |
| Proceeds from disposal of Investment property | | - | 151 |
| Acquisition of investments in associates | | - | (12,181) |
| Acquisition of investments in subsidiaries | | (274,732) | - |
| Changes in a parent's ownership interest in subsidiaries | | - | (660) |
| Increase in other financial assets | | - | (5) |
| Net cash used in investing activities | | <u>(4,326,710)</u> | <u>(2,660,803)</u> |
| Cash flows from financing activities | | | |
| Proceeds from borrowings | | 5,327,800 | 2,287,691 |
| Repayments of borrowings | | (5,562,258) | (1,507,496) |
| Proceeds from issuance of common stock | | 2,328,102 | - |
| Changes in a parent's ownership interest in subsidiaries | | (181) | - |
| Dividends paid | | - | (88,541) |
| Net cash provided by financing activities | | <u>2,093,463</u> | <u>691,654</u> |
| Effect of foreign exchange rates on cash and cash equivalents | | <u>(3,344)</u> | <u>2,981</u> |
| Net increase (decrease) in cash and cash equivalents | | (638,133) | 154,050 |
| Cash and cash equivalents at the beginning of period | | 1,243,788 | 1,253,226 |
| Cash and cash equivalents at the end of period | | <u>₩ 605,655</u> | <u>₩ 1,407,276</u> |

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

SK hynix Inc. and Subsidiaries
Notes to the Interim Consolidated Financial Statements
September 30, 2012 and 2011, and December 31, 2011

1. General information

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

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

As of September 30, 2012, the shareholders of the Parent Company and their shareholdings are as follows:

| Shareholder | Number of shares | Percentage of ownership (%) |
|---------------------------------------|--------------------|-----------------------------|
| SK Telecom Co., Ltd. | 146,100,000 | 21.05 |
| Share Management Council ¹ | 32,132,131 | 4.63 |
| Individual investors | 515,890,320 | 74.32 |
| | 694,122,451 | 100.00 |

¹As of September 30, 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 | 6,917,631 | 1.00 |
| | 32,132,131 | 4.63 |

According to the share purchase agreement dated November 14, 2011, between SK Telecom Co., Ltd. and the Share Management Council, the Share Management Council should exercise its voting right on the shares following SK Telecom Co., Ltd.’s decision in designating officers of the Parent Company or other matters unless these conflict with the Share Management Council’s interest.

Accordingly, in substance, SK Telecom Co., Ltd. has the voting rights over the Share Management Council’s shares as of September 30, 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.

SK hynix Inc. and Subsidiaries
Notes to the Interim Consolidated Financial Statements
September 30, 2012 and 2011, and December 31, 2011

As of September 30, 2012, the Group's consolidated subsidiaries are as follows:

| Names of subsidiaries | Number of Shares | Ownership (%) | Locations | Remarks |
|--|-------------------------|----------------------|------------------|-----------------------|
| Hynix Engineering Co., Ltd. | 671,932 | 100 | Korea | Domestic subsidiary |
| Hystec Co., Ltd. | 236,408 | 100 | Korea | Domestic subsidiary |
| Hynix HRD Center Co., Ltd. | 59,102 | 100 | Korea | Domestic subsidiary |
| Hylogitec Co., Ltd. | 39,401 | 100 | Korea | Domestic subsidiary |
| Ami Power Co., Ltd. | 524,852 | 100 | Korea | Domestic subsidiary |
| QRT Semiconductor Co., Ltd. | 20,000 | 100 | Korea | Domestic subsidiary |
| SK hynix America Inc.(SKHYA) | 6,285,587 | 97.7 | U.S.A. | Overseas sales entity |
| Hynix Semiconductor Manufacturing America Inc.(HSMA) | 200,000,100 | 100 | U.S.A. | Discontinued entity |
| SK hynix Deutschland GmbH(SKHYD) | Certificate | 100 | Germany | Overseas sales entity |
| SK hynix Europe Holding Ltd.(SKHYE) | 335,640,000 | 100 | U.K. | Holding company |
| SK hynix U.K. Ltd.(SKHYU) | 186,240,200 | 100 | U.K. | Overseas sales entity |
| SK hynix Asia Pte. Ltd.(SKHYS) | 196,303,500 | 100 | Singapore | Overseas sales entity |
| SK hynix Semiconductor India Pvt. Ltd.(SKHYIS) | 10,000 | 100 | India | Overseas sales entity |
| SK hynix Semiconductor HongKong Ltd.(SKHYH) | 170,693,661 | 100 | HongKong | Overseas sales entity |
| SK hynix Semiconductor (Shanghai) Co., Ltd.(SKHYCS) | Certificate | 100 | China | Overseas sales entity |
| SK hynix Japan Inc.(SKHYJ) | 20,000 | 100 | Japan | Overseas sales entity |
| SK hynix Semiconductor Taiwan Inc.(SKHYT) | 35,725,000 | 100 | Taiwan | Overseas sales entity |
| SK hynix Semiconductor (China) Ltd.(SKHYCL) | Certificate | 100 | China | Manufacturing entity |
| SK hynix Semiconductor (Wuxi) Ltd.(SKHYMC) | Certificate | 100 | China | Manufacturing entity |
| SK hynix (Wuxi) Semiconductor Sales Ltd.(SKHYCW) | Certificate | 100 | China | Overseas sales entity |
| SK hynix Italy S.r.l.(SKHYIT) | Certificate | 100 | Italy | Overseas R&D center |
| Link_A_Media Devices Corporation(LAMD) | 100 | 100 | U.S.A. | Overseas R&D center |

Changes in the scope of consolidation

The following subsidiaries were newly included in the scope of consolidation for the nine-month period ended September 30, 2012:

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

SK hynix Inc. and Subsidiaries
Notes to the Interim Consolidated Financial Statements
September 30, 2012 and 2011, and December 31, 2011

Major subsidiaries' summarized statements of financial position as of September 30, 2012 and December 31, 2011, translated into Korean won using the exchange rate as of the reporting date are as follows:

| <i>(in millions of Korean won)</i> | September 30, 2012 | | |
|------------------------------------|---------------------------|--------------------|---------------|
| | Assets | Liabilities | Equity |
| SKHYA | 785,731 | 762,681 | 23,050 |
| SKHYS | 143,855 | 78,368 | 65,487 |
| SKHYH | 269,320 | 220,757 | 48,563 |
| SKHYJ | 316,687 | 263,326 | 53,361 |
| SKHYT | 280,049 | 244,667 | 35,382 |
| SKHYCL | 3,566,279 | 1,161,419 | 2,404,860 |

| <i>(in millions of Korean won)</i> | December 31, 2011 | | |
|------------------------------------|--------------------------|--------------------|---------------|
| | Assets | Liabilities | Equity |
| SKHYA | 764,593 | 742,030 | 22,563 |
| SKHYS | 135,027 | 68,761 | 66,266 |
| SKHYH | 240,632 | 189,682 | 50,950 |
| SKHYJ | 264,567 | 215,613 | 48,954 |
| SKHYT | 321,079 | 285,903 | 35,176 |
| SKHYCL | 3,732,468 | 1,448,999 | 2,283,469 |

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Major subsidiaries' summarized statements of comprehensive income for the three-month and nine-month periods ended September 30, 2012 and 2011, translated into Korean won using the average exchange rate for the period are as follows:

| <i>(in millions of Korean won)</i> | 2012 | | | |
|------------------------------------|---------------------|------------------------------------|--------------------|------------------------------------|
| | Three Months | | Nine Months | |
| | Sales | Profit(Loss) for the period | Sales | Profit(Loss) for the period |
| SKHYA | 927,802 | 8,643 | 2,731,312 | 1,187 |
| SKHYS | 144,404 | 659 | 510,241 | 1,237 |
| SKHYH | 476,607 | (174) | 1,338,411 | (989) |
| SKHYJ | 178,737 | 7,123 | 569,521 | 5,834 |
| SKHYT | 298,136 | (2,028) | 1,107,685 | 236 |
| SKHYCL | 629,734 | 105,189 | 1,841,829 | 186,669 |

| <i>(in millions of Korean won)</i> | 2011 | | | |
|------------------------------------|---------------------|------------------------------------|--------------------|------------------------------------|
| | Three Months | | Nine Months | |
| | Sales | Profit(Loss) for the period | Sales | Profit for(Loss) the period |
| SKHYA | 781,215 | 7,441 | 2,460,131 | 3,932 |
| SKHYS | 208,931 | 1,495 | 736,755 | (961) |
| SKHYH | 383,427 | 5,280 | 1,309,165 | (2,778) |
| SKHYJ | 205,374 | (928) | 697,676 | (114) |
| SKHYT | 335,684 | 3,440 | 1,312,022 | (534) |
| SKHYCL | 577,469 | (37,988) | 1,625,990 | (232,788) |

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2. Significant accounting policies

2.1 Basis of preparation

The interim consolidated financial statements for the nine-month period ended September 30, 2012, have been prepared in accordance with Korean IFRS 1034, *Interim Financial Reporting*. These interim consolidated financial statements have been prepared in accordance with the Korean IFRS standards and interpretations issued and effective or issued and early adopted at the reporting date as of September 30, 2012.

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

- Amendments to Korean-IFRS 1019, *Employee Benefits*

According to the amendments to Korean-IFRS 1019, *Employee Benefits*, 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 the Group as of January 1, 2013, and the Group is assessing the impact of application of the amended Korean-IFRS 1019 on its consolidated financial statements as of the report date.

- Amendments to 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 Korean-IFRSs. This amendment will be effective for the Group as of January 1, 2013, and the Group expects that it would not have a material impact on its consolidated financial statements.

- Amendments to Korean-IFRS 1001, *Presentation of Financial Statements*

Korean-IFRS 1001, *Presentation of Financial Statements*, was amended to present the operating income or loss as an amount of sales net of cost of sales, and selling and administrative expenses in the statement of comprehensive income. It also describes that an entity can present operating income or loss to include other profits or losses as reflected in entity-specific measure of its operating performance (under the name 'adjusted operating income or loss' or another if appropriate) in the notes. The effective date of the amendment is December 31, 2012, and the amendment is required to be applied for annual periods ending on or after the effective date, with early adoption permitted. The Group expects that the application of this amendment would not have a material impact on its net profit or loss for the period but would have an impact on its operating income or loss in the statement

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of comprehensive income.

In addition, Korean-IFRS 1001, *Presentation of Financial Statements*, requires entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be recycled to profit or loss in the future. This amendment will be effective for annual periods beginning on or after July 1, 2012, and early adoption is permitted. The Group expects that it would not have a material impact on its consolidated financial statements.

2.2 Accounting policy

The principal accounting policies applied in the preparation of these interim consolidated financial statements are consistent with the policies applied in the preparation of prior year consolidated financial statements, except for the policies stated below.

The income tax expense was calculated on the basis of the expected annual weighted average tax rate enacted or substantively enacted at the reporting date.

3. Critical accounting estimates and assumptions

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

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

4. Financial risk management

4.1 Financial risk factors

The Group's activities are exposed to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The interim consolidated financial statements do not include all the financial risk management and disclosures that are required in the annual consolidated financial statements and, therefore, refer to the annual consolidated financial statements for the year ended December 31, 2011.

There is no significant change in risk management department and policies for the nine-month period ended September 30, 2012.

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(a) Market risk

i) Foreign exchange risk

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

As of September 30, 2012, if the currency had strengthened /weakened by 10% against the US dollar with all other variables held constant, loss(profit) before income tax for the period would have been ₩ 226,549 million (2011: ₩ 274,633 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.

As of September 30, 2012, if the currency had strengthened /weakened by 10% against the Japanese Yen with all other variables held constant, loss(profit) before income tax for the period would have been ₩ 39,429 million (2011: ₩ 22,725 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.

As of September 30, 2012, if the currency had strengthened /weakened by 10% against the Euro with all other variables held constant, loss(profit) before income tax for the period would have been ₩ 17,337 million (2011: ₩ 41,886 million) lower/higher, mainly as a result of foreign exchange gains/losses on translation of Euro-denominated trade receivables and foreign exchange losses/gains on translation of Euro-denominated trade payables.

ii) Price risk

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

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

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

| <i>(in millions of Korean won)</i> | September 30, 2012 | | September 30, 2011 | |
|------------------------------------|---------------------------|---------------------|---------------------------|---------------------|
| | 20% increase | 20% decrease | 20% increase | 20% decrease |
| Effects in equity | 6,148 | (6,148) | 4,902 | (4,902) |

Accumulated other comprehensive income would increase/decrease as a result of changes in the price of the equity securities classified as available-for-sale.

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iii) Interest rate risk

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

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

As of September 30, 2012, the Group is in a net borrowing position and is partially exposed to a risk of increase in interest rates. However, the Group adequately minimizes risks from changes in interest rate fluctuations by matching variable interest-bearing borrowings with variable interest-bearing financial deposits.

For the nine-month period ended September 30, 2012, if interest rates on borrowings had been 100 basis points higher/lower with all other variables held constant, loss(profit) before income tax for the period would have been ₩ 13,085 million (2011: ₩ 13,834 million) higher/lower, mainly as a result of higher/lower interest expense on floating rate borrowings.

(b) Credit risk

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

i) Trade and other receivables

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

ii) Other assets

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

(c) Liquidity risk

There is no significant change in contractual undiscounted cash flows of financial liabilities for the nine-month period ended September 30, 2012.

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4.2 Capital risk management

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

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

The debt/equity ratio and net borrowing ratio as of September 30, 2012 and December 31, 2011, are as follows:

| <i>(in millions of Korean won)</i> | <u>September 30, 2012</u> | <u>December 31, 2011</u> |
|--|---------------------------|--------------------------|
| Total liabilities (A) | 9,435,542 | 9,362,877 |
| Total equity (B) | 9,786,442 | 7,875,271 |
| Cash and cash equivalents and others(C) ¹ | 1,790,288 | 1,875,927 |
| Total borrowings (D) | 6,719,853 | 6,776,465 |
| Debt ratio (A/B) | 96% | 119% |
| Net borrowing ratio (D-C)/B | 50% | 62% |

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

4.3 Fair value measurement

The table below analyzes financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

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

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

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

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The following table presents the Group's assets and liabilities that are measured at fair value as of September 30, 2012 and December 31, 2011:

| <i>(in millions of Korean won)</i> | September 30, 2012 | | | Total |
|--|---------------------------|----------------|----------------|---------------|
| | Level 1 | Level 2 | Level 3 | |
| Assets | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Trading derivatives | - | 78 | - | 78 |
| Available-for-sale financial assets | | | | |
| Equity securities (at fair value) | 39,376 | - | - | 39,376 |
| | 39,376 | 78 | - | 39,454 |
| Liabilities | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| Trading derivatives | - | 11,087 | - | 11,087 |
| | - | 11,087 | - | 11,087 |
| | | | | |
| | December 31, 2011 | | | Total |
| <i>(in millions of Korean won)</i> | Level 1 | Level 2 | Level 3 | |
| Assets | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Trading derivatives | - | 3,114 | - | 3,114 |
| Available-for-sale financial assets | | | | |
| Equity securities (at fair value) | 34,498 | - | - | 34,498 |
| | 34,498 | 3,114 | - | 37,612 |
| Liabilities | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| Trading derivatives | - | 46,474 | - | 46,474 |
| | - | 46,474 | - | 46,474 |

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

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

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

Specific valuation techniques used to value financial instruments include:

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

The following table presents available-for-sale financial assets that are valued at historical cost as of September 30, 2012 and December 31, 2011:

| <i>(in millions of Korean won)</i> | September 30, 2012 | December 31, 2011 |
|--|---------------------------|--------------------------|
| Novelis Korea Ltd. | 1,699 | 1,699 |
| JNT Frontier Private Equity Unit | 700 | 700 |
| SV M&A No.1 Equity Unit | 897 | 715 |
| Seoul Investment Initial & Green | 950 | 950 |
| TS Investment | 800 | 800 |
| Intellectual Discovery, Ltd. | 4,000 | 4,000 |
| Anobit Technologies Ltd. | - | 3,123 |
| Equity investment in a construction guarantee association | 396 | 165 |
| Others | 1,626 | 842 |
| | 11,068 | 12,994 |

The probabilities of the various estimates cannot be reasonably assessed, and therefore, the above instruments are measured at cost.

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5. Segment information

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

The segment information for revenue and operating profit(loss) for the three-month and nine-month periods ended September 30, 2012 and 2011, are as follows:

| <i>(in millions of Korean won)</i> | 2012 | | | | | |
|------------------------------------|-----------------|--------------|-----------------|------------------|--------------|------------------|
| | Three months | | | Nine months | | |
| | Semi-conductor | Other | Total | Semi-conductor | Other | Total |
| Total segment revenue | 2,412,300 | 62,437 | 2,474,737 | 7,411,906 | 202,725 | 7,614,631 |
| Inter-segment revenue | - | (51,255) | (51,255) | - | (170,808) | (170,808) |
| Revenue from external customers | 2,412,300 | 11,182 | 2,423,482 | 7,411,906 | 31,917 | 7,443,823 |
| Operating Income(Loss) | (19,655) | 4,582 | (15,073) | (257,852) | 5,602 | (252,250) |

| <i>(in millions of Korean won)</i> | 2011 | | | | | |
|------------------------------------|------------------|------------|------------------|----------------|--------------|----------------|
| | Three months | | | Nine months | | |
| | Semi-conductor | Other | Total | Semi-conductor | Other | Total |
| Total segment revenue | 2,280,224 | 63,123 | 2,343,347 | 7,808,401 | 193,939 | 8,002,340 |
| Inter-segment revenue | - | (52,242) | (52,242) | - | (159,688) | (159,688) |
| Revenue from external customers | 2,280,224 | 10,881 | 2,291,105 | 7,808,401 | 34,251 | 7,842,652 |
| Operating Income(Loss) | (277,399) | 640 | (276,759) | 483,421 | 9,538 | 492,959 |

The Group's semiconductor products are classified into two types of products, DRAM and NAND Flash. During the nine-month period ended September 30, 2012, the share of each type of products among the total revenue is approximately 71.5% and 24.5% (2011: 72.1% and 25.6%), respectively.

The Group's revenue information by geographical segments (location of subsidiaries) for the three-month and nine-month periods ended September 30, 2012 and 2011, follows:

| <i>(in millions of Korean won)</i> | 2012 | | 2011 | |
|------------------------------------|------------------|------------------|------------------|------------------|
| | Three months | Nine months | Three months | Nine months |
| Domestic | 228,375 | 585,100 | 160,453 | 543,920 |
| China | 480,031 | 1,345,757 | 383,813 | 1,328,907 |
| Asia | 612,888 | 2,175,706 | 741,864 | 2,703,271 |
| United States | 919,233 | 2,715,954 | 769,488 | 2,434,556 |
| Europe | 182,955 | 621,306 | 235,487 | 831,998 |
| | 2,423,482 | 7,443,823 | 2,291,105 | 7,842,652 |

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The Group's non-current assets (excluding financial assets, investments in jointly controlled entities and associates and deferred income tax assets) information by geographical segments as of September 30, 2012 and December 31, 2011, are as follows:

| <i>(in millions of Korean won)</i> | <u>September 30, 2012</u> | <u>December 31, 2011</u> |
|------------------------------------|---------------------------|--------------------------|
| Domestic | 10,180,914 | 8,777,412 |
| China | 2,860,229 | 2,987,296 |
| Asia | 1,884 | 1,880 |
| United States | 306,867 | 25,645 |
| Europe | 1,795 | 340 |
| | <u>13,351,689</u> | <u>11,792,573</u> |

Details of the Group's revenue for the three-month and nine-month periods ended September 30, 2012 and 2011, are as follows:

| <i>(in millions of Korean won)</i> | <u>2012</u> | | <u>2011</u> | |
|------------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | <u>Three months</u> | <u>Nine months</u> | <u>Three months</u> | <u>Nine months</u> |
| Sales of goods | 2,415,788 | 7,420,058 | 2,283,113 | 7,819,702 |
| Sales of services | 7,694 | 22,188 | 6,417 | 19,758 |
| Royalty income | - | 1,577 | 1,575 | 3,192 |
| | <u>2,423,482</u> | <u>7,443,823</u> | <u>2,291,105</u> | <u>7,842,652</u> |

6. Restricted financial instruments

As of September 30, 2012, short-term financial instruments amounted to ₩ 113,630 million (December 31, 2011: ₩ 50,691 million) and other financial assets amounted to ₩ 326 million (December 31, 2011: ₩ 326 million) are pledged as collateral for certain borrowings, supporting small business and other purposes. Meanwhile, ₩ 251,041 million of restricted cash equivalents as of December 31, 2011, which were pledged as collateral for guarantee in the Rambus litigation, were released by a resolution of the court during the nine-month period ended September 30, 2012 (Note 33).

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7. Trade and other receivables

Details of current and non-current loans and other receivables as of September 30, 2012 and December 31, 2011, are as follows:

| <i>(in millions of Korean won)</i> | <u>September 30, 2012</u> | <u>December 31, 2011</u> |
|------------------------------------|---------------------------|--------------------------|
| Current | | |
| Other receivables | 152,630 | 115,044 |
| Accrued income | 11,624 | 7,565 |
| Short-term loans | 7,252 | 6,237 |
| Short-term guarantee deposits | 308 | 283 |
| Deposits | 2,437 | 83,512 |
| | <u>174,251</u> | <u>212,641</u> |
| Non-current | | |
| Long-term other receivables | 80 | 23,209 |
| Long-term loans | 5,941 | 4,541 |
| Long-term accrued income | 1 | - |
| Guarantee deposits | 11,794 | 9,649 |
| Long-term deposits | 930 | 1,062 |
| | <u>18,746</u> | <u>38,461</u> |
| | <u>192,997</u> | <u>251,102</u> |

Trade receivables and loans and other receivables, net of provision for impairment, as of September 30, 2012 and December 31, 2011, are as follows:

| <i>(in millions of Korean won)</i> | <u>September 30, 2012</u> | <u>December 31, 2011</u> |
|---|---------------------------|--------------------------|
| Trade receivables | 1,659,310 | 1,544,780 |
| Less : provision for impairment | (4,210) | (3,855) |
| Trade receivables - net | <u>1,655,100</u> | <u>1,540,925</u> |
| Current loans and other receivables | 179,297 | 217,566 |
| Less : provision for impairment | (5,046) | (4,925) |
| Current loans and other receivables - net | <u>174,251</u> | <u>212,641</u> |
| Non-current loans and other receivables | 31,592 | 51,445 |
| Less : provision for impairment | (12,846) | (12,984) |
| Non-current loans and other receivables - net | <u>18,746</u> | <u>38,461</u> |
| | <u>1,848,097</u> | <u>1,792,027</u> |

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Movements in the provision for impairment of trade receivables for the nine-month periods ended September 30, 2012 and 2011, are as follows:

| <i>(in millions of Korean won)</i> | 2012 | 2011 |
|--|--------------|--------------|
| At January 1 | 3,855 | 4,066 |
| Provision for receivables impairment | 673 | 786 |
| Unused amounts reversed | (8) | (100) |
| Receivables written-off during the period as uncollectible | - | (324) |
| Others | (310) | (771) |
| At September 30 | 4,210 | 3,657 |

Movements in the provision for impairment of current loans and other receivables for the nine-month periods ended September 30, 2012 and 2011, are as follows:

| <i>(in millions of Korean won)</i> | 2012 | 2011 |
|--------------------------------------|--------------|--------------|
| At January 1 | 4,925 | 4,788 |
| Provision for receivables impairment | 168 | - |
| Unused amounts reversed | (272) | (949) |
| Others | 225 | 689 |
| At September 30 | 5,046 | 4,528 |

Movements in the provision for impairment of non-current loans and other receivables for the nine-month periods ended September 30, 2012 and 2011, are as follows:

| <i>(in millions of Korean won)</i> | 2012 | 2011 |
|--------------------------------------|---------------|---------------|
| At January 1 | 12,984 | 12,713 |
| Provision for receivables impairment | 80 | 253 |
| Unused amounts reversed | (239) | (56) |
| Others | 21 | 28 |
| At September 30 | 12,846 | 12,938 |

8. Derecognition of financial assets

The Group has entered into trade receivables discounting agreements with several financial institutions. Outstanding trade receivables discounted but not yet matured amount to ₩ 13,929 million (December 31, 2011: ₩ 519,961 million) as of September 30, 2012.

The Group is obliged to redeem upon default of the counterparties and accordingly, accounted for the above transactions as collateralized borrowings.

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9. Inventories

Details of inventories as of September 30, 2012 and December 31, 2011, are as follows:

| <i>(in millions of Korean won)</i> | September 30, 2012 | December 31, 2011 |
|------------------------------------|---------------------------|--------------------------|
| Finished goods | 635,681 | 455,123 |
| Less : valuation allowance | (95,416) | (70,893) |
| Finished goods - net | 540,265 | 384,230 |
| Work in progress | 750,599 | 662,693 |
| Less : valuation allowance | (58,600) | (132,570) |
| Work in progress - net | 691,999 | 530,123 |
| Raw materials | 204,622 | 138,362 |
| Less : valuation allowance | (1,682) | (620) |
| Raw materials - net | 202,940 | 137,742 |
| Supplies | 44,123 | 48,765 |
| Less : valuation allowance | (64) | (4,004) |
| Supplies - net | 44,059 | 44,761 |
| Goods in transit | 78,800 | 87,354 |
| Less : valuation allowance | (81) | (602) |
| Goods in transit - net | 78,719 | 86,752 |
| | 1,557,982 | 1,183,608 |

10. Other current and non-current assets

Details of other current and non-current assets as of September 30, 2012 and December 31, 2011, are as follows:

| <i>(in millions of Korean won)</i> | September 30, 2012 | December 31, 2011 |
|------------------------------------|---------------------------|--------------------------|
| Current | | |
| Advance payments | 7,525 | 5,740 |
| Prepaid expenses | 158,873 | 74,116 |
| Others | 10,626 | 14,859 |
| | 177,024 | 94,715 |
| Non-current | | |
| Long-term advance payments | 76 | 113 |
| Long-term prepaid expenses | 187,897 | 132,907 |
| Others | 22,304 | 21,429 |
| | 210,277 | 154,449 |
| | 387,301 | 249,164 |

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11. Available-for-sale financial assets

Changes in the book value of available-for-sale financial assets for the nine-month periods ended September 30, 2012 and 2011, are as follows:

| <i>(in millions of Korean won)</i> | 2012 | 2011 |
|---|---------------|---------------|
| At January 1 | 47,492 | 57,044 |
| Acquisition | 1,621 | 5,587 |
| Disposal | (3,547) | - |
| Other comprehensive Income transferred to equity ¹ | 4,878 | (18,550) |
| Others | - | (2,359) |
| At September 30 | 50,444 | 41,722 |

¹ Net of income tax effect of ₩ 1,916 million (2011: ₩ 1,422 million).

12. Investments in jointly controlled entities and associates

Details of investments in jointly controlled entities and associates as of September 30, 2012, are as follows:

| Type | Investee | Locations | Ownership (%) |
|---------------------------|---|------------------|----------------------|
| Associate | Siliconfile Technologies Inc. | Korea | 28.8 |
| Jointly controlled entity | HITECH Semiconductor (Wuxi) Co., Ltd.(HITECH) | China | 45.0 |

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Changes in investments in jointly controlled entities and associates for the nine-month periods ended September 30, 2012 and 2011, are as follows:

| <i>(in millions of Korean won)</i> | 2012 | | |
|------------------------------------|---|---------------|----------------|
| | Siliconfile Technologies Inc. ¹ | HITECH | Total |
| At January 1 | 8,138 | 95,475 | 103,613 |
| Dividend | - | (11,882) | (11,882) |
| Share of profit | 789 | 10,247 | 11,036 |
| Other ² | (75) | (145) | (220) |
| At September 30 | 8,852 | 93,695 | 102,547 |

¹ As of September 30, 2012, fair value on the active market (KOSDAQ) amounted to ₩ 8,138 million (December 31, 2011: ₩ 8,138 million).

² Share of other comprehensive income of jointly controlled entities and associates.

| <i>(in millions of Korean won)</i> | 2011 | | |
|------------------------------------|--|---------------|----------------|
| | Siliconfile Technologies Inc. | HITECH | Total |
| At January 1 | 15,858 | 82,305 | 98,163 |
| Acquisition | - | 12,181 | 12,181 |
| Dividend | - | (8,838) | (8,838) |
| Share of profit(loss) | (239) | 7,513 | 7,274 |
| Other ¹ | - | 3,807 | 3,807 |
| At September 30 | 15,619 | 96,968 | 112,587 |

¹ Share of other comprehensive income of the jointly controlled entities and associates.

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The summary of the jointly controlled entities and associates' statements of financial position as of September 30, 2012 and December 31, 2011, follows:

| <i>(in millions of Korean won)</i> | September 30, 2012 | | |
|------------------------------------|---------------------------|--------------------|----------------|
| | Assets | Liabilities | Equity |
| Siliconfile Technologies Inc. | 59,831 | 32,432 | 27,399 |
| HITECH | 661,221 | 453,920 | 207,301 |
| | 721,052 | 486,352 | 234,700 |

| <i>(in millions of Korean won)</i> | December 31, 2011 | | |
|------------------------------------|--------------------------|--------------------|----------------|
| | Assets | Liabilities | Equity |
| Siliconfile Technologies Inc. | 38,988 | 15,239 | 23,749 |
| HITECH | 591,791 | 379,625 | 212,166 |
| | 630,779 | 394,864 | 235,915 |

The summary of the jointly controlled entities and associates' statements of comprehensive income for the three-month and nine-month periods ended September 30, 2012 and 2011, follows:

| <i>(in millions of Korean won)</i> | 2012 | | | |
|------------------------------------|---------------------|------------------------------|--------------------|------------------------------|
| | Three Months | | Nine Months | |
| | Sales | Profit for the period | Sales | Profit for the period |
| Siliconfile Technologies Inc. | 35,861 | 1,470 | 80,769 | 2,863 |
| HITECH | 157,450 | 8,148 | 448,969 | 25,359 |
| | 193,311 | 9,618 | 529,738 | 28,222 |

| <i>(in millions of Korean won)</i> | 2011 | | | |
|------------------------------------|---------------------|------------------------------|--------------------|------------------------------------|
| | Three Months | | Nine Months | |
| | Sales | Profit for the period | Sales | Profit(Loss) for the period |
| Siliconfile Technologies Inc. | 18,656 | 1,033 | 58,761 | (803) |
| HITECH | 108,965 | 2,583 | 286,699 | 16,695 |
| | 127,621 | 3,616 | 345,460 | 15,892 |

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13. Credit risk of financial instruments

The aging analysis of trade receivables and loans and other receivables as of September 30, 2012 and December 31, 2011, follows:

| | | September 30, 2012 | | | | | |
|---|-------------------|---------------------------|----------------------|-----------------|---------------|-----------------|------------------|
| | | Over due | | | | | |
| | | | Over 3 months | | | | |
| | | Less than | and less than | | Over | Impaired | Total |
| <i>(in millions of Korean won)</i> | Within due | 3 months | 6 months | 6 months | | | |
| Trade receivables | 1,654,725 | 3,128 | 177 | 71 | 1,209 | | 1,659,310 |
| Current loans and other receivables | 174,535 | - | - | - | 4,762 | | 179,297 |
| Non-current loans and other receivables | 18,876 | - | - | - | 12,716 | | 31,592 |
| | 1,848,136 | 3,128 | 177 | 71 | 18,687 | | 1,870,199 |

| | | December 31, 2011 | | | | | |
|---|-------------------|--------------------------|----------------------|-----------------|---------------|-----------------|------------------|
| | | Over due | | | | | |
| | | | Over 3 months | | | | |
| | | Less than | and less than | | Over | Impaired | Total |
| <i>(in millions of Korean won)</i> | Within due | 3 months | 6 months | 6 months | | | |
| Trade receivables | 1,538,979 | 3,974 | 170 | 132 | 1,525 | | 1,544,780 |
| Current loans and other receivables | 213,068 | - | - | - | 4,498 | | 217,566 |
| Non-current loans and other receivables | 38,819 | - | - | - | 12,626 | | 51,445 |
| | 1,790,866 | 3,974 | 170 | 132 | 18,649 | | 1,813,791 |

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

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

As of September 30, 2012, maximum exposure of credit risk relating guarantees provided by the Group is ₩ 32 million (December 31, 2011: ₩ 35 million) which will be paid upon request of the warrantee as mentioned in Note 33.

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14. Financial instruments by categories

Details of financial assets by category as of September 30, 2012 and December 31, 2011, are as follows:

| <i>(in millions of Korean won)</i> | September 30, 2012 | | | |
|-------------------------------------|---|--|------------------------------|------------------|
| | Assets at fair value through the profit and loss | Available-for-sale financial assets | Loans and receivables | Total |
| Cash and cash equivalents | - | - | 605,655 | 605,655 |
| Short-term financial Instruments | - | - | 1,184,633 | 1,184,633 |
| Trade receivables | - | - | 1,655,100 | 1,655,100 |
| Other receivables | - | - | 192,997 | 192,997 |
| Other financial assets | 78 | - | 326 | 404 |
| Available-for-sale financial assets | - | 50,444 | - | 50,444 |
| | 78 | 50,444 | 3,638,711 | 3,689,233 |

| <i>(in millions of Korean won)</i> | December 31, 2011 | | | | |
|-------------------------------------|---|--|--|------------------------------|------------------|
| | 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 | - | - | - | 1,243,788 | 1,243,788 |
| Short-term financial Instruments | - | - | - | 632,139 | 632,139 |
| Trade receivables | - | - | - | 1,540,925 | 1,540,925 |
| Other receivables | - | - | - | 251,102 | 251,102 |
| Other financial assets | 3,114 | - | 1 | 327 | 3,442 |
| Available-for-sale financial assets | - | 47,492 | - | - | 47,492 |
| | 3,114 | 47,492 | 1 | 3,668,281 | 3,718,888 |

Details of financial liabilities by category as of September 30, 2012 and December 31, 2011, are as follows:

| <i>(in millions of Korean won)</i> | September 30, 2012 | | |
|------------------------------------|--|---|------------------|
| | Liabilities at fair value through the profit and loss | Liabilities measured at amortized cost | Total |
| Trade payables | - | 777,527 | 777,527 |
| Other payables | - | 561,035 | 561,035 |
| Other non-trade payables | - | 433,282 | 433,282 |
| Borrowings | - | 6,719,853 | 6,719,853 |
| Other financial liabilities | 11,087 | - | 11,087 |
| | 11,087 | 8,491,697 | 8,502,784 |

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| <i>(in millions of Korean won)</i> | December 31, 2011 | | |
|------------------------------------|--|---|------------------|
| | Liabilities at fair value through the profit and loss | Liabilities measured at amortized cost | Total |
| Trade payables | - | 678,408 | 678,408 |
| Other payables | - | 516,724 | 516,724 |
| Other non-trade payables | - | 440,204 | 440,204 |
| Borrowings | - | 6,776,465 | 6,776,465 |
| Other financial liabilities | 46,474 | - | 46,474 |
| | 46,474 | 8,411,801 | 8,458,275 |

15. Property, plant and equipment

Details of changes in property, plant and equipment for the nine-month periods ended September 30, 2012 and 2011, are as follows:

| <i>(in millions of Korean won)</i> | 2012 | 2011 |
|--------------------------------------|-------------------|-------------------|
| At January 1 | 10,899,308 | 10,590,580 |
| Acquisition | 3,631,067 | 2,941,957 |
| Acquisition of subsidiaries(Note 36) | 2,906 | - |
| Disposal | (33,295) | (6,975) |
| Depreciation charge | (2,305,158) | (2,569,630) |
| Transfer | (11) | 6,295 |
| Other ¹ | (82,782) | 200,824 |
| At September 30 | 12,112,035 | 11,163,051 |

¹ Includes effect of foreign exchange differences, etc.

Certain amount of the property, plant and equipment are pledged as collateral for certain borrowings of the Group as of September 30, 2012 (Note 33).

Finance lease

The Group leases certain buildings, machinery and others from GE Capital and Lian Xin under finance lease agreements.

The book value of the machinery and others subject to finance lease agreement amounted to ₩ 671,963 million (December 31, 2011: ₩ 560,406 million) as of September 30, 2012. The plant and equipment are pledged as collateral for the finance lease liabilities.

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Operating lease

The Group leases certain machinery and others from GE Capital and Macquarie Capital under operating lease agreements. The payment schedule of minimum lease payments under operating lease agreements as of September 30, 2012, is as follows:

| | |
|------------------------------------|----------------------------|
| <i>(in millions of Korean won)</i> | Total lease payment |
| No later than 1 year | 19,474 |
| Later than 1 year | 4,511 |
| | 23,985 |

16. Investment property

Details of changes in investment property for the nine-month periods ended September 30, 2012 and 2011, are as follows:

| | | |
|------------------------------------|---------------|---------------|
| <i>(in millions of Korean won)</i> | 2012 | 2011 |
| At January 1 | 31,168 | 37,186 |
| Disposal | - | (84) |
| Depreciation charge | (960) | (987) |
| At September 30 | 30,208 | 36,115 |

17. Intangible assets

Details of changes in intangible assets for the nine-month periods ended September 30, 2012 and 2011, are as follows:

| | | |
|--------------------------------------|----------------|----------------|
| <i>(in millions of Korean won)</i> | 2012 | 2011 |
| At January 1 | 707,648 | 603,653 |
| Acquisition | 108,911 | 143,599 |
| Acquisition of subsidiaries(Note 36) | 284,798 | - |
| Disposal | (4,852) | (7,966) |
| Amortization charge | (93,710) | (35,075) |
| Other | (3,626) | 3,879 |
| At September 30 | 999,169 | 708,090 |

Among costs associated with development activities, ₩ 92,040 million (2011: ₩ 128,378 million), that was directly attributable and met capitalization criteria, was capitalized as development cost for the nine-month period ended September 30, 2012. However, research and other development expenditures that did not meet the criteria amounted to ₩ 751,829 million (2011: ₩ 617,349 million) and were recognized as an expense as incurred in the statement of comprehensive income for the nine-month period ended September 30, 2012.

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18. Assets classified as held for sale

Details of changes in assets classified as held for sale for the nine-month periods ended September 30, 2012 and 2011, are as follows:

| <i>(in millions of Korean won)</i> | 2012 | 2011 |
|------------------------------------|---------------|---------------|
| At January 1 | 29,033 | 53,204 |
| Transfer ¹ | - | (6,308) |
| Disposal | (5) | (7,436) |
| Other | (874) | 1,019 |
| At September 30 | 28,154 | 40,479 |

¹ Certain assets classified as 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 September 30, 2012 and December 31, 2011, are as follows:

| <i>(in millions of Korean won)</i> | September 30, 2012 | December 31, 2011 |
|------------------------------------|---------------------------|--------------------------|
| Current | | |
| Accrued expenses | 331,627 | 345,878 |
| Non-current | | |
| Long-term other payables | 75,261 | 64,470 |
| Long-term accrued expense | 5,243 | 6,073 |
| Rent deposit payables | 21,151 | 23,783 |
| | 101,655 | 94,326 |
| | 433,282 | 440,204 |

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20. Borrowings

Details of borrowings as of September 30, 2012 and December 31, 2011, are as follows:

| <i>(in millions of Korean won)</i> | September 30, 2012 | December 31, 2011 |
|--|---------------------------|--------------------------|
| Current | | |
| Short-term borrowings | 731,003 | 1,416,158 |
| Current maturities of long-term borrowings | 596,219 | 1,074,006 |
| Current maturities of debentures | 299,584 | 299,844 |
| Current maturities of convertible bonds | 1,030,293 | 40,418 |
| | <u>2,657,099</u> | <u>2,830,426</u> |
| Non-current | | |
| Long-term borrowings | 2,607,374 | 1,482,824 |
| Debentures | 1,455,380 | 1,489,999 |
| Convertible bonds | - | 973,216 |
| | <u>4,062,754</u> | <u>3,946,039</u> |
| | <u>6,719,853</u> | <u>6,776,465</u> |

For the nine-month period ended September 30, 2012, the Group redeemed RMB 1,363 million (equivalent to ₩ 248,733 million) on an installment basis and principal of USD 300 million (equivalent to ₩ 345,990 million) on syndicated loan in long-term borrowings. The Group redeemed USD 500 million (equivalent to ₩ 576,650 million) of debentures in advance, and recognized ₩ 10,470 million of loss on early redemption. Meanwhile, the Group raised funds through ₩ 1,566,608 million in long-term loans and ₩ 865,820 million in debentures during the nine-month period ended September 30, 2012.

Details of book value and fair value of non-current borrowings as of September 30, 2012 and December 31, 2011, are as follows:

| <i>(in millions of Korean won)</i> | September 30, 2012 | | December 31, 2011 | |
|------------------------------------|---------------------------|-------------------|--------------------------|-------------------|
| | Book value | Fair value | Book value | Fair value |
| Long-term borrowings | 2,607,374 | 2,648,713 | 1,482,824 | 1,482,824 |
| Debentures | 1,455,380 | 1,510,051 | 1,489,999 | 1,534,502 |
| Convertible bond | - | - | 973,216 | 1,054,442 |
| | <u>4,062,754</u> | <u>4,158,764</u> | <u>3,946,039</u> | <u>4,071,768</u> |

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21. Provisions

Details of changes in provisions for the nine-month periods ended September 30, 2012 and 2011, are as follows:

| <i>(in millions of Korean won)</i> | 2012 | | | Total |
|---------------------------------------|----------------------|---------------------|-------------------------|----------------|
| | Sales returns | Legal claims | Warranty reserve | |
| At January 1 | 3,807 | 349,660 | - | 353,467 |
| Addition | 384 | 82,398 | 2,617 | 85,399 |
| Reversal and utilization | - | (45,520) | - | (45,520) |
| Foreign Exchange difference and other | - | (11,228) | - | (11,228) |
| At September 30 | 4,191 | 375,310 | 2,617 | 382,118 |

| <i>(in millions of Korean won)</i> | 2011 | | | Total |
|---------------------------------------|----------------------|---------------------|--|----------------|
| | Sales returns | Legal claims | | |
| At January 1 | 14,275 | 517,848 | | 532,123 |
| Addition | - | 20,088 | | 20,088 |
| Reversal and utilization | (11,044) | (210,854) | | (221,898) |
| Foreign Exchange difference and other | - | 81,789 | | 81,789 |
| At September 30 | 3,231 | 408,871 | | 412,102 |

Provisions for sales returns

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

Provisions for legal claims

The Group recognizes provisions for legal claims when the Group has a present legal or constructive obligation as a result of past events and an outflow of resources required to settle the obligation is probable and the amount can be reliably estimated (Note 33).

Provisions for warranty

A warranty reserve is accrued for the estimated costs of future warranty claims over generally one to two years of warranty periods based on historical experience to guarantee the quality of products.

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22. Other financial liabilities

Details of other financial liabilities as of September 30, 2012 and December 31, 2011, are as follows:

| <i>(in millions of Korean won)</i> | <u>September 30, 2012</u> | <u>December 31, 2011</u> |
|------------------------------------|---------------------------|--------------------------|
| Current | | |
| Derivative liabilities (Note 34) | 9,086 | 38,678 |
| Non-current | | |
| Derivative liabilities (Note 34) | 2,001 | 7,796 |
| | 11,087 | 46,474 |

23. Other current and non-current liabilities

Details of other current and non-current liabilities as of September 30, 2012 and December 31, 2011, are as follows:

| <i>(in millions of Korean won)</i> | <u>September 30, 2012</u> | <u>December 31, 2011</u> |
|--|---------------------------|--------------------------|
| Current | | |
| Unearned income | 2,338 | 2,509 |
| Withholdings | 9,505 | 22,707 |
| Deposits received | 840 | 901 |
| Advance receipts | 15,441 | 16,384 |
| Other | 22 | 34 |
| | <u>28,146</u> | <u>42,535</u> |
| Non-current | | |
| Long-term withholdings | 1,778 | 4,133 |
| Other long-term employee benefit liabilities | 36,254 | 34,569 |
| Other | 44 | 29 |
| | <u>38,076</u> | <u>38,731</u> |
| | 66,222 | 81,266 |

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24. Defined benefit liabilities

Defined benefit liabilities as of September 30, 2012 and December 31, 2011, are determined as follows:

| <i>(in millions of Korean won)</i> | September 30, 2012 | December 31, 2011 |
|---|---------------------------|--------------------------|
| Present value of obligations | 486,459 | 471,290 |
| Fair value of plan assets ¹ | (11,150) | (12,591) |
| Liability in the statement of financial position | 475,309 | 458,699 |

¹ Includes contributions to the National Pension Fund in accordance with the National Pension Law amounting to ₩ 1,954 million (December 31, 2011: ₩ 2,151 million).

The expense amounts of severance benefits for the three-month and nine-month periods ended September 30, 2012 and 2011, are as follows:

| <i>(in millions of Korean won)</i> | 2012 | | 2011 | |
|------------------------------------|---------------------|--------------------|---------------------|--------------------|
| | Three months | Nine months | Three months | Nine months |
| Current service cost | 20,250 | 60,763 | 16,312 | 48,928 |
| Interest expenses | 6,789 | 20,365 | 6,220 | 18,661 |
| Expected return on plan assets | (115) | (343) | (135) | (406) |
| Total expenses | 26,924 | 80,785 | 22,397 | 67,183 |

The line items in which severance benefits are included for the three-month and nine-month periods ended September 30, 2012 and 2011, are as follows:

| <i>(in millions of Korean won)</i> | 2012 | | 2011 | |
|---|---------------------|--------------------|---------------------|--------------------|
| | Three months | Nine months | Three months | Nine months |
| Cost of sales (manufacturing costs) | 15,993 | 47,746 | 13,799 | 41,115 |
| Selling, administration and ordinary development expenses | 10,931 | 33,039 | 8,598 | 26,068 |
| Total expenses | 26,924 | 80,785 | 22,397 | 67,183 |

Changes in the carrying amount of defined benefit obligations for the nine-month periods ended September 30, 2012 and 2011, are as follows:

| <i>(in millions of Korean won)</i> | 2012 | 2011 |
|------------------------------------|----------------|----------------|
| At January 1 | 471,290 | 372,296 |
| Current service cost | 60,763 | 48,928 |
| Interest expenses | 20,365 | 18,661 |
| Benefits paid | (67,137) | (35,736) |
| Assumption of obligations | 403 | - |
| Actuarial losses | 240 | - |
| Other | 535 | 139 |
| At September 30 | 486,459 | 404,288 |

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The movements in the fair value of plan assets for the nine-month periods ended September 30, 2012 and 2011, are as follows:

| <i>(in millions of Korean won)</i> | 2012 | 2011 |
|------------------------------------|---------------|---------------|
| At January 1 | 12,591 | 13,234 |
| Expected return on plan assets | 343 | 406 |
| Benefits paid | (1,756) | (988) |
| Actuarial losses | (28) | (39) |
| Other | - | 6 |
| At September 30 | 11,150 | 12,619 |

25. Share capital and capital surplus

Details of share capital and capital surplus as of September 30, 2012, are as follows:

| Authorized shares | Outstanding shares¹ | Par value (per share) | Paid in capital |
|------------------------------|---------------------------------------|------------------------------|------------------------|
| 9,000,000,000 | 697,650,000 | ₩ 5,000 | ₩ 3,488,252 million |

¹As of September 30, 2012, the actual number of shares which the shareholders own is 694,122 thousand shares. The difference of 3,528 thousand shares is the result of stock retirement.

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Changes in share capital and capital surplus for the nine-month periods ended September 30, 2012 and 2011, are as follows:

| <i>(in millions of Korean won and in thousands of shares)</i> | Total owned shares | Paid in capital | | Capital Surplus | | | Total |
|---|-------------------------------|--------------------------|--------------------------|---|----------------|------------------|--------------|
| | | Share capital | Share premium | Conversion right consideration | Other | | |
| At January 1, 2011 | 590,277 | 2,969,023 | 645,513 | 75,821 | 471,766 | 4,162,123 | |
| Exercise of conversion rights | 1,895 | 9,475 | 39,664 | (3,471) | (1) | 45,667 | |
| Others | - | - | - | - | (240) | (240) | |
| At September 30, 2011 | 592,172 | 2,978,498 | 685,177 | 72,350 | 471,525 | 4,207,550 | |
| At January 1, 2012 | 592,172 | 2,978,498 | 685,177 | 72,350 | 471,525 | 4,207,550 | |
| Issue of share capital | 101,850 | 509,250 | 1,816,726 | - | - | 2,325,976 | |
| Exercise of conversion rights | 7 | 36 | 161 | (14) | - | 183 | |
| Exercise of stock options | 93 | 468 | 3,322 | - | - | 3,790 | |
| Others ¹ | - | - | - | - | (74) | (74) | |
| At September 30, 2012 | 694,122 | 3,488,252 | 2,505,386 | 72,336 | 471,451 | 6,537,425 | |

¹ The Group acquired non-controlling interests of the subsidiaries on September 30, 2012 (changes in parent company's ownership interests that do not result in a loss of control over subsidiaries) and the difference between the amount of the adjustment and payment of non-controlling interests was recognized directly in equity.

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 September 30, 2012, is 3,528 thousand shares.

26. Expenses by nature

Expenses that are recorded as cost of sales, selling, administration, ordinary development expenses and other operating expenses in the statements of comprehensive income for the three-month and nine-month periods ended September 30, 2012 and 2011, consist of:

| <i>(in millions of Korean won)</i> | 2012 | | 2011 | |
|------------------------------------|---------------------|--------------------|---------------------|--------------------|
| | Three months | Nine months | Three months | Nine months |
| Changes in inventories | (192,215) | (317,911) | (4,520) | (2,264) |
| Raw materials and consumables used | 712,419 | 2,065,488 | 636,529 | 1,808,906 |
| Employee benefit expenses | 338,531 | 1,153,011 | 320,260 | 967,704 |
| Depreciation, amortization | 790,791 | 2,399,828 | 899,667 | 2,605,691 |
| Royalty expense | 29,631 | 154,250 | 51,465 | 124,196 |
| Commission expense | 93,916 | 277,671 | 85,731 | 255,126 |
| Utilities expense | 129,344 | 361,973 | 108,858 | 307,284 |
| Repair expense | 243,258 | 673,617 | 200,700 | 646,107 |
| Outsourcing expense | 252,308 | 754,136 | 210,455 | 624,865 |
| Other | 62,957 | 240,019 | 88,157 | 255,788 |
| | 2,460,940 | 7,762,082 | 2,597,302 | 7,593,403 |

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27. Selling, administration and ordinary development expenses

Selling, administration and ordinary development expenses for the three-month and nine-month periods ended September 30, 2012 and 2011, are as follows:

| <i>(in millions of Korean won)</i> | 2012 | | 2011 | |
|------------------------------------|----------------|------------------|----------------|------------------|
| | Three months | Nine months | Three months | Nine months |
| Salaries | 45,099 | 155,307 | 44,484 | 131,511 |
| Severance benefits | 4,184 | 12,569 | 3,534 | 10,640 |
| Employee benefits | 12,908 | 40,307 | 12,988 | 36,940 |
| Commission expense | 42,028 | 119,256 | 35,872 | 105,570 |
| Depreciation | 14,014 | 42,248 | 13,804 | 42,095 |
| Amortization | 35,484 | 93,253 | 16,258 | 34,551 |
| Research and development | 231,337 | 751,829 | 221,782 | 617,349 |
| Exporting expense | 5,433 | 17,919 | 5,817 | 19,134 |
| Legal cost | 7,191 | 27,972 | 10,575 | 25,873 |
| Rental expense | 3,968 | 11,321 | 3,739 | 10,886 |
| Taxes and dues | 2,499 | 7,641 | 1,864 | 6,382 |
| Other | 29,104 | 99,471 | 29,535 | 81,988 |
| | 433,249 | 1,379,093 | 400,252 | 1,122,919 |

28. Other operating income and expense

Other operating income for the three-month and nine-month periods ended September 30, 2012 and 2011, consist of:

| <i>(in millions of Korean won)</i> | 2012 | | 2011 | |
|---|---------------|---------------|---------------|----------------|
| | Three months | Nine months | Three months | Nine months |
| Rental income | 4,162 | 13,131 | 4,368 | 12,917 |
| Gain on disposal of assets held-for-sale | - | 18 | 138 | 6,440 |
| Gain on disposal of property, plant and equipment | 1,703 | 2,950 | 737 | 820 |
| Reversal of impairment loss for property, plant and equipment | 2,600 | 2,600 | - | - |
| Gain on disposal of intangible assets | - | - | 9,352 | 9,353 |
| Other | 13,920 | 47,310 | 14,843 | 214,180 |
| | 22,385 | 66,009 | 29,438 | 243,710 |

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Other operating expenses for the three-month and nine-month periods ended September 30, 2012 and 2011, consist of:

| <i>(in millions of Korean won)</i> | 2012 | | 2011 | |
|---|--------------|---------------|---------------|---------------|
| | Three months | Nine months | Three months | Nine months |
| Loss on disposal of assets held-for-sale | - | - | 329 | 6,945 |
| Loss on disposal of property, plant and equipment | 699 | 1,239 | 2,261 | 2,342 |
| Loss on disposal of intangible assets | 898 | 4,848 | 1,900 | 3,415 |
| Donation | 124 | 1,699 | 124 | 1,250 |
| Loss on disposal of trade receivables | 273 | 767 | 377 | 1,112 |
| Amortization of suspended assets | 2,947 | 8,798 | 3,574 | 11,373 |
| Other | 1,324 | 3,424 | 5,806 | 21,974 |
| | 6,265 | 20,775 | 14,371 | 48,411 |

29. Financial income and expense

Financial income and expense for the three-month and nine-month periods ended September 30, 2012 and 2011, are as follows:

| <i>(in millions of Korean won)</i> | 2012 | | 2011 | |
|---|----------------|-----------------|------------------|------------------|
| | Three months | Nine months | Three months | Nine months |
| Finance income | | | | |
| Interest income | 20,075 | 68,136 | 13,990 | 42,465 |
| Dividend income | - | 216 | - | 45 |
| Foreign exchange differences | 171,802 | 375,644 | 295,771 | 471,867 |
| Gain from derivative instruments | 4,127 | 4,744 | 65,134 | 39,870 |
| Gain on disposal of available-for-sale financial assets | - | 5,875 | - | - |
| | 196,004 | 454,615 | 374,895 | 554,247 |
| Finance expense | | | | |
| Interest expenses | 79,930 | 242,344 | 68,849 | 229,930 |
| Foreign exchange differences | 90,994 | 245,869 | 545,407 | 579,625 |
| Loss from derivative instruments | 6,299 | 11,214 | 36,871 | 31,160 |
| Loss on redemption of debenture | - | 10,470 | - | - |
| | 177,223 | 509,897 | 651,127 | 840,715 |
| Net finance income (expense) | 18,781 | (55,282) | (276,232) | (286,468) |

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30. Income tax

The income tax expense was recognized in the interim consolidated statements of comprehensive income based on the expected annual tax rate.

31. Earnings per share

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

Basic earnings(loss) per ordinary share for the three-month and nine-month periods ended September 30, 2012 and 2011, are as follows:

| <i>(in millions of Korean won except for shares and per share amounts)</i> | 2012 | | 2011 | |
|--|---------------------|--------------------|---------------------|--------------------|
| | Three months | Nine months | Three months | Nine months |
| Profit(loss) attributable to ordinary shareholders | 1,885 | (322,392) | (561,100) | 183,252 |
| Weighted average number of ordinary shares outstanding ¹ | 694,122,451 | 677,724,663 | 592,171,582 | 592,171,582 |
| Basic earnings(loss) per share | 3 | (476) | (948) | 309 |

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

| <i>(in shares)</i> | 2012 | | 2011 | |
|---|---------------------|--------------------|---------------------|--------------------|
| | Three months | Nine months | Three months | Nine months |
| Beginning balance | 694,122,430 | 592,171,582 | 590,276,554 | 590,276,554 |
| Exercise of conversion rights | 21 | 7,369 | 1,895,028 | 1,895,028 |
| Exercise of stock options | - | 51,186 | - | - |
| Issue of share capital | - | 85,494,526 | - | - |
| Weighted average number of ordinary shares outstanding | 694,122,451 | 677,724,663 | 592,171,582 | 592,171,582 |

Diluted earnings(loss) per share is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Parent Company has two categories of dilutive potential ordinary shares: convertible bond and share options. The convertible bond is assumed to have been converted into ordinary shares, and the net profit(loss) is adjusted to eliminate the interest expense less the tax effect. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Parent Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

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| <i>(in millions of Korean won except for shares and per share amounts)</i> | 2012 | | 2011 | |
|--|--------------|--------------|--------------|-------------|
| | Three months | Nine months | Three months | Nine months |
| Profit(loss) attributable to ordinary shares | 1,885 | (322,392) | (561,100) | 183,252 |
| Add(less): Convertible bond related costs(profits) | (10,719) | - | - | - |
| Adjusted profit(loss) attributable to ordinary shares | (8,834) | (322,392) | (561,100) | 183,252 |
| Adjusted weighted average number of ordinary shares outstanding ¹ | 711,520,722 | 677,724,663 | 592,171,582 | 592,221,552 |
| Diluted earnings(loss) per share | (12) | (476) | (948) | 309 |

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

| <i>(in shares)</i> | 2012 | | 2011 | |
|--|--------------------|--------------------|--------------------|--------------------|
| | Three months | Nine months | Three months | Nine months |
| Weighted average number of ordinary shares outstanding | 694,122,451 | 677,724,663 | 592,171,582 | 592,171,582 |
| Dilutive potential ordinary shares | | | | |
| Convertible bond | 17,398,271 | - | - | - |
| Share options | - | - | - | 49,970 |
| Adjusted weighted average number of ordinary shares outstanding | 711,520,722 | 677,724,663 | 592,171,582 | 592,221,552 |

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32. Related party transactions

Details of associates and jointly controlled entities as of September 30, 2012, are as follows:

| Type | Investee | Locations |
|---------------------------|---|-----------|
| Associate | Siliconfile Technologies Inc. | Korea |
| Jointly controlled entity | HITECH Semiconductor (Wuxi) Co., Ltd.(HITECH) | China |

Significant transactions between the Group and related parties for the nine-month periods ended September 30, 2012 and 2011, are as follows:

| <i>(in millions of Korean won)</i> | 2012 | | 2011 | |
|--|----------------|----------------|---------------|----------------|
| | Sales | Purchases | Sales | Purchases |
| Associates | 67,305 | 665 | 40,875 | 478 |
| Jointly controlled entities | 54,221 | 473,166 | 35,477 | 306,537 |
| SK Telecom Co., Ltd. ^{1,3} | 381 | 364 | - | - |
| Other related parties ^{2,3,4} | 78 | 79,720 | - | - |
| Total | 121,985 | 553,915 | 76,352 | 307,015 |

¹ Related party with significant influence over the Group.

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

³ Significant transactions accrued after February 14, 2012, the date of obtaining significant influence over the Group.

⁴ The Group entered into a contract with SK Holdings Co., Ltd. to pay royalty on the SK brand in proportion to sales amount from March 2012 to December 2014. For the nine-month period ended September 30, 2012, royalty on the SK brand amounted to ₩ 5,255 million.

The balances of significant transactions as of September 30, 2012 and December 31, 2011, are as follows:

| <i>(in millions of Korean won)</i> | September 30, 2012 | | December 31, 2011 | |
|------------------------------------|--------------------|----------------|-------------------|----------------|
| | Receivables | Payables | Receivables | Payables |
| Associates | 23,720 | 1 | 9,100 | - |
| Jointly controlled entities | 15,128 | 238,433 | 14,478 | 295,693 |
| SK Telecom Co., Ltd. ¹ | 413 | 114 | - | - |
| Other related parties ² | 19 | 19,470 | - | - |
| Total | 39,280 | 258,018 | 23,578 | 295,693 |

¹ Related party with significant influence over the Group.

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

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In addition to the above commercial transactions and outstanding balances with related parties, the Group had financial transactions with SK Securities Co., Ltd., a subsidiary of SK Holdings Co., Ltd., to manage short-term financial instruments (MMDA and others). For the nine-month period ended September 30, 2012, the Group deposited ₩ 200,000 million in MMDA accounts and has ₩ 50,000 million of MMDA balance as of September 30, 2012.

Key management compensation

Key management includes two chief executive officers, 11 executives from subsidiaries, 38 directors, 16 internal auditors and 56 others. The compensation paid to key management for the nine-month periods ended September 30, 2012 and 2011, consists of:

| <i>(in millions of Korean won)</i> | Details | 2012 | 2011 |
|------------------------------------|----------------------------------|---------------|---------------|
| Short-term employee benefits | Wages, salaries, bonus and other | 17,790 | 15,500 |
| Post-employment benefits | Retirement payment and other | 2,183 | 1,844 |
| Other long-term benefits | Long-term employment allowance | 1 | 1 |
| | | 19,974 | 17,345 |

33. Commitments and contingencies

Group's pending litigations as of September 30, 2012

(a) Anti-Trust Act

In June 2002, the United States Department of Justice ("DOJ") notified the Group 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 Group entered into a plea agreement with the DOJ. In relation to the lawsuits, the Group reached settlements through separate negotiations with the direct purchaser classes and individual companies. Also, in November 2010, the Group 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.

In addition, 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 also pending. The flash product related civil suits hold in Ontario and Quebec, Canada, were dropped by the plaintiffs and, therefore, there is only outstanding civil suit filed by the direct and indirect purchaser classes in British Columbia, Canada, as of September 30, 2012.

As of September 30, 2012, the ultimate outcome of the lawsuits described above cannot be determined, but could have a material effect on the Group's interim consolidated financial statements. The accompanying interim consolidated financial statements do not include any additional adjustments in excess of managements' current expectation in relation to such uncertainty.

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(b) Litigation filed by Rambus

The Group is a defendant in litigations brought by Rambus Inc. ("Rambus"), a developer of high-bandwidth chip connection technologies, with respect to the alleged infringement of Rambus' patents by the Group' 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 Group 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 Group 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 Group 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 Group's motion to stay the execution of the final judgment and ruled that such execution should be stayed on the condition that the Group post a bond and provide part of its Cheong-ju plant in Korea as a collateral while the Group 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 Group'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 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 Group.

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 Group, were released to the Group.

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 court ordered the parties to submit each brief on what the RAND terms would be for the patents in suit by November 13, 2012.

Separately, Rambus also brought another lawsuit against the Group and its US subsidiary by alleging that the Group and its subsidiary's DDR2 and Graphic DDR SDRAM products had infringed on

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Rambus' patents. In addition, Rambus filed a lawsuit in the San Francisco Superior Court against the Group 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 against the decision on April 2, 2012.

As of September 30, 2012, the ultimate outcome of the lawsuits described above cannot be determined, but could have a material effect on the Group's interim consolidated financial statements. The accompanying interim consolidated 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 Group sold 13 million shares of Prudential Investment & Securities Co., Ltd. ("PIS") 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 PIS if CIBC exercised its put option. In return, the Group and Hyundai Securities Co., Ltd. ("HSC") provided HHI with a comfort letter stating that HHI would not suffer any burden as a result of the transaction. The Group, in turn, received a similar letter from HSC. Upon CIBC's exercise of its put option, HHI repurchased the shares in July 2000 and requested approximately US\$ 220 million of compensation for damage which is equivalent to the repurchase price to the Group and HSC.

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

In January 2002, the court rendered a ruling that the Group, HSC and the former CEO of HSC jointly and severally pay 70% of the claim amount (₩ 171,822 million) and interest thereon to HHI. The Group paid HHI ₩ 123,677 million, which represented the estimated portion of its share of compensation pursuant to the ruling and interest thereon. However, the Group made an appeal to the Seoul High Court on February 15, 2002, and on June 14, 2006, the court rendered a ruling that the Group and HSC should pay approximately 80% of the claim amount (₩ 192,942 million).

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

HHI, however, made another appeal to the Supreme Court of Korea on September 10, 2009. The

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Supreme Court of Korea, on February 9, 2012, reversed and remanded the above Seoul High Court ruling to the extent it excluded ₩ 4,284 million and related interest, on the grounds that Seoul High Court erred in deducting the market value of the shares from the compensation.

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

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

However, the Group appealed to the Seoul High Court on November 11, 2009, and on November 10, 2011, the court rendered a ruling that the Group and HSC should only pay ₩ 48,770 million and related interest. The Group, HSC and HHI appealed to the Supreme Court of Korea on November 25, 2011. As of September 30, 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 Group at the Seoul Central District Court with respect to the lawsuit described above, seeking the Group to pay ₩ 99,172 million and interest to HSC on the grounds that the Group has the ultimate expense reimbursement obligation.

As a result of the lawsuit, on December 17, 2010, the Seoul Central District Court ruled that HSC's payment to HHI were on behalf of the Group as an agency and therefore, the Group had responsibility to repay the amounts that HSC had paid to HHI. The Group made a provisional payment amounting to ₩ 160,724 million to HSC and appealed to the Seoul High Court on January 7, 2011. On September 28, 2011, the Seoul High Court rejected the Group's appeal by stating that the Group was liable to HSC as ruled by the Seoul Central District Court. The Group filed an appeal to the Supreme Court of Korea on October 19, 2011. On October 11, 2012, Supreme Court of Korea dismissed the appeal for the same reason as judged in the Seoul High Court ruling. Therefore, this lawsuit has been finalized and concluded..

Separately, the Group filed a lawsuit against HSC on September 21, 2009, at the Seoul Central District Court in connection with the agreed payment claim of ₩ 211,829 million and interest on the

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

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

Meanwhile, on February 25, 2011, HSC filed a lawsuit against the Group seeking the Group to pay ₩ 27,917 million and delay interest on the grounds that the Group is finally liable to HSC's payment to HHI in relation to the taxes levied on HHI and any related losses incurred by HHI in connection with HHI's repurchase of shares of PIS. The Group brought a counteraction against this claim at Seoul Central District Court and made a provisional payment amounting to ₩ 30,235 million to HSC to avoid any delay interest in case of unfavourable ruling against the Group. As a result of above lawsuit, on February 17, 2012, the Seoul Central District Court ruled that HSC's payment to HHI were on behalf of the Group as an agency and therefore, the Group had responsibility to repay the amounts that HSC had paid to HHI. The Court ordered the HSC to decrease the purport of the claim and HSC made a repayment to the Group for ₩ 949 million. In addition, the Group lodged an appeal to the Seoul High Court on March 8, 2012.

As of September 30, 2012, the ultimate outcome of the lawsuits described above cannot be determined, but could have a material effect.

(e) Other litigation and patent-related claims

Apart from the above litigation, the Group is in the midst of defending itself against other various lawsuits and claims regarding patent infringements. As a result, as of September 30, 2012, the Group recognized a liability for the expected future losses that are probable and can be reliably estimated. However, the final outcome of these matters cannot be determined, but could have a material effect on the Group's consolidated financial statements. The accompanying interim consolidated financial statements do not include any adjustments in relation to such uncertainty.

Technology and patent license agreements

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

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Contract for supply of industrial water

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

Post- process service contract with HITECH

The Parent Company entered into an agreement with HITECH to be provided with post-process service by HITECH. In addition, HITECH entered into agreements to purchase machinery of US\$ 177 million and US\$ 128 million, from the Parent Company and the Parent Company’s subsidiary (SKHYMC), respectively. According to the contract, HITECH should use the machinery only for the purpose of providing the post-process service to the Group exclusively for the five years from its establishment. In 2011, the Parent Company entered into an additional contract for the purpose of module service and HITECH purchased machinery of US\$ 9.5 million from the Parent Company. According to the agreement, the Group is liable to guarantee a certain level of margin to HITECH.

Assets provided as collaterals

Details of assets provided as collaterals as of September 30, 2012, are as follows:

| <i>(in millions of Korean won)</i> | <u>Book value</u> | <u>Pledged amount</u> | <u>Remark</u> |
|------------------------------------|-------------------|-----------------------|---|
| Land | 36,706 | | |
| Buildings | 91,240 | 2,356,065 | Borrowings and credit lines ¹ |
| Machinery | 2,503,431 | | |
| | <u>2,631,377</u> | <u>2,356,065</u> | |

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

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Financing agreements

Details of credit lines with financial institutions as of September 30, 2012, are as follows:

| <i>(in millions of US dollars and Chinese Renminbi)</i> | Financial Institution | commitment | | |
|--|---|--|-----|-------|
| The Parent Company | Korea Exchange Bank and others | Import finance like usance | USD | 830 |
| | | Export finance like bills bought | USD | 425 |
| | | Comprehensive limit contract about Import & Export | USD | 745 |
| SK hynix Semiconductor (China) Ltd.(SKHYCL) | Agricultural Bank of China and others | Import finance like usance | RMB | 1,530 |
| | | | USD | 292 |
| SK hynix America Inc. (SKHYA) and other sales entities | Citibank and others | Accounts receivable factoring contract which have no right to recourse | USD | 290 |

Guarantees provided to others

Details of guarantees provided to others as of September 30, 2012, are as follows:

| <i>(in millions of Korean won)</i> | Amount | Remark |
|------------------------------------|---------------|--|
| Employees | 32 | Guarantees for employees' borrowings relating to employee stock ownership |

34. Derivative financial instruments

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

As of September 30, 2012, derivative financial assets amounted to ₩ 78 million (December 31, 2011: ₩ 3,114 million) and derivative financial liabilities amounted to ₩ 11,087 million (December 31, 2011: ₩ 46,474 million).

Gains and loss relating to the derivative instruments for the nine-month period ended September 30, 2012, amounted to ₩ 4,744 million (2011: ₩ 39,870 million) and ₩ 11,214 million (2011: ₩ 31,160 million), respectively.

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35. Cash generated from operations

Reconciliations between operating profit and net cash inflow from operating activities for the nine-month periods ended September 30, 2012 and 2011, are as follows:

| <i>(in millions of Korean won)</i> | 2012 | 2011 |
|--|------------------|------------------|
| Profit(loss) for the period before income tax | (309,719) | 202,373 |
| Adjustments | | |
| Defined benefits | 80,785 | 67,183 |
| Depreciation | 2,306,118 | 2,570,616 |
| Amortization | 93,710 | 35,075 |
| Loss on foreign currency translation | 26,329 | 280,777 |
| Interest expenses | 242,344 | 229,930 |
| Gain on foreign currency translation | (104,024) | (132,381) |
| Interest income | (68,136) | (42,465) |
| Loss(Gain) on derivative instruments | 6,470 | (8,709) |
| Gain on valuation | (11,036) | (7,513) |
| Others | 6,130 | (2,879) |
| Changes in operating assets and liabilities | | |
| Decrease (Increase) in trade receivables | (170,353) | 179,675 |
| Decrease (Increase) inventories | (372,592) | (8,166) |
| Increase(Decrease) in trade payables | 108,757 | (291,621) |
| Increase(Decrease) in non-trade payables | 10,459 | (144,024) |
| Increase(Decrease) in provision | 37,956 | (209,792) |
| Payment of defined benefit liability | (65,381) | (34,748) |
| Others | (56,095) | (420,389) |
| Cash Generated from Operations | 1,761,722 | 2,262,942 |

Significant transactions not affecting cash flows

For the nine-month period ended September 30, 2012, the Group's other payables increased by ₩ 90,361 million relating to the acquisition of property, plant and equipment. In addition, ₩ 216,682 million of property, plant and equipment were purchased through finance lease obligations.

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36. Business combination

Link_A_Media Devices Corporation(LAMD)

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

The goodwill amounting to ₩ 260,693 million arising from the acquisition is attributable to the synergy benefits based on decrease in R&D expenses and expected increase in sales as a result of acquisition of LAMD.

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

| <i>(in millions of Korean won)</i> | Amount |
|---|-----------------------|
| Consideration at January 1 | <u>282,293</u> |
| Recognized amounts of identifiable assets acquired and liabilities assumed ¹ | |
| Current assets | |
| Cash and cash equivalents | 4,542 |
| Trade receivables ² | 650 |
| Inventories | 14 |
| Other current assets | 822 |
| Non-current assets | |
| Property, plant and equipment | 1,621 |
| Intangible assets | 24,105 |
| Other non-current assets | 83 |
| Current liabilities | |
| Trade payables | 6,574 |
| Other current liabilities | 3,273 |
| Non-current liabilities | <u>390</u> |
| Fair value of net identifiable assets | <u>21,600</u> |
| Goodwill | <u>260,693</u> |

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

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

The acquisition-related costs amounting to ₩ 5,669 million were all expensed.

The sales revenue of LAMD included in the interim consolidated statement of comprehensive income after acquisition date was ₩ 1,916 million. LAMD also contributed net loss of ₩ 113 million over the same period.

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Had LAMD been consolidated from January 1, 2012, the sales of ₩ 11,117 million and net loss of ₩ 21,515 million would have been included in the interim consolidated statement of comprehensive income.

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

In May 2012, the Group acquired all the common shares of Ideafish S.r.l.(SK hynix Italy S.r.l.(‘SKHYIT’)), which was a NAND flash development company in Italy for ₩ 18 million. As of the date of acquisition, the identifiable assets acquired were ₩ 3,608 million and the liabilities assumed were ₩ 3,470 million. The difference between consideration and net assets acquired was recognized as a gain for the nine-month period ended September 30, 2012.