Hynix Semiconductor Inc.

Separate Financial Statements
December 31, 2011

Hynix Semiconductor Inc.
Index
December 31, 2011

Page(s)

Report of Independent Auditors

To the Shareholders and Board of Directors of
Hynix Semiconductor Inc.

We have audited the accompanying separate statement of financial position of Hynix Semiconductor Inc. (the "Company") as of December 31, 2011, and the related separate statements of comprehensive income, changes in equity and cash flows for the year then ended, expressed in Korean won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Company as of and for the year ended December 31, 2010, presented herein for comparative purposes, were audited by other auditors whose report dated March 12, 2012, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the separate financial statements, referred to above, present fairly, in all material respects, the financial position of Hynix Semiconductor Inc. as of December 31, 2011, and its financial performance and cash flows for the year then ended in accordance with Korean IFRS.

Samil PricewaterhouseCoopers is the Korean network firm of PricewaterhouseCoopers International Limited (PwCIL). "PricewaterhouseCoopers" and "PwC" refer to the network of member firms of PwCIL. Each member firm is a separate legal entity and does not act as an agent of PwCIL or any other member firm.

As discussed in Note 42 to the separate financial statements, the Share Management Council and the Company entered into a share purchase agreement with SK Telecom Co., Ltd., on November 14, 2011. In accordance with the terms of the agreement, SK Telecom Co., Ltd., on February 14, 2012, purchased 44.25 million shares of the Company from the Share Management Council and acquired newly issued 101.85 million shares of the Company through an allotment to a third party. Consequently, SK Telecom Co., Ltd. acquired 146.1 million shares of common stock of the Company, representing approximately 21.05% of the outstanding common stock and became a largest shareholder of the Company.

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

Samil PricewaterhouseCoopers

Seoul, Korea
March 12, 2012

This report is effective as of March 12, 2012, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying separate financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

Hynix Semiconductor Inc.
Separate Statements of Financial Position
December 31, 2011 and 2010, and January 1, 2010

(in millions of Korean won)	Notes	December 31, 2011	December 31, 2010	January 1, 2010
Assets				
Current assets				
Cash and cash equivalents	5, 13	₩ 980,359	₩ 960,046	₩ 1,085,991
Short-term financial instruments	6, 13	588,528	844,368	242,612
Trade receivables	7, 12, 13, 36	1,417,886	1,389,394	1,455,805
Loans and other receivables	7, 12, 13, 36	307,753	196,678	125,362
Inventories	8	928,891	926,456	783,741
Assets classified as held for sale	17	5	24,449	86,566
Other current assets	9	83,772	95,961	104,870
		4,307,194	4,437,352	3,884,947
Non-current assets				
Investments in subsidiaries, jointly controlled entities and associates	11	2,989,863	3,001,328	2,455,716
Available-for-sale financial assets	10, 13	47,327	50,477	56,469
Property, plant and equipment	14	7,902,653	7,277,397	6,468,334
Intangible assets	16	705,807	601,988	472,965
Investment property	15	31,168	37,186	38,502
Loans and other receivables	7, 12, 13	30,208	142,508	90,503
Other financial assets	6, 13, 38	3,436	8,017	4,712
Deferred income tax assets	24	221,935	328,734	412,875
Other non-current assets	9	154,319	119,273	141,705
		12,086,716	11,566,908	10,141,781
Total assets		16,393,910	16,004,260	14,026,728
Liabilities				
Current liabilities				
Trade payables	13, 36	840,146	868,338	943,395
Other payables	13, 36	489,684	693,626	459,304
Other non-trade payables	13, 18, 36	320,395	456,164	216,447
Provisions	20	449,696	535,290	646,305
Other financial liabilities	13, 21, 38	34,315	42,426	33,164
Borrowings	13, 19, 36	2,343,892	1,999,534	2,703,088
Other current liabilities	22, 36	18,855	22,625	292,108
		4,496,983	4,618,003	5,293,811
Non-current liabilities				
Borrowings	13, 19, 36	3,130,094	2,584,237	2,741,240
Other non-trade payables	13, 18, 36	70,617	197,301	190,963
Defined benefit liabilities	23	448,430	353,486	275,884
Other financial liabilities	13, 21, 38	7,796	54,561	62,890
Other non-current liabilities	22	36,929	29,626	27,415
		3,693,866	3,219,211	3,298,392
Total liabilities		8,190,849	7,837,214	8,592,203
Equity				
Capital stock	25	2,978,498	2,969,023	2,965,833
Capital surplus	25	1,267,257	1,231,064	1,219,742
Accumulated other comprehensive income	27	10,375	2,469	15,427
Other components of equity	40	5,762	5,762	5,769
Retained earnings	26	3,941,169	3,958,728	1,227,754
Total equity		8,203,061	8,167,046	5,434,525
Total liabilities and equity		₩ 16,393,910	₩ 16,004,260	₩ 14,026,728

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

Hynix Semiconductor Inc.
Separate Statements of Comprehensive Income
Years Ended December 31, 2011 and 2010

(in millions of Korean won, except per share amounts)	**Notes**	**2011**	**2010**
Net sales	36	₩ 10,188,162	₩ 11,973,426
Cost of sales	30, 36	8,492,945	7,487,386
Gross profit		1,695,217	4,486,040
Selling, administration and ordinary development expenses	30, 31	(1,424,298)	(1,320,820)
Other operating income	32	351,434	114,807
Other operating expenses	30, 32	(110,836)	(151,660)
Operating income	29	511,517	3,128,367
Financial income	33	521,195	719,419
Financial expenses	33	(786,628)	(837,157)
Other non-operating income		1,621	47,263
Other non-operating expenses		(11,392)	(190,305)
Profit before income tax		236,313	2,867,587
Income tax expense	34	107,171	81,642
Profit for the year		₩ 129,142	₩ 2,785,945
Other comprehensive income(loss)			
Available-for-sale financial assets	10, 27	7,906	(12,958)
Actuarial loss on defined benefit liability	23	(58,160)	(54,971)
Total comprehensive income for the year		₩ 78,888	₩ 2,718,016
Earnings per share	35		
Basic earnings per share		₩ 218	₩ 4,720
Diluted earnings per share		218	4,433

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

Hynix Semiconductor Inc.

Separate Statements of Changes in Equity

Years Ended December 31, 2011 and 2010

(in millions of Korean won)	Notes	Paid-in Capital	Capital Surplus	Other Comprehensive Income (loss)	Other Components of Equity	Retained Earnings	Total Equity
Balance at January 1, 2010		₩ 2,965,833	₩ 1,219,742	₩ 15,427	₩ 5,769	₩ 1,227,754	₩ 5,434,525
Comprehensive income							
Profit for the year		-	-	-	-	2,785,945	2,785,945
Actuarial loss on defined benefit liabilities	23	-	-	-	-	(54,971)	(54,971)
Gain(loss) on the valuation of available-for-sale financial assets	10	-	-	(12,958)	-	-	(12,958)
Total comprehensive income		-	-	(12,958)	-	2,730,974	2,718,016
Exercise of stock options	25	13	7	-	(7)	-	13
Exercise of conversion rights	25	3,177	11,315	-	-	-	14,492
Balance at December 31, 2010		₩ 2,969,023	₩ 1,231,064	₩ 2,469	₩ 5,762	₩ 3,958,728	₩ 8,167,046
Balance at January 1, 2011		₩ 2,969,023	₩ 1,231,064	₩ 2,469	₩ 5,762	₩ 3,958,728	₩ 8,167,046
Comprehensive income							
Profit for the year		-	-	-	-	129,142	129,142
Actuarial loss on defined benefit liabilities	23	-	-	-	-	(58,160)	(58,160)
Gain(loss) on the valuation of Available-for-sale financial assets	10	-	-	7,906	-	-	7,906
Total comprehensive income		-	-	7,906	-	70,982	78,888
Dividends	28	-	-	-	-	(88,541)	(88,541)
Exercise of conversion rights	25	9,475	36,193	-	-	-	45,668
Balance at December 31, 2011		₩ 2,978,498	₩ 1,267,257	₩ 10,375	₩ 5,762	₩ 3,941,169	₩ 8,203,061

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

Hynix Semiconductor Inc.
Separate Statements of Cash Flows
Years Ended December 31, 2011 and 2010

(in millions of Korean won)	**Notes**		**2011**		**2010**
Cash flows from operating activities					
Cash generated from operations	39	₩	1,972,710	₩	4,554,332
Interest received			65,503		53,007
Interest paid			(231,595)		(275,792)
Income tax refunded			-		3,796
Dividends received			8,882		687
Net cash generated from operating activities			1,815,500		4,336,030
Cash flows from investing activities					
Decrease in short-term financial assets			1,983,348		1,475,068
Proceeds from derivatives			19,013		-
Decrease in loans and other receivables			11,661		-
Proceeds from disposal of non-current assets held for sale			6,931		18,158
Proceeds from disposal of available-for-sale financial assets			-		-
Proceeds from disposal of investments in subsidiaries, jointly controlled entities and associates			14,420		260,631
Proceeds from disposal of property, plant and equipment			9,207		34,785
Proceeds from disposal of investment property			12,151		-
Proceeds from disposal of intangible assets			10,107		-
Increase in short-term financial assets			(1,727,508)		(2,079,009)
Payments from derivatives			(51,381)		(29,572)
Acquisition of available-for-sale financial assets			(11,163)		(9,557)
Acquisition of investment in subsidiaries, jointly controlled entities and associates			(12,426)		(806,243)
Acquisition of property, plant and equipment			(2,613,485)		(2,579,900)
Acquisition of intangible assets			(175,242)		(148,568)
Increase in loans and other receivables			(320)		(28,271)
Payments from other investing activities			(1,464)		(51,833)
Net cash used in investing activities			(2,526,151)		(3,944,311)
Cash flows from financing activities					
Proceeds from borrowings			1,990,943		1,183,462
Proceeds from stock issuance (share options)			-		13
Repayments of borrowings			(1,171,438)		(1,701,139)
Dividends paid			(88,541)		-
Net cash provided by (used in) financing activities			730,964		(517,664)
Net increase (decrease) in cash and cash equivalents			20,313		(125,945)
Cash and cash equivalents at the beginning of year			960,046		1,085,991
Cash and cash equivalents at the end of year		₩	980,359	₩	960,046

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

1. General Information

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

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

As of December 31, 2011, the shareholders of the Company and their shareholdings are as follows:

Shareholder	Number of shares	Percentage of ownership (%)
Share Management Council[1]:	88,500,000	14.9
Individual investors	503,671,582	85.1
	592,171,582	**100.0**

[1]As of December 31, 2011, 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	20,185,000	3.4
Woori Bank	19,722,000	3.3
Korea Finance Corporation	15,281,000	2.6
Shinhan Bank	14,963,000	2.5
Other financial institutions	18,349,000	3.1
	88,500,000	**14.9**

In accordance with the resolution of the Share Management Council, the members of the Share Management Council are restricted from selling their respective shares to the public (Note 37). As discussed in Note 42, the Share Management Council sold a part of their shares after the reporting period.

2. Significant Accounting Policies

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

2.1 Basis of Preparation

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

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

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

The separate financial statements of the Company were prepared in accordance with Korean-IFRS and are subject to Korean-IFRS1101, 'First-time Adoption of Korean-IFRS'. The transition date, according to Korean-IFRS1101, from the previous accounting principles generally accepted in the Republic of Korea ("Previous K-GAAP") to Korean-IFRS is January 1, 2010. Reconciliations and descriptions of the effect of the transition from previous K-GAAP to Korean IFRS on the Company's equity, comprehensive income and cash flows are described in Note 41.

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

New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2011, and not early adopted by the Company are as follows:

- Amendments to Korean-IFRS1101, *Hyperinflation and Removal of Fixed Dates for first-time adopters*

As an exception to retrospective application requirements, this amendment to Korean-IFRS1101 allows a prospective application of derecognition of financial assets for transactions occurring on or after the date of transition to Korean IFRS, instead of fixed date (January 1, 2004). Accordingly, the

Company is not required to restate and recognize those assets or liabilities that were derecognized as a result of a transaction that occurred before the dated of transition to Korean-IFRS. This amendment will be effective for the Company as of July 1, 2011. The Company expects that the application of this amendment would not have material impact on its separate financial statements.

- Amendments to Korean-IFRS1012, *Income Taxes*

According to the amendments to Korean-IFRS1012, *Income Taxes*, for the investment property that is measured using the fair value model, the measurement of deferred tax liability and deferred tax asset should reflect the tax consequences of recovering the carrying amount of the investment property entirely through sale, unless evidences support otherwise. This amendment will be effective for the Company as of January 1, 2012. The Company expects that the application of this amendment would not have material impact on its separate financial statements.

- Amendments to Korean-IFRS1019, *Employee Benefits*

According to the amendments to Korean-IFRS1019, 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 Company as of January 1, 2013, and the Company is assessing the impact of application of the amended Korean-IFRS1019 on its separate financial statements as of the report date.

- Amendments to Korean-IFRS1107, *Financial Instruments: Disclosures*

According to the amendment, an entity should provide the required disclosures of nature, carrying amount, risk and rewards associated with all transferred financial instruments that are not derecognized from an entity's financial statements. In addition, an entity is required to disclose additional information related to transferred and derecognized financial instruments for any continuing involvement in transferred assets. This amendment is effective for the Company as of January 1, 2012. The Company is assessing the impact of application of the amended Korean-IFRS1107 on its separate financial statements as of the report date.

- Amendments to Korean-IFRS1113, Fair-value measurement

Korean-IFRS1113, *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-IFRS1101 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 Company as of January 1, 2013, and the Company expects that it would not have a material impact on the Company.

2.2 Subsidiaries, associates, and joint ventures

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

2.3 Foreign Currency Translation

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the end of each reporting period monetary assets and liabilities denominated in foreign currencies are reflected in current operations, except qualifying cash flow hedges which are recognized in other comprehensive income. Foreign exchange gains and losses are reported in ‘financial income and expenses’ in the statement of comprehensive income.

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

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

2.4 Cash and Cash Equivalents

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

2.5 Trade Receivables

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

2.6 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted-average method, except for inventories in-transit which is determined using the specific identification method. The cost of finished goods and work in progress consists of raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.7 Financial Assets

2.7.1 Classification

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

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

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

(b) Loans and receivables

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

(c) Held-to-maturity investments

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

(d) Available-for-sale financial assets

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

2.7.2 Recognition and Measurement

Regular purchases and sales of financial assets are recognized on the trade date. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are reflected in current operations in the statements of comprehensive income. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest rate method.

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

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

2.7.3 Offsetting of Financial Instruments

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

2.7.4 Derecognition

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

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

2.8 Impairment of Financial Assets

(a) Assets carried at amortized cost

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

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

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

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

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

(b) Assets classified as available-for-sale

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

2.9 Derivative Financial Instruments and Hedging Activities

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

2.10 Property, Plant and Equipment

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

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

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate the difference between their cost and their residual values over their estimated useful lives, as follows:

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

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

2.11 Borrowing Costs

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

2.12 Government Grants

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

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

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

2.13 Intangible Assets

(a) Goodwill

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

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the combination. Goodwill is monitored at the operating segment level.

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

(b) Industrial rights

Industrial rights are shown at historical cost. Industrial rights in a business combination are recognized as fair value at acquisition. Industrial rights have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of industrial rights over their estimated useful lives.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives.

(c) Development Costs

Costs associated with research activities are recognized as an expense as incurred. Costs that are individually identifiable, controllable and directly attributable to development projects are recognized as intangible assets when all the following criteria are met:

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

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

(d) Membership rights

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

2.14 Investment Property

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

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

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

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

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

2.15 Impairment of Non-financial Assets

Goodwill or intangible assets with indefinite useful lives are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets, other than goodwill, that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.16 Non-current Assets Held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

2.17 Trade Payables

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

2.18 Financial Liabilities

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

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

(b) Financial liabilities carried at amortized cost

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

2.19 Financial Guarantee Contract

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

Financial guarantees are initially recognized in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Company's liabilities under such guarantees are measured at the higher of the amounts below. Any increase in the liability relating to guarantees is reported as other financial liabilities.

- amount calculated in accordance with Korean-IFRS 1037, *Provisions, Contingent Liabilities and Contingent Assets;* or
- the initial amount, less accumulated amortization recognized in accordance with Korean-IFRS 1018, *Revenue*.

2.20 Borrowings

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

2.21 Compound Financial Instruments

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

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

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

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

2.22 Provisions

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

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

2.23 Current and Deferred Income Tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the statements of comprehensive income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity.

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

Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the separate financial statements. It represents future tax consequences that will arise when recovering or settling the carrying amount of its assets and liabilities. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.24 Employee Benefits

(a) Defined benefit liability

The Company operates defined benefit plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as years of service and compensation.

The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustment for unrecognized past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

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

(b) Share-based payments

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

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

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

(c) Long-term employee benefits

The Company provides long-term employee benefits, which are entitled to employees with service period for five years and above. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology used for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the statement of comprehensive income in the period in which they arise. These obligations are valued annually by independent qualified actuaries.

(d) Termination benefits

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

2.25 Share Capital

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

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

2.26 Revenue Recognition

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

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

(a) Sales of goods

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

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

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

(b) Interest income

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

(c) Dividend income

Dividend income is recognized when the right to receive payment is established.

(d) Royalty income

Royalty income is recognized on an accrual basis in accordance with the substance of the relevant agreements.

2.27 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statements of comprehensive income on a straight-line basis over the period of the lease.

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

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

2.28 Dividend Distribution

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

2.29 Approval of Issuance of the Financial Statements

The issuance of the December 31, 2011 financial statements of the Company was approved by the Board of Directors on February 1, 2012.

3. Critical Accounting Estimates and Judgments

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimations and assumptions are continuously evaluated with consideration to factors such as events reasonably predictable in the foreseeable future within the present circumstance according to historical experience. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Income taxes

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

(b) Fair value of financial instruments

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

(c) Estimated impairment of goodwill

The Company tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2.13. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 16).

(d) Provisions

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

The Company estimates the expected sales return reasonably and adjusts to sales and cost of sales and estimated expenses are recorded as provisions.

(e) Defined benefit liability

The present value of the defined benefit liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of the defined benefit liability. The Company determines the appropriate discount rate at the end of each year. This is the interest rate that is used to determine the present value of estimated future cash outflows expected to be required to settle the defined benefit liability. In determining the appropriate discount rate, the Company considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for defined benefit liability are based in part on current market conditions. Additional information is disclosed in Note 23.

4. Financial Risk Management

4.1 Financial Risk Factors

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

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

(a) Market risk

i) Foreign exchange risk

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

At December 31, 2011, if the currency had weakened/strengthened by 10% against the US dollar with all other variables held constant, profit before income tax for the year would have been ₩ 277,161 million (2010: ₩ 239,623 million) lower/higher, mainly as a result of foreign exchange gains/losses on translation of US dollar-denominated trade receivables and foreign exchange losses/gains on translation of US dollar-denominated borrowings and payables.

At December 31, 2011, if the currency had weakened/strengthened by 10% against the Japanese Yen with all other variables held constant, profit before income tax for the year would have been ₩ 29,776 million (2010: ₩ 15,328 million) lower/higher, mainly as a result of foreign exchange gains/losses on translation of Japanese Yen-denominated trade receivables and foreign exchange losses/gains on translation of Japanese Yen-denominated trade payables.

At December 31, 2011, if the currency had weakened/strengthened by 10% against the Euro with all other variables held constant, profit before income tax for the year would have been ₩ 10,873 million (2010: ₩ 12,306 million) lower/higher, mainly as a result of foreign exchange gains/losses on translation of Euro-denominated trade receivables and foreign exchange losses/gains on translation of Euro-denominated trade payables.

ii) Price risk

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

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

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

	2011		**2010**	
(in millions of Korean won)	**20% increase**	**20% decrease**	**20% increase**	**20% decrease**
Effects in equity	5,458	(5,458)	7,486	(7,486)

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

iii) Interest rate risk

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

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

As of December 31, 2011, the Company is in a net borrowing position and is partially exposed to a risk of increase in interest rates. However, the Company adequately minimizes risks from changes in interest rate fluctuations by matching variable interest bearing short-term borrowings with variable interest-bearing financial deposits.

As of December 31, 2011, if interest rates on borrowings had been 100 basis points higher/lower with all other variables held constant, profit before income tax for the year would have been ₩ 8,540 million (2010: ₩ 11,005 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

(b) Credit risk

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

i) Trade and other Receivables

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

ii) Other assets

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

(c) Liquidity risk

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

Surplus cash held by the operating entities over and above balance required for working capital management are transferred to the Company treasury. The Company treasury invests surplus cash in interest bearing current accounts, time deposits, demand deposits, marketable available-for-sale securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts. As of December 31, 2011, the Company held cash equivalents and short-term financial instruments of approximately ₩ 729,310 million (2010: ₩ 770,365 million) and ₩ 570,000 million (2010: ₩ 785,000 million), respectively, that are expected to readily generate cash inflows for managing liquidity risk.

The analysis of the Company's liquidity risk as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

	December 31, 2011				
(in millions of Korean won)	**Less than 1 year**	**Between 1 year and 2 years**	**Between 2 years and 5 years**	**Over 5 years**	**Total**
Borrowings (other than finance lease)	2,465,082	1,034,609	1,683,164	576,920	5,759,775
Finance lease liabilities	84,726	114,380	169,647	-	368,753
Derivatives	35,640	-	-	-	35,640
Trade payables	840,146	-	-	-	840,146
Other payables	500,950	-	-	-	500,950
Other non-trade payables	320,395	30,760	40,833	17,014	409,002
Financial guarantee contract	15,807	-	-	-	15,807
	4,262,746	**1,179,749**	**1,893,644**	**593,934**	**7,930,073**

	December 31, 2010				
(in millions of Korean won)	**Less than 1 year**	**Between 1 year and 2 years**	**Between 2 years and 5 years**	**Over 5 years**	**Total**
Borrowings (other than finance lease)	1,410,224	970,826	1,504,822	569,573	4,455,445
Finance lease liabilities	127,503	64,605	113,552	-	305,660
Derivatives	69,688	-	-	-	69,688
Trade payables	868,338	-	-	-	868,338
Other payables	711,019	-	-	-	711,019
Other non-trade payables	456,164	148,474	48,353	29,143	682,134
Financial guarantee contract	60,047	-	-	-	60,047
	3,702,983	**1,183,905**	**1,666,727**	**598,716**	**7,152,331**

	January 1, 2010				
(in millions of Korean won)	**Less than 1 year**	**Between 1 year and 2 years**	**Between 2 years and 5 years**	**Over 5 years**	**Total**
Borrowings (other than finance lease)	1,972,875	754,753	1,883,179	583,988	5,194,795
Finance lease liabilities	86,196	93,059	108,064	-	287,319
Derivatives	92,306	-	-	-	92,306
Trade payables	943,395	-	-	-	943,395
Other payables	482,197	-	-	-	482,197
Other non-trade payables	216,447	102,840	87,752	42,097	449,136
Financial guarantee contract	60,595	-	-	-	60,595
Total	**3,854,011**	**950,652**	**2,078,995**	**626,085**	**7,509,743**

The table above analyses the Company’s non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. The Company’s trading portfolio derivative instruments have been included at their fair value of ₩ 35,640 million (December 31, 2010: ₩ 69,688 million; January 1, 2010: ₩ 92,306 million) within the less than one year time bucket. This is because the contractual maturities are not essential for an understanding of the timing of the cash flows. These contracts are managed on a net-fair value basis rather than by maturity date. Net settled derivatives comprise interest rate swaps used by the Company to manage the Company’s interest rate profile.

4.2 Capital Risk Management

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

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

The debt/equity ratio and net borrowing ratio as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	**December 31, 2011**	**December 31, 2010**	**January 1, 2010**
Total liabilities (A)	8,190,849	7,837,214	8,592,203
Total equity (B)	8,203,061	8,167,046	5,434,525
Cash and cash equivalents and others (C)[1]	1,568,887	1,804,414	1,328,603
Total borrowings (D)	5,473,986	4,583,771	5,444,328
Debt ratio (A/B)	99.85%	95.96%	158.10%
Net borrowing ratio (D-C)/B	47.61%	34.03%	75.73%

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

4.3 Fair Value Measurement

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

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

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

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

The following table presents the Company's assets and liabilities that are measured at fair value at December 31, 2011 and 2010, and January 1, 2010:

	December 31, 2011			
(in millions of Korean won)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Financial assets at fair value through profit or loss				
Trading derivatives	-	3,114	-	3,114
Available-for-sale financial assets				
Equity securities (at fair value)	34,498	-	-	34,498
	34,498	**3,114**	**-**	**37,612**
Liabilities				
Financial liabilities at fair value through profit or loss				
Trading derivatives	-	42,111	-	42,111
	-	**42,111**	**-**	**42,111**

(in millions of Korean won)	December 31, 2010 Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit or loss				
Trading derivatives	-	7,695	-	7,695
Available-for-sale financial assets				
Equity securities (at fair value)	44,379	-	-	44,379
	44,379	**7,695**	**-**	**52,074**
Liabilities				
Financial liabilities at fair value through profit or loss				
Trading derivatives	-	96,987	-	96,987
	-	**96,987**	**-**	**96,987**

(in millions of Korean won)	January 1, 2010 Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit or loss				
Trading derivatives	-	4,390	-	4,390
Available-for-sale financial assets				
Equity securities (at fair value)	49,077	-	-	49,077
	49,077	**4,390**	**-**	**53,467**
Liabilities				
Financial liabilities at fair value through profit or loss				
Trading derivatives	-	96,054	-	96,054
	-	**96,054**	**-**	**96,054**

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

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

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

Specific valuation techniques used to value financial instruments include:

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

The following table presents available-for-sale financial assets that are valued at historical cost as of December 31, 2011 and 2010, and January 1, 2010.

(in millions of Korean won)	**December 31, 2011**	**December 31, 2010**	**January 1, 2010**
Novelis Korea Ltd.	1,699	1,699	1,699
Itest Co., Ltd.	-	1,166	1,166
Futures Corp Technology Co., Ltd.	-	-	300
ZMOS Technology	-	-	994
JNT Frontier Private Equity Unit	700	-	-
SV M&A No.1 Equity Unit	715	-	-
Intellectual Discovery, Ltd.	4,000	-	-
Anobit Technologies Ltd.	3,123	3,123	3,123
Seoul Investment Early & Green Venture Fund	950	-	-
TS 2011-4 Technology Transfer & Business Buildup Fund	800	-	-
Others	842	110	110
Total	**12,829**	**6,098**	**7,392**

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

5. Cash and cash equivalents

Cash and cash equivalents as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	December 31, 2011	December 31, 2010	January 1, 2010
Cash on hand	8	8	8
Ordinary deposits	6	56	1
Time deposits	740,639	700,751	658,634
Specified money trust	60,000	172,000	115,001
RP	10,000	40,000	60,000
CD	-	-	240,000
CMA	9,977	6,966	2,325
MMDA	159,729	40,265	10,022
Total	**980,359**	**960,046**	**1,085,991**

Restricted deposits as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	December 31, 2011	December 31, 2010	January 1, 2010	Description
Time deposits	251,041	189,673	-	Pledge for guarantee relating to Rambus litigation

6. Short-term Financial Instruments and Other Financial Assets

Short-term financial instruments and other financial assets as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	December 31, 2011	December 31, 2010	January 1, 2010
Short-term financial instruments			
Time deposits	487,000	646,945	68,380
Specified money trust	40,000	65,000	3,000
RP	60,000	130,000	110,000
CD	-	-	60,000
MMDA	1,528	2,423	1,232
	588,528	844,368	242,612
Other financial assets			
Non-current Assets			
Time deposits	308	308	308
Bank overdraft guarantee deposits	14	14	14
Derivative assets	3,114	7,695	4,390
	3,436	8,017	4,712
	591,964	**852,385**	**247,324**

Restricted short-term financial instruments and other financial assets as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	**December 31, 2011**	**December 31, 2010**	**January 1, 2010**	**Description**
Short-term financial instruments	1,528	2,423	1,232	Restricted for government grants
	-	56,945	58,380	Pledged for Rambus litigation
	17,000	-	-	Restricted for support small business
	18,528	59,368	59,612	
Other financial assets	308	308	308	Pledged for borrowings
	14	14	14	Bank overdraft guarantee deposit
	322	322	322	
	18,850	**59,690**	**59,934**	

7. Trade and Other receivables

Details of current and non-current loans and other receivables as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	**December 31, 2011**	**December 31, 2010**	**January 1, 2010**
Current			
Other receivables	113,020	123,031	88,362
Accrued income	7,301	16,198	5,853
Short-term loans	106,436	57,449	31,147
Short-term Guarantee deposits	-	-	-
Deposits	80,996	-	-
	307,753	196,678	125,362
Non-current			
Long-term other receivables	23,129	37	111
Long-term loans	1,252	60,877	58,623
Long-term accrued income	-	202	-
Guarantee deposits	5,105	3,658	3,267
Other deposits	722	77,734	28,502
	30,208	142,508	90,503
	337,961	**339,186**	**215,865**

The Company has entered into trade receivable discounting agreements for borrowings with several financial institutions. Outstanding trade receivables discounted but not yet matured amount to ₩ 422,213 million as of December 31, 2011.

The Company is obliged to redeem upon default of the counterparties and accordingly, accounted for the above transactions as collaterized borrowings (Note 19).

Trade receivables, and loans and other receivables, net of provision for impairment, as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	**December 31, 2011**	**December 31, 2010**	**January 1, 2010**
Trade receivables	1,420,119	1,391,009	1,456,699
Less : provision for impairment	(2,233)	(1,615)	(894)
Trade receivables - net	1,417,886	1,389,394	1,455,805
Current loans and other receivables	312,677	201,465	129,430
Less : provision for impairment	(4,924)	(4,787)	(4,068)
Current other receivables - net	307,753	196,678	125,362
Non-current loans and other receivables	41,500	153,607	118,839
Less : provision for impairment	(11,292)	(11,099)	(28,336)
Non-current other receivables - net	30,208	142,508	90,503
	1,755,847	**1,728,580**	**1,671,670**

Movements in the provision for impairment of trade receivables for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	**2011**	**2010**
Beginning	1,615	894
Provision for receivables impairment	618	721
Receivables written off during the year as uncollectible	-	-
Unused amounts reversed	-	-
Effect of exchange rates	-	-
Ending	**2,233**	**1,615**

Movements in the provision for impairment of current loans and other receivables for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	**2011**	**2010**
Beginning	4,787	4,068
Provision for receivables impairment	137	719
Receivables written off during the year as uncollectible	-	-
Unused amounts reversed	-	-
Effect of exchange rates	-	-
Ending	**4,924**	**4,787**

Movements in the provision for impairment of non-current loans and other receivables for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	**2011**	**2010**
Beginning	11,099	28,336
Provision for receivables impairment	249	59
Receivables written off during the year as uncollectible	-	(17,284)
Unused amounts reversed	(56)	(12)
Ending	**11,292**	**11,099**

8. Inventories

Details of inventories as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	December 31, 2011	December 31, 2010	January 1, 2010
Finished goods	331,139	295,770	227,173
Less: valuation	(44,913)	(30,214)	(26,866)
Finished goods - net	286,226	265,556	200,307
Work in progress	515,525	530,356	495,135
Less : valuation	(50,292)	(21,843)	(19,965)
Work in progress - net	465,233	508,513	475,170
Raw materials	95,291	89,307	73,819
Less : valuation	(620)	(659)	(551)
Raw materials - net	94,671	88,648	73,268
Supplies	15,111	13,884	8,352
Less : valuation	-	-	-
Supplies - net	15,111	13,884	8,352
Goods in transit	68,145	49,963	26,646
Less : valuation	(495)	(108)	(2)
Goods in transit - net	67,650	49,855	26,644
	928,891	**926,456**	**783,741**

For the year ended December 31, 2011, ₩ 43,496 million of inventory valuation allowance was recognized as 'cost of sales' (2010: ₩ 5,440 million).

For the year ended December 31, 2011, the cost of inventories recognized as expense and included in 'cost of sales' amounted to ₩ 8,388,114 million (2010: ₩ 7,482,832 million).

9. Other Current and Non-current Assets

Details of other current and non-current assets as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	December 31, 2011	December 31, 2010	January 1, 2010
Current Assets			
Advance payments	3,211	1,796	5,556
Prepaid expenses	65,707	79,510	84,661
Others	14,854	14,655	14,653
	83,772	95,961	104,870
Non-current Assets			
Long-term prepaid expenses	132,890	84,239	92,017
Others	21,429	35,034	49,688
	154,319	119,273	141,705
	238,091	215,234	246,575

10. Available-for-sale Financial Assets

Available-for-sale financial assets as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

	December 31, 2011				December 31, 2010	January 1, 2010
(in millions of Korean won)	Number of Stock	Ownership (%)	Acquisition cost	Book value	Book value	Book value
Hyundai Information Technology Co., Ltd.	1,160,180	2.30	3,481	2,593	4,583	1,079
Hyundai Logiem Co., Ltd.	15,115	0.08	76	98	98	98
EQ bestech Co.,Ltd.	2,000	1.67	10	10	10	10
Novelis Korea Ltd.	63,600	0.14	1,699	1,699	1,699	1,699
Itest Co., Ltd.	481,780	1.04	1,166	1,604	1,166	1,166
Hyundai IT Corp.	2,528	0.03	63	3	11	18
Fidelix Co., Ltd.	1,605,854	8.79	3,560	3,099	2,473	3,236
Futures Corp Technology Co., Ltd.	60,000	10.44	300	-	-	300
C&S Technology Co., Ltd.	1,031,590	3.91	4,508	4,395	6,138	3,817
ZMOS Technology	2,000,000	5.11	995	-	-	995
Phison Electronics Corp.	3,277,054	1.83	11,661	22,804	20,875	27,007
Anobit Technologies Ltd.	204,248	2.80	3,123	3,123	3,123	3,123
ProMos	201,600,000	7.93	21,847	-	10,299	13,919
JNT Frontier Private Equity Unit	Certificate	-	700	700	-	-
SV M&A No.1 Equity Unit	Certificate	-	715	715	-	-
Daishin Aju IB Investment Co., Ltd.	Certificate	-	172	172	-	-
Intellectual Discovery, Ltd.	800,000	11.41	4,000	4,000	-	-
Seoul Investment Early & Green Venture Fund	Certificate	-	950	950	-	-
TS 2011-4 Technology Transfer & Business Buildup Fund	Certificate	-	800	800	-	-
IMM Investment	Certificate	-	240	240	-	-
SL Investment	Certificate	-	320	320	-	-
Others	-	-	2,567	2	2	2
			62,953	**47,327**	**50,477**	**56,469**

Changes in the book value of available-for-sale securities for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	2011	2010
At January 1	50,477	56,469
Acquisitions	11,163	9,558
Changes in the unrealized gain or loss[1]	(748)	(14,255)
Impairment loss	(13,565)	(1,295)
At December 31	**47,327**	**50,477**

[1] Net of income tax effect of ₩ 371 million (2010: ₩ 1,297 million).

Changes in accumulated impairment loss on available-for-sale securities for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	2011	2010
At January 1	(15,883)	(14,588)
Write-off	8,747	-
Impairment loss	(21,847)	(1,295)
At December 31	**(28,983)**	**(15,883)**

The Company transferred ₩ 8,282 million (2010: nil) of losses on available-for-sale financial assets from other comprehensive income to the current operations due to impairment.

11. Investments in Subsidiaries, Associates and Jointly Controlled Entities

Details of investments in associates and jointly controlled entities as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)		December 31, 2011					December 31, 2010	January 1, 2010
Type	**Investee**	**Number of Stock**	**Ownership (%)**	**Acquisition cost**	**Net asset value**	**Book value**	**Book value**	**Book value**
Associate	Siliconfile Technologies Inc.[1]	2,358,832	29.69	22,835	7,161	8,138	18,775	18,775
Jointly controlled entity	HITECH Semiconductor (Wuxi) Co.,Ltd. (HITECH)	Certificate	45.00	90,149	97,385	92,608	80,427	80,427
				112,984	**104,54**	**100,746**	**99,202**	**99,202**

[1] As of December 31, 2011, fair value on the active market amounted to ₩ 8,138 million (2010: ₩ 5,921 million).

Changes in investments in associates and jointly controlled entities for the years ended December 31, 2011 and 2010, are as follows:

	2011	
(in millions of Korean won)	**Siliconfile Technologies Inc.**	**HITECH**
At January 1	18,775	80,427
Acquisition	-	12,181
Impairment loss	(10,637)	-
At December 31	**8,138**	**92,608**

	2010	
(in millions of Korean won)	**Siliconfile Technologies Inc.**	**HITECH**
At January 1	18,775	80,427
Acquisition	-	-
Impairment loss	-	-
At December 31	**18,775**	**80,427**

Details of investments in the Company's subsidiaries as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

				Book Value		
Names of subsidiaries	**Loca-tions**	**Number of Shares**	**Percentage of Ownership(%)**	**December 31, 2011**	**December 31, 2010**	**January 1, 2010**
Hynix Engineering Co., Ltd.	Korea	671,932	99.65	15,074	15,074	28,890
Hystech Co., Ltd.	Korea	236,408	99.65	5,127	5,127	5,127
Ami Power Co., Ltd.	Korea	524,852	99.65	13,816	13,816	-
Hynix HRD Co., Ltd.	Korea	59,102	99.65	1,169	1,169	1,169
Hylogitech Co., Ltd.	Korea	39,401	99.65	431	431	431
Hyundai Display Technology Co, Ltd.(Hydis)[1]	-	-	-	-	13,254	13,254
Hynix Semiconductor America Inc. (HSA)	U.S.A	6,286,000	97.74	31	31	31
Hynix Semiconductor Manufacturing America Inc (HSMA)[2]	U.S.A	100,000	0.05	-	-	-
Hynix Semiconductor Europe Holding Ltd (HSE)	U.K.	335,640,000	100.00	1,811	1,811	1,811
Hynix Semiconductor Deutschland GmbH (HSD)	Germany	Certificate	100.00	22,011	22,011	22,011
Hynix Semiconductor Asia Pte. Ltd. (HSS)	Singapore	196,303,500	100.00	52,380	52,380	52,380
Hynix Semiconductor Indian Subcontinent Private Ltd (HSIS)[3]	India	10,000	1.00	5	-	-
Hynix Semiconductor Hong Kong Ltd (HSH)	Hongkong	170,693,661	100.00	32,624	32,624	32,624
Hynix Semiconductor (Shanghai) Co., Ltd (HSCS)	China	Certificate	100.00	4,032	4,032	4,032
Hynix Semiconductor Japan Inc (HSJ)	Japan	20,000	100.00	42,905	42,905	42,905
Hynix Semiconductor Taiwan Inc (HST)	Taiwan	35,725,000	100.00	37,562	37,562	37,562
Hynix Semiconductor China Ltd. (HSCL)	China	Certificate	90.26	2,421,631	2,421,391	1,615,385
Hynix Semiconductor (Wuxi) Ltd. (HSMC)	China	Certificate	100.00	238,271	238,271	498,902
Hynix (Wuxi) Semiconductor Sales Ltd. (HSCW)	China	Certificate	100.00	237	237	-
				2,889,117	**2,902,126**	**2,356,514**

[1] Liquidation of Hyundai Display Technology Co., Ltd. was completed during the year 2011.

[2] Subsidiary of Hynix Semiconductor America Inc. (HSA).

[3] Subsidiary of Hynix Semiconductor Asia Pte. Ltd. (HSS).

Changes in investments in subsidiaries for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	2011	2010
At January 1	2,902,126	2,356,514
Addition	245	806,243
Liquidation	(13,254)	-
Capital reduction	-	(260,631)
At December 31	**2,889,117**	**2,902,126**

12. Credit Risk of Financial Instruments

The aging analysis of trade receivables, loans and other receivables as of December 31, 2011 and 2010, and January 1, 2010 are as follows:

	December 31, 2011		
(in millions of Korean won)	Not past due	Impaired	Total
Trade receivables	1,419,234	885	1,420,119
Current loans and other receivables	308,180	4,497	312,677
Non-current loans and other receivables	30,491	11,009	41,500
	1,757,905	**16,391**	**1,774,296**

	December 31, 2010		
(in millions of Korean won)	Not past due	Impaired	Total
Trade receivables	1,390,124	885	1,391,009
Current loans and other receivables	196,944	4,521	201,465
Non-current loans and other receivables	142,598	11,009	153,607
	1,729,666	**16,415**	**1,746,081**

	January 1, 2010		
(in millions of Korean won)	Not past due	Impaired	Total
Trade receivables	1,456,432	267	1,456,699
Current loans and other receivables	125,561	3,869	129,430
Non-current loans and other receivables	90,535	28,304	118,839
	1,672,528	**32,440**	**1,704,968**

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

As of December 31, 2011, maximum exposure of credit risk relating guarantees provided by the Company is ₩ 15,807 million (December 31, 2010: ₩ 60,047 million) which will be paid upon request of warrantee as mentioned in Note 37.

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

13. Financial Instruments by Categories

Details of financial assets by category as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

	December 31, 2011			
(in millions of Korean won)	Assets at fair value through the profit and loss	Available-for-sale financial assets	Loans and receivables	Total
Cash and cash equivalents	-	-	980,359	980,359
Short-term financial instruments	-	-	588,528	588,528
Other financial assets	3,114	-	322	3,436
Trade receivables	-	-	1,417,886	1,417,886
Other receivables	-	-	337,961	337,961
Available-for-sale financial assets	-	47,327	-	47,327
	3,114	**47,327**	**3,325,056**	**3,375,497**

	December 31, 2010			
(in millions of Korean won)	Assets at fair value through the profit and loss	Available-for-sale financial assets	Loans and receivables	Total
Cash and cash equivalents			960,046	960,046
Short-term financial instruments	-	-	844,368	844,368
Other financial assets	7,695	-	322	8,017
Trade receivables	-	-	1,389,394	1,389,394
Other receivables	-	-	339,186	339,186
Available-for-sale financial assets	-	50,477	-	50,477
	7,695	**50,477**	**3,533,316**	**3,591,488**

	January 1, 2010			
(in millions of Korean won)	Assets at fair value through the profit and loss	Available-for-sale financial assets	Loans and receivables	Total
Cash and cash equivalents	-	-	1,085,991	1,085,991
Short-term financial instruments	-	-	242,612	242,612
Other financial assets	4,390	-	322	4,712
Trade receivables	-	-	1,455,805	1,455,805
Other receivables	-	-	215,865	215,865
Available-for-sale financial assets	-	56,469	-	56,469
	4,390	**56,469**	**3,000,595**	**3,061,454**

Details of financial liabilities by category as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

	December 31, 2011		
(in millions of Korean won)	**Liabilities at fair value through the profit and loss**	**Liabilities measured at amortized cost**	**Total**
Trade payables	-	840,146	840,146
Other payables	-	489,684	489,684
Other non-trade payables	-	391,012	391,012
Borrowings	-	5,473,986	5,473,986
Other financial liabilities	42,111	-	42,111
	42,111	**7,194,828**	**7,236,939**

	December 31, 2010		
(in millions of Korean won)	**Liabilities at fair value through the profit and loss**	**Liabilities measured at amortized cost**	**Total**
Trade payables	-	868,338	868,338
Other payables	-	693,626	693,626
Other non-trade payables	-	653,465	653,465
Borrowings	-	4,583,771	4,583,771
Other financial liabilities	96,987	-	96,987
	96,987	**6,799,200**	**6,896,187**

	January 1, 2010		
(in millions of Korean won)	**Liabilities at fair value through the profit and loss**	**Liabilities measured at amortized cost**	**Total**
Trade payables	-	943,395	943,395
Other payables	-	459,304	459,304
Other non-trade payables	-	407,410	407,410
Borrowings	-	5,444,328	5,444,328
Other financial liabilities	96,054	-	96,054
	96,054	**7,254,437**	**7,350,491**

Details of gain and loss of financial assets and liabilites by category for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	2011	2010
Loans and receivables		
Interest income	55,617	69,552
Foreign exchange difference	10,128	(11,417)
Impairment loss	(948)	(1,487)
	64,797	**56,648**
Available-for-sale		
Other comprehensive income(Loss)	7,535	(14,255)
Gain or loss on disposal	-	441
Interest income	785	-
Dividend income	44	687
Impairment	(21,847)	(1,295)
	(13,483)	**(14,422)**
Assets at fair value through the profit and loss		
Gain(loss) on valuation of derivatives	(4,581)	3,305
Gain on derivative transactions	-	-
	(4,581)	**3,305**
Liabilities measured at amortized cost		
Interest expense	(271,753)	(299,813)
Loss on redemption of debenture	-	(27,266)
Foreign exchange difference	(59,305)	74,778
	(331,058)	**(252,301)**
Liabilities at fair value through the profit and loss		
Gain(loss) on valuation of derivatives	12,451	58,760
Gain on derivative transactions	10,057	(155)
	22,508	**58,605**
	(261,817)	**(148,165)**

14. Property, Plant and Equipment

Details of changes in property, plant and equipment for the years ended December 31, 2011 and 2010, are as follows:

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

(in millions of Korean won)	2010							
	Land	**Buildings**	**Structures**	**Machinery**	**Vehicles**	**Others**	**CIP**	**Total**
At January 1								
Acquisition Cost	441,033	1,300,724	447,605	15,199,305	933	449,363	132,660	17,971,623
Accumulated depreciation	-	(274,215)	(288,426)	(10,251,338)	(803)	(319,647)	-	(11,134,429)
Accumulated impairment	-	(23,877)	(59,337)	(272,225)	-	(3,659)	-	(359,098)
Government grants	-	-	-	(9,762)	-	-	-	(9,762)
Net book amount	**441,033**	**1,002,632**	**99,842**	**4,665,980**	**130**	**126,057**	**132,660**	**6,468,334**
Changes during 2010								
Additions	-	184	93	-	154	-	2,603,793	2,604,224
Disposals	-	(3,699)	(1,212)	(8,199)	-	(252)	-	(13,362)
Depreciation charge	-	(35,089)	(15,948)	(1,691,670)	(94)	(53,336)	-	(1,796,137)
Transfers	-	37,472	4,777	2,155,834	109	52,365	(2,236,219)	14,338
Closing net book amount	**441,033**	**1,001,500**	**87,552**	**5,121,945**	**299**	**124,834**	**500,234**	**7,277,397**
At December 31								
Acquisition Cost	441,033	1,333,609	329,788	15,837,519	1,145	481,574	500,234	18,924,902
Accumulated depreciation	-	(308,233)	(223,131)	(10,449,232)	(846)	(354,353)	-	(11,335,795)
Accumulated impairment	-	(23,876)	(19,105)	(257,323)	-	(2,387)	-	(302,691)
Government grants	-	-	-	(9,019)	-	-	-	(9,019)
Net book amount	**441,033**	**1,001,500**	**87,552**	**5,121,945**	**299**	**124,834**	**500,234**	**7,277,397**

Depreciation expense of ₩ 1,789,888 million (2010: ₩ 1,561,558 million) has been charged to 'cost of sales', ₩ 190,832 million (2010: ₩ 229,438 million) to 'selling, administration and ordinary development expenses' and ₩ 30,652 million (2010: ₩ 5,141 million) has been capitalized as development cost for the year ended December 31, 2011.

Certain amount of the property, plant and equipment are pledged as collateral for borrowings of the Company as of December 31, 2011 (Note 37).

During the year, the Company has capitalized borrowing costs amounting to ₩ 31,574 million (2010: ₩ 24,325 million) on qualifying assets. Borrowing costs were capitalized at the weighted average rate of its general borrowings of 6.50% (2010: 6.75%) for the year ended December 31, 2011.

The Company leases certain machinery and others from HP Financial Service Co., Ltd. under sale and leaseback agreements in a form of finance lease. The Company also leases certain machinery and others from GE Capital under finance lease agreements.

In addition, Hynix Semiconductor (Wuxi) Ltd. (HSMC) sold its machinery and equipment to HITECH Semiconductor (Wuxi) Co., Ltd., a joint venture of the Company and Taiji Industry Ltd. The Company recorded those assets as finance lease.

The book value of the machinery and others subject to finance lease agreement, amounted to ₩ 337,535 million (December 31, 2010: ₩ 289,038 million) as of December 31, 2011. The machinery are pledged as collateral for the finance lease liabilities.

The Company 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 as of December 31, 2011, is as follows:

(in millions of Korean won)	**Total lease payment**
No later than 1 year	23,911
Later than 1 year	14,069
	37,980

As of December 31, 2011, certain inventories, property, plant and equipment, and investment properties are insured and details of insurance assets are as follows:

(in millions of Korean won)	**Insured assets**	**Insured amount**	**Insurance company**
Package insurance	Property, plant and equipment, Inventories and other	21,606,872	Hyundai Marine & Fire Insurance Co., Ltd. and other
Fire Insurance	Property, plant and equipment, investment property	6,036	
		21,612,908	

The insurance policies of the Company have been provided to the Korea Exchange Bank and other creditors as collaterals for borrowings as of December 31, 2011.

15. Investment Property

Details of changes in investment property during the years ended December 31, 2011 and 2010, are as follows:

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

(in millions of Korean won)	2010 Land	Buildings	Structures	Total
At January 1				
Acquisition Cost	3,439	55,195	2,571	61,205
Accumulated depreciation	-	(16,384)	(1,793)	(18,177)
Accumulated impairment	-	(3,748)	(778)	(4,526)
Net book amount	**3,439**	**35,063**	**-**	**38,502**
Changes during 2010				
Depreciation charge	-	(1,316)	-	(1,316)
Closing net book amount	**3,439**	**33,747**	**-**	**37,186**
At December 31				
Acquisition Cost	3,439	55,195	2,571	61,205
Accumulated depreciation	-	(17,700)	(1,793)	(19,493)
Accumulated impairment	-	(3,748)	(778)	(4,526)
Net book amount	**3,439**	**33,747**	**-**	**37,186**

The depreciation expense of ₩ 1,313 million (2010: ₩ 1,316 million) has been charged in the statement of comprehensive income for the year ended December 31, 2011.

Rental income from investment property during the year ended December 31, 2011, is ₩ 4,859 million (2010: ₩ 4,759 million).

16. Intangible Assets

Intangible assets as of December 31, 2011 and 2010, are as follows:

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

	2010				
(in millions of Korean won)	**Goodwill**	**Industrial property rights**	**Development costs**	**Others**	**Total**
At January 1					
Acquisition Cost	386,450	168,405	-	11,472	566,327
Accumulated amortization and impairment	-	(93,362)	-	-	(93,362)
Net book amount	**386,450**	**75,043**	**-**	**11,472**	**472,965**
Changes during 2010					
Additions	-	28,064	120,503	2,648	151,215
Disposals	-	(3,406)	-	-	(3,406)
Impairment charge	-	-	-	(350)	(350)
Amortization charge	-	(14,922)	(3,514)	-	(18,436)
Closing net book amount	**386,450**	**84,779**	**116,989**	**13,770**	**601,988**
At December 31					
Acquisition Cost	386,450	185,541	120,503	14,120	706,614
Accumulated amortization and impairment	-	(100,762)	(3,514)	(350)	(104,626)
Net book amount	**386,450**	**84,779**	**116,989**	**13,770**	**601,988**

Amortization of ₩ 64,957 million (2010: ₩ 18,436 million) is recorded as ‘selling, administration and ordinary development expenses’ in the statement of comprehensive income for the year ended December 31, 2011.

Among costs associated with research and development activities, ₩ 154,592 million (2010: ₩ 120,503 million), that were directly attributable and met capitalization criteria, were capitalized as development cost for the year ended December 31, 2011. However, other development expenditures that did not meet the criteria amounted to ₩ 857,849 million (2010: ₩ 804,511 million) and were recognized as an expense as incurred in the statement of comprehensive income for the year ended December 31, 2011.

The Company allocates goodwill into the semiconductor operating segment. The Company used the same goodwill allocation method for both years ended December 31, 2011 and 2010. Goodwill impairment reviews are undertaken annually. Impairment test suggests that the carrying value of cash generating units does not exceed the recoverable amount. The recoverable amounts of cash generating units have been determined based on the net realizable value, which exceeds the value in use. The value in use calculations use pre-tax cash flow projections based on financial budgets approved by management covering a four-year period.

17. Non-current assets held for sale

Details of changes in non-current assets held for sale during the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	2011	2010
At January 1	24,449	86,566
Transfer[1]	(17,068)	(14,338)
Disposal	(7,376)	(40,389)
Impairment	-	(7,390)
At December 31	**5**	**24,449**

[1]Non-current assets held for sale were transferred to the property, plant and equipment as these assets were no longer held for sale as of December 31, 2011.

18. Other Non-trade Payables

Details of other non-trade payables as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	December 31, 2011	December 31, 2010	January 1, 2010
Current			
Accrued expense	320,395	456,164	216,447
	320,395	456,164	216,447
Non-current			
Long-term other payables	62,964	120,820	184,738
Long-term accrued expense	6,073	74,664	3,503
Rent deposit payables	1,580	1,817	2,722
	70,617	197,301	190,963
	391,012	**653,465**	**407,410**

19. Borrowings

Details of borrowings as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	December 31, 2011	December 31, 2010	January 1, 2010
Current			
Short-term borrowings	1,318,410	348,609	1,429,741
Current maturities of debentures	299,844	549,619	69,898
Current maturities of convertible bonds	40,418	491,329	645,247
Current maturities of long-term borrowings	685,220	609,977	558,202
	2,343,892	1,999,534	2,703,088
Non-current			
Long-term borrowings	666,879	879,531	805,654
Debentures	1,489,999	1,186,628	1,453,375
Convertible bonds	973,216	518,078	482,211
	3,130,094	2,584,237	2,741,240
	5,473,986	**4,583,771**	**5,444,328**

Details of short-term borrowings as of December 31, 2011 and 2010, and January 1, 2010, consist of:

(in millions of Korean won)	**Financial Institutions**	**Annual Interest Rate(%) at 2011**	**December 31, 2011**	**December 31, 2010**	**January 1, 2010**
Usance borrowings	Korea Development Bank and other	0.66 ~ 3.63	873,131	271,693	579,541
Borrowings on import financing	Export Import Bank of Korea	3M Libor + 2.40	23,066	68,334	70,056
Borrowings on Trade receivables collateral	Shinhan Bank and other	3M Libor + 1.20~3.30	422,213	-	471,562
Syndicated Loans	Korea Deveolopment Bank and other	-	-	-	300,000
Other	Hydis	-	-	8,582	8,582
			1,318,410	**348,609**	**1,429,741**

Details of long-term borrowings as of December 31, 2011 and 2010, and January 1, 2010, consist of:

(in millions of Korean won)	**Financial Institutions**	**Annual Interest Rate(%) at 2011**	**December 31, 2011**	**December 31, 2010**	**January 1, 2010**
Local currency loans					
Borrowing for housing	Kookmin Bank	5.2	38	46	52
Funds for equipment	Kookmin Bank	CD(91days)+2.00	12,857	38,571	90,000
Borrowings for childcare facilities	NH Bank	2.0	308	308	308
Funds for equipment	Korea Finance Corporation	Industrial Financial Debentures(1year)+1.6	150,000	200,000	-
Finance lease liabilities	Macquarie Capital Korea Co.,Ltd.	5.00	140,086	-	-
Finance lease liabilities	HP Financial Services Co., Ltd.	5.80 ~ 6.49	1,390	5,898	19,907
			304,679	244,823	110,267
Foreign currency loans					
General borrowings	Export Import Korea Bank	-	-	203,104	242,666
General borrowings	NH Bank	3M Libor + 0.69	38,412	75,893	116,760
General borrowings[1]	SC First Bank	3M Libor + 3.00~3.90	168,382	56,945	-
General borrowings	Hana Bank	3M Libor + 3.10	51,899	-	-
General borrowings	Korea Development Bank	3M Libor + 3.24	115,330	-	-
Syndicated loans	Korea Exchange Bank and other	3M Libor + 1.90	345,990	478,338	630,504
Mortgage loans	HITECH	7.90 ~ 15.73	193,471	239,109	-
Finance lease liabilities	HITECH, GE Capital	5.18 ~ 15.34	171,260	248,946	267,412
			1,084,744	1,302,335	1,257,342
Less: Discount on present value			(37,324)	(57,650)	(3,753)
Current maturities			(685,220)	(609,977)	(558,202)
Long-term borrowings			**666,879**	**879,531**	**805,654**

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

Details of debentures as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	**Maturity Date**	**Annual Interest Rate(%) At 2011**	**December 31, 2011**	**December 31, 2010**	**January 1, 2010**
Unsecured notes in local currency:					
202nd[1]	May 25, 2012	5.70	150,000	150,000	150,000
203rd	Sep. 5, 2012	6.19	150,000	150,000	150,000
204th	Dec. 20. 2010	-	-	-	70,000
205th	Feb. 15, 2011	-	-	150,000	150,000
206th	May 15, 2011	-	-	200,000	200,000
208th	Oct. 6, 2011	-	-	200,000	200,000
209th	Sep. 9, 2013	6.35	300,000	300,000	-
210th	Jan. 14, 2015	6.35	200,000	-	-
211th	May 6, 2016	6.20	400,000	-	-
Unsecured notes in foreign Currency					
Foreign 5th[2]	June 27, 2017	7.88	576,650	569,450	583,800
			1,776,650	1,719,450	1,503,800
Add: Adjust embedded derivatives[2]			20,426	23,060	26,397
Less: Discount on debentures			(7,233)	(6,263)	(6,924)
Current maturities			(299,844)	(549,619)	(69,898)
Debentures			**1,489,999**	**1,186,628**	**1,453,375**

[1] The Company entered into interest swap contracts with Korea Exchange Bank, Korea Development Bank and Woori Bank for the principal and interest of the local currency loans.

[2] Compound financial instruments in which callable options (early settlement options) are accounted for as embedded derivatives.

Details of convertible bonds as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	**Maturity Date**	**Annual Interest Rate(%) at 2011**	**December 31, 2011**	**December 31, 2010**	**January 1, 2010**
Convertible bond in local currency					
207th	Sep.05, 2013	3.00	440,741	484,964	499,786
Convertible bond in foreign currency					
Foreign 6th	Dec.14, 2012	4.50	41,173	40,659	681,178
Foreign 7th	May 14, 2015	2.65	576,650	569,450	-
			1,058,564	1,095,073	1,180,964
Add: Call premium on bonds			70,991	78,114	80,502
Less: Conversion rights adjustment			(107,473)	(151,941)	(123,965)
Discount on bonds			(8,448)	(11,839)	(10,043)
Current maturities			(40,418)	(491,329)	(645,247)
Convertible bonds			**973,216**	**518,078**	**482,211**

Details of terms and conditions of conversion rights of convertible bonds as of December 31, 2011, are as follows:

	Details		
	Local 207th	**Foreign 6th**	**Foreign 7th**
Face value of convertible bond	KRW 440,741,000,000	USD 35,700,000	USD 500,000,000
Convertible rate at face value	100%	100%	100%
Conversion term(Per share)	Par value of ₩23,328	Par value of ₩ 35,862 (KRW 919.9/USD)	Par value of ₩ 34,394 (KRW 1,133.8/USD)
Number of convertible shares	18,893,000 shares	916,000 shares	16,483,000 shares
Convertible periods	Oct.5,2008~Aug.5,2013	Dec.15,2008~Nov.29,2012	May 15,2011~Apr.28,2015
Deemed exercise date	The first date of year of conversion	The first date of year of conversion	The first date of year of conversion

Finance lease liability

Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

Details of minimum lease payments to the lessor as of December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	December 31, 2011	December 31, 2010
Total minimum lease payment		
No later than 1 year	84,726	129,287
Between 1 and 5 years	284,027	176,373
Later than 5 years	-	-
	368,753	305,660
Unearned finance income	(56,017)	(50,816)
Net minimum lease payment		
No later than 1 year	59,889	106,306
Between 1 and 5 years	252,847	148,538
Later than 5 years	-	-
	312,736	**254,844**

Details of book value and fair value of non-current borrowings as of December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	2011		2010	
	Book value	Fair value	Book value	Fair value
Long-term borrowings	666,879	666,879	879,531	879,531
Debentures	1,489,999	1,534,502	1,186,628	1,182,078
Convertible bond	973,216	1,054,442	518,078	580,985
Total	3,130,094	3,255,823	2,584,237	2,642,594

20. Provisions

Details of changes in provisions during the years ended December 31, 2011 and 2010, are as follows:

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

	2010			
(in millions of Korean won)	**Purchase commitments**	**Sales returns**	**Legal claims**	**Total**
At January 1	409	11,346	634,550	646,305
Addition	3,665	2,023	40,291	45,979
Reversal and utilization	-	-	(108,899)	(108,899)
Foreign exchange difference and other	-	-	(48,095)	(48,095)
At December 31	**4,074**	**13,369**	**517,847**	**535,290**

Provisions for sales returns

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

Provisions for legal claims

The Company recognizes provisions for legal claims when the Company has a present legal or constructive obligation as a result of past events and an outflow of resources required to settle the obligation is probable and the amount can be reliably estimated (Note 37).

Accrual for loss on purchase commitment

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

The Company and its domestic subsidiaries, Hynix Engineering and Ami Power, entered into agreements under which Ami Power provides steam and electricity ("Energy") to the Company. In November 2011, Ami Power received notice of the cancellation of a contract related the purchase of Energy from the Company. Accordingly, Ami Power is scheduled to dispose of the related facility and will be liquidated. In connection with the onerous contract, the Company charged ₩ 30,530 million of indemnity for expected losses and recorded as provision.

21. Other Financial Liabilities

Details of other financial liabilities as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	**December 31, 2011**	**December 31, 2010**	**January 1, 2010**
Current			
Derivative liabilities (Note 38)	34,315	42,426	33,164
Non-current			
Derivative liabilities (Note 38)	7,796	54,561	62,890
	42,111	**96,987**	**96,054**

22. Other Current and Non-current Liabilities

Details of other current and non-current liabilities as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

(in millions of Korean won)	**December 31, 2011**	**December 31, 2010**	**January 1, 2010**
Current			
Unearned income	2,509	2,928	5,173
Withholdings	15,335	13,613	19,756
Deposits received	512	-	-
Advance receipts	499	6,084	267,179
Other	-	-	-
	18,855	22,625	292,108
Non-current			
Long-term withholdings	4,133	3,789	3,693
Other long-term employee benefit liabilities	32,796	25,837	23,722
	36,929	29,626	27,415
	55,784	**52,251**	**319,523**

23. Defined Benefit Liabilities

Defined benefit liabilities recognized in the statements of financial position as of December 31, 2011 and 2010, and January 1, 2010, are determined as follows:

(in millions of Korean won)	**December 31, 2011**	**December 31, 2010**	**January 1, 2010**
Present value of obligations	453,865	359,381	282,379
Fair value of plan assets[1]	(5,435)	(5,895)	(6,495)
Liability in the statement of financial position	**448,430**	**353,486**	**275,884**

[1] Includes deposits to the National Pension Fund in accordance with the National Pension Law amounting to ₩ 2,151 million (2010: ₩ 2,371 million).

The amounts recognized in the statements of comprehensive income for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	**2011**	**2010**
Current service cost	61,641	48,784
Interest expenses	24,117	20,797
Expected return on plan assets	(166)	(211)
	85,592	**69,370**

The line items, in which severance benefits are included for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	**2011**	**2010**
Cost of sales (manufacturing costs)	51,396	41,979
Selling, administrative and ordinary development expenses	34,196	27,391
	85,592	**69,370**

The actuarial losses recognized as other comprehensive income for the year ended December 31, 2011, amount to ₩ 58,160 million (2010: ₩ 54,971 million), and cumulative actuarial losses recognized as other comprehensive income as of December 31, 2011, amount to ₩ 113,131 million.

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

Changes in the carrying amount of defined benefit obligations for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	**2011**	**2010**
At January 1	359,381	282,379
Current service cost	61,641	48,784
Interest expense	24,117	20,797
Benefits paid	(49,370)	(48,507)
Actuarial gain(loss)	58,096	55,928
At December 31	**453,865**	**359,381**

The movements in the fair value of plan assets for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	**2011**	**2010**
At January 1	5,895	6,495
Expected return on plan assets	166	211
Benefits paid	(562)	(750)
Actuarial gains(losses)	(64)	(61)
At December 31	**5,435**	**5,895**

The actual return of plan assets for the year ended December 31, 2011, was ₩ 102 million (2010: ₩ 150 million).

The principal actuarial assumptions used as of December 31, 2011 and 2010, and January 1, 2010, were as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Future salary increase	5.54%	5.66%	5.69%
Discount rate	5.89%	6.82%	7.50%
Expected rate of return[1]	4.77%	5.61%	5.61%

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

Plan assets as of December 31, 2011 and 2010, and January 1, 2010, consist of the following:

(in millions of Korean won)	December 31, 2011	December 31, 2010	January 1, 2010
Deposits	3,284	3,524	3,819
Other	2,151	2,371	2,676
	5,435	**5,895**	**6,495**

Adjustments for the differences between initial assumptions and actual figures as of December 31, 2011 and 2010, are as follows:

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

24. Deferred Income Tax

The analysis of deferred tax assets and deferred tax liabilities as of December 31, 2011 and 2010, is as follows:

(in millions of Korean won)	2011	2010
Deferred tax assets		
Deferred tax asset to be recovered after more than 12 months	46,155	40,351
Deferred tax asset to be recovered within 12 months	355,780	464,379
	401,935	504,730
Deferred tax liabilities		
Deferred tax liability to be recovered after more than 12 months	(101,821)	(96,017)
Deferred tax liability to be recovered within 12 months	(78,179)	(79,979)
	(180,000)	(175,996)
Deferred tax assets(liabilities), net	**221,935**	**328,734**

The gross movement in the deferred income tax account as of December 31, 2011 and 2010, is as follows:

(in millions of Korean won)	2011	2010
At January 1	328,734	412,875
Income statement charge (Note 34)	(107,171)	(85,438)
Tax charge/(credit) relating to components of other comprehensive income (Note 34)	372	1,297
At December 31	**221,935**	**328,734**

The movements in deferred income tax assets and liabilities for the years ended December 31, 2011 and 2010, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

	2011				
(in millions of Korean won)	**January 1, 2011**	**Income statement**	**Other comprehensive income**	**Others**	**December 31, 2011**
Deferred tax liabilities					
Advanced depreciation provision	(55,666)	-	-	-	(55,666)
Valuation of derivatives	(12,945)	(2,871)	-	-	(15,816)
Gains on foreign currency translation	(67,034)	4,671	-	-	(62,363)
Conversion rights adjustment	(18,263)	(7,659)	-	-	(25,922)
Others	(22,088)	1,483	372	-	(20,233)
	(175,996)	**(4,376)**	**372**	**-**	**(180,000)**
Deferred tax assets					
Losses on Valuation of Inventories	13,769	25,231	-	-	39,000
Valuation of equity-method investments	341,924	4,301	-	-	346,225
Accumulated depreciation	42,089	(1,462)	-	-	40,627
Allowance for retirement liability	70,095	24,486	-	-	94,581
Deemed interest of suspense payment and other	147,507	14,806	-	-	162,313
Provisions and others	244,654	(121,672)	-	-	122,982
Impairment of available-for-sale financial assets	13,996	22,191	-	-	36,187
Losses on foreign currency translation	117,370	(16,853)	-	-	100,517
Property, plant and equipment	22,409	2,280	-	-	24,689
Losses on valuation of derivative	31,643	(4,799)	-	-	26,844
Others	55,149	21,458	-	-	76,607
	1,100,605	**(30,033)**	**-**	**-**	**1,070,572**
Deferred income tax due to temporary differences	924,609	(34,409)	372		890,572
Deferred income tax due to tax loss	350,866	-	-	69,313	420,179
Tax credit carryforwards	590,744	-	-	(19,266)	571,478
Others	711	-	-	210	921
Total deferred income tax assets	1,866,930	(34,409)	372	50,257	1,883,150
Deferred income tax assets not recognized	(1,538,196)	-	-	-	(1,661,215)
	328,734				**221,935**

	2010				
(in millions of Korean won)	**January 1, 2010**	**Income statement**	**Other comprehensive income**	**Others**	**December 31, 2010**
Deferred tax liabilities					
Advanced depreciation provision	(55,666)	-	-	-	(55,666)
valuation of derivative	(3,311)	(9,634)	-	-	(12,945)
Gains on Foreign Currency Translation	(61,334)	(5,700)	-	-	(67,034)
Conversion Rights adjustment	(34,696)	16,433	-	-	(18,263)
Others	(12,704)	(10,681)	1,297	-	(22,088)
	(167,711)	**(9,582)**	**1,297**	**-**	**(175,996)**
Deferred tax assets					
Losses on valuation of Inventories	11,566	2,203	-	-	13,769
Valuation of equity-method investments	389,175	(47,251)	-	-	341,924
Accumulated depreciation	70,828	(28,739)	-	-	42,089
Allowance for retirement liability	65,348	4,747	-	-	70,095
Deemed interest of suspense payment and other	151,101	(3,594)	-	-	147,507
Provisions and others	207,768	36,886	-	-	244,654
Impairment of available-for-sale financial assets	474	13,522	-	-	13,996
Losses on foreign currency translation	129,728	(12,358)	-	-	117,370
Property, plant and equipment	-	22,409	-	-	22,409
Losses on valuation of derivative	24,419	7,224	-	-	31,643
Others	61,051	(5,902)	-	-	55,149
	1,111,458	**(10,853)**	**-**	**-**	**1,100,605**
Deferred income tax due to temporary differences	943,747	(20,435)	1,297	-	924,609
Deferred income tax due to tax loss	967,517	-	-	(616,651)	350,866
Tax credit carryforwards	718,303	-	-	(127,559)	590,744
Others	650	-	-	61	711
Total deferred income tax assets	2,630,217	(20,435)	1,297	(744,149)	1,866,930
Deferred income tax assets not recognized	(2,217,342)	-	-	-	(1,538,196)
	412,875				**328,734**

Deferred income tax assets are recognized for deductible temporary differences and tax loss carryforwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The Company did not recognize deferred income tax assets of ₩ 142,578 million in respect of losses amounting to ₩ 589,165 million that can be carried forward against future taxable income. Also, the Company did not recognize deferred income tax assets of ₩ 947,159 million (2010: ₩ 947,452 million) in respect of deductable temporary differences amounting to ₩ 3,913,880 million

(2010: ₩ 3,915,091 million) that can be carried forward against future taxable income. Deferred income tax assets of ₩ 571,478 million (2010: ₩ 590,744 million) have not been recognized for unused tax credit as of December 31, 2011.

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

(in millions of Korean won)	**Tax loss carryforwards**	**Tax credit carryforwards**
2012	-	195,055
2013	-	132,987
2014	-	56,565
2015	-	186,871
2019	1,353,596	-
Thereafter	382,680	-
	1,736,276	**571,478**

Deferred income tax liabilities of ₩17,657 million (2010: ₩17,990 million) have not been recognized for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Such amounts are permanently reinvested. Unremitted earnings totaled ₩72,764 million at December 31, 2011 (2010: ₩81,775 million).

25. Share Capital and Capital Surplus

Details of share capital and capital surplus as of December 31, 2011, are as follows:

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

Authorized shares	**Outstanding shares**	**Outstanding shares after the merger of shares[1]**	**Par value per share**	**Paid in capital**
9,000,000	5,586,149	595,700	₩ 5,000	₩ 2,978,498 million

[1] As of December 31, 2011, the actual number of shares which the shareholders own is 592,172 thousand shares. The difference of 3,528 thousand shares is the result of stock retirement.

Changes in share capital and capital surplus during the years ended December 31, 2011 and 2010, are as follows:

		Paid in Capital	**Capital Surplus**			
(in millions of Korean won and in thousands of shares)	**Total owned shares**	**Share capital**	**Share premium**	**Conversion right consideration**	**Other**	**Total**
At January 1, 2010	589,639	2,965,833	633,027	76,985	509,730	4,185,575
Exercise of conversion rights	635	3,177	12,479	(1,164)	-	14,492
Exercise of stock options	3	13	7	-	-	20
At December 31, 2010	**590,277**	**2,969,023**	**645,513**	**75,821**	**509,730**	**4,200,087**
At January 1, 2011	590,277	2,969,023	645,513	75,821	509,730	4,200,087
Exercise of conversion rights	1,895	9,475	39,664	(3,471)	-	45,668
At December 31, 2011	**592,172**	**2,978,498**	**685,177**	**72,350**	**509,730**	**4,245,755**

In accordance with the Articles of Incorporation, shares can be retired and be distributed as dividends to the shareholders, and the total of number of shares retired as of December 31, 2011, is 3,528 thousand shares.

26. Retained Earnings

Retained earnings as of December 31, 2011 and 2010, and January 1, 2010, consist of:

(in millions of Korean won)	December 31, 2011	December 31, 2010	January 1, 2010
Legal reserve[1]	8,854	-	-
Discretionary reserve[2]	235,506	235,506	235,506
Unappropriated retained earnings	3,696,809	3,723,222	992,248
	3,941,169	**3,958,728**	**1,227,754**

[1] The Commercial Code of the Republic of Korea requires the Company to appropriate, as a legal reserve, an amount equal to a minimum of 10% of cash dividends paid, until such reserve equals 50% of its issued capital stock. The reserve is not available for the payment of cash dividends, but may be transferred to capital stock, or used to reduce accumulated deficit, if any, with the ratification of the Company's majority shareholders.

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

The appropriation of retained earnings for the years ended December 31, 2011 and 2010 is as follows:

(in millions of Korean won)	2011		2010	
At January 1				
Unappropriated retained earnings carried over from prior year	3,625,827		770,430	
Effects of Korean-IFRS adoption	-		221,818	
Actuarial gains and losses	(58,160)		(54,971)	
Net income	129,142	3,696,809	2,785,945	3,723,222
Appropriation of retained earnings		-		97,395
Legal appropriation of retained earnings	-		8,854	
Dividends				
Cash dividend (%): 2011: nil (0%), 2010: ₩ 150 (3%)	-		88,541	
At December 31		**3,696,809**		**3,625,827**

27. Accumulated Other Comprehensive Income

Details of accumulated other comprehensive income as of December 31, 2011 and 2010, and January 1, 2010, consists of the following:

(in millions of Korean won)	**December 31, 2011**	**December 31, 2010**	**January 1, 2010**
Loss arising on revaluation of available-for-sale financial assets	(25,822)	(31,158)	(13,505)
Gain arising on revaluation of available-for-sale financial assets	36,197	33,627	28,932
Total	**10,375**	**2,469**	**15,427**

Details of changes in accumulated other comprehensive income for the years ended December 31, 2011 and 2010, are as follows:

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

	2010			
(in millions of Korean won)	**Beginning**	**Increase (Decrease)**	**Reclassification to profit or loss**	**Ending**
Gain(loss) arising on revaluation of available-for-sale financial assets	15,427	(12,958)	-	2,469
	15,427	**(12,958)**	**-**	**2,469**

28. Dividends

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

29. Classification of Operating Income

Operating income (loss) is calculated as gross profit net of distribution costs, selling and administrative expenses, other net income (loss), and other income and expenses (Note 32).

Under the former accounting standards, operating income (loss) was calculated as gross profit net of selling, administration and ordinary development expenses. Under the Korean IFRS, operating income (loss) was calculated as gross profit, net of distribution costs, selling and administrative expenses, other net income (loss), and other income and expenses. Therefore, operating income (loss) amount differs between the previous K-GAAP to Korean IFRS by the amount of other net income (loss), and other income and expenses (Note 32).

30. Expenses by Nature

Expenses that are recorded as cost of sales, selling, administration and ordinary development expenses and other operating expenses in the statements of comprehensive income for the years ended December 30, 2011 and 2010, consist of:

(in millions of Korean won)	**2011**	**2010**
Changes in inventories	22,610	(98,593)
Raw materials and consumables used	4,108,252	3,741,612
Employee benefit expenses	1,117,612	1,217,497
Depreciation, amortization and impairment	2,092,599	1,823,629
Royalty expense	178,072	131,870
Commission expense	284,939	293,770
Utilities expense	319,354	277,753
Repair expense	607,503	510,134
Outsourcing expense	854,560	682,049
Other	442,578	380,145
	10,028,079	**8,959,866**

Employee benefit expense for the years ended December 31, 2011 and 2010, consists of:

(in millions of Korean won)	**2011**	**2010**
Wages and salaries	938,101	1,072,632
Defined benefits	85,592	69,370
Termination benefits	754	1,756
Other long-term employee benefits	10,177	6,752
Social security costs and other	82,988	66,987
	1,117,612	**1,217,497**

31. Selling, Administration and Ordinary Development Expenses

Selling, administration and ordinary development expenses for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	2011	2010
Salaries	125,966	144,314
Severance benefits	13,267	10,804
Employee benefits	35,706	21,627
Commission expense	133,769	154,521
Depreciation	50,945	50,895
Amortization	64,957	18,436
Research and development	857,849	804,511
Exporting expense	21,986	16,319
Legal cost	41,537	34,706
Rental expense	6,166	7,034
Taxes and dues	8,512	5,457
Training Expenses	9,254	9,541
Sales Promotional Expenses	2,083	2,199
Utility Expenses	6,903	6,068
Storage cost	1,132	520
Supplies Expenses	10,497	10,499
Repairs Expenses	7,610	6,613
Other	26,159	16,756
Total	**1,424,298**	**1,320,820**

32. Other Operating Income and Expense

Other operating income for the years ended December 31, 2011 and 2010, consist of:

(in millions of Korean won)	2011	2010
Rental income	29,551	28,907
Gain on disposal of assets held-for-sale	6,440	12,160
Gain on disposal of investment property	7,447	-
Gain on disposal of property, plant and equipment	1,329	26,711
Gain on disposal of intangible assets	9,352	-
Other	297,315	47,029
Total	**351,434**	**114,807**

Other operating expenses for the years ended December 31, 2011 and 2010, consist of:

(in millions of Korean won)	**2011**	**2010**
Loss on disposal of assets held-for-sale	6,884	34,260
Loss on disposal of property, plant and equipment	3,392	5,289
Loss on disposal of intangible assets	4,984	3,406
Loss on disposal of investment property	2	-
Donation	1,287	1,456
Impairment of assets held-for-sale	-	7,390
Impairment of property, plant and equipment	14,230	-
Impairment of intangible assets	728	350
Amortization of suspended assets	15,884	30,629
Other	63,445	68,880
Total	**110,836**	**151,660**

The other operating income and expenses, included in calculating the operating income during the years ended December 31, 2011 and 2010, were not included in calculating the operating income under the previous accounting standard (K-GAAP).

33. Financial Income and Expenses

Financial income and expenses for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	**2011**	**2010**
Finance income		
Interest income	56,402	69,552
Dividend income	8,882	687
Gain on disposal of investments in subsidiaries, jointly controlled entities and associates	1,166	-
Foreign exchange differences	413,893	568,049
Gain from derivative instruments	40,852	80,690
Other	-	441
Total Finance income	**521,195**	**719,419**
Finance expense		
Interest expenses	271,753	299,813
Foreign exchange differences	459,466	490,002
Loss from derivative instruments	22,925	18,781
Loss on redemption of debentures	-	27,266
Impairment of Available-for-sale financial assets	21,847	1,295
Impairment loss on equity investments in associates	10,637	-
Total Finance expense	786,628	837,157
Net finance income (expense)	**(265,433)**	**(117,738)**

34. Income Tax

Income tax expense for the years ended December 31, 2011 and 2010, consists of:

(*in millions of Korean won*)	2011	2010
Current tax:		
Current tax on profits for the year	-	-
Adjustments in respect of prior years	-	(3,796)
Total current tax	-	(3,796)
Deferred tax (Note 225):		
Origination and reversal of temporary differences	107,171	85,438
Total deferred tax	107,171	85,438
Income tax expense	**107,171**	**81,642**

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

(*in millions of Korean won*)	2011	2010
Profit before tax	236,313	2,867,587
Tax calculated at domestic tax rates applicable to profits in the respective countries	57,161	693,980
Tax effects of:		
Income not subject to tax	(1)	-
Expenses not deductible for tax purposes	1,490	38,850
Changes in temporary differences not recognized	123,018	(679,145)
Re-measurement of deferred tax - change in the Korean tax rate	(74,497)	-
Other	-	27,957
Adjustment in respect of prior years	50,010	(612,338)
Tax charge	**107,171**	**81,642**

The income tax (charged)/credited directly to equity as of December 31, 2011 and 2010, and January 1, 2010, is as follows:

	December 31, 2011			December 31, 2010			January 1, 2010		
(*in millions of Korean won*)	Before tax	Tax (charge) credit	After tax	Before tax	Tax (charge) credit	After tax	Before tax	Tax (charge) credit	After tax
Fair value gains from available-for-sale financial assets	13,357	(2,982)	10,375	5,823	(3,353)	2,470	20,077	(4,650)	15,427
Actuarial loss on retirement benefit obligations	(113,130)	-	(113,130)	(54,971)	-	(54,971)	-	-	-
	(99,773)	**(2,982)**	**(102,755)**	**(49,148)**	**(3,353)**	**(52,501)**	**20,077**	**(4,650)**	**15,427**

During the year 2011, as a result of the change in the Korean corporation tax rate from 22% to 24.2% that was substantively enacted on December 31, 2011, and that is effective from January 1, 2012, the relevant deferred tax balances have been re-measured. Deferred tax expected to be realized in the year 2012 and thereafter, has been measured using the effective rate of 24.2%.

35. Earnings per Share

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

Basic earnings per ordinary share as of December 31, 2011 and 2010, is as follows:

(in millions of Korean won except for shares and per share amounts)	2011	2010
Profit attributable to ordinary shares	129,142	2,785,945
Weighted average number of ordinary shares outstanding	592,171,582	590,275,971
Basic earnings per share	**218**	**4,720**

Diluted earnings per share is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The company has 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 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 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.

(in millions of Korean won except for shares and per share amounts)	2011	2010
Profit attributable to ordinary shares	129,142	2,785,945
Add : Convertible bond related costs		(39)
Adjusted profit attributable to ordinary shares	129,142	2,785,906
Adjusted weighted average number of ordinary shares outstanding[1]	592,209,226	628,387,645
Basic earnings per share	**218**	**4,433**

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

(in shares)	2011	2010
Weighted average number of ordinary shares outstanding	592,171,582	590,275,971
Dilutive potential ordinary shares		
Convertible bond	-	38,093,742
Share options	37,644	17,932
Adjusted weighted average number of ordinary shares outstanding	**592,209,226**	**628,387,645**

After the reporting date, the Share Management Council, the major shareholder of the Company sold 44.25 million shares to SK Telecom Co., Ltd. Also, the Company issued 101.85 million shares to SK Telecom Co., Ltd. If this transaction event had occurred within the reporting date, the ordinary share and dilutive potential outstanding would have been significantly influenced (Note 42).

36. Related Parties

Details of subsidiaries, jointly controlled entities and associates as of December 31, 2011, are as follows:

Type	Names of subsidiaries	Parent Company	Remark
Subsidiaries	Hynix Engineering Co., Ltd.(HEC)	The Company	Domestic subsidiary
	Hystech Co., Ltd.	The Company	Domestic subsidiary
	Hynix HRD Co., Ltd.	The Company	Domestic subsidiary
	Hylogitech Co., Ltd.	The Company	Domestic subsidiary
	Ami Power Co., Ltd.	The Company	Domestic subsidiary
	QRT Semiconductor Co., Ltd.	HEC	Domestic subsidiary
	Hynix Semiconductor America Inc.(HSA)	The Company	Overseas sales entity
	Hynix Semiconductor ManufacturingAmerica Inc (HSMA)	HSA	Discontinued entity
	Hynix Semiconductor Deutschland GmbH (HSD)	The Company	Overseas sales entity
	Hynix Semiconductor Europe Holding Ltd (HSE)	The Company	Holding company
	Hynix Semiconductor U.K. Ltd.(HSU)	HSE	Overseas sales entity
	Hynix Semiconductor Asia Pte. Ltd.(HSS)	The Company	Overseas sales entity
	Hynix Semiconductor Indian Subcontinent Private Ltd (HSIS)	HSS	Overseas sales entity
	Hynix Semiconductor Hong Kong Ltd (HSH)	The Company	Overseas sales entity
	Hynix Semiconductor(Shanghai) Co., Ltd (HSCS)	The Company	Overseas sales entity
	Hynix Semiconductor Japan Inc (HSJ)	The Company	Overseas sales entity
	Hynix Semiconductor Taiwan Inc (HST)	The Company	Overseas sales entity
	Hynix Semiconductor China Ltd (HSCL)	The Company	Manufacturing entity
	Hynix Semiconductor (Wuxi) Ltd.(HSMC)	The Company	Manufacturing entity
	Hynix (Wuxi) Semiconductor Sales Ltd.(HSCW)	The Company	Overseas sales entity
Associate	SiliconFile Technologies Inc.	-	-
Jointly controlled entities	HITECH Semiconductor(Wuxi) Co., Ltd.	-	-

Significant transactions for the years ended December 31, 2011 and 2010, are as follows:

	2011		2010	
(in millions of Korean won)	**Sales**	**Purchases**	**Sales**	**Purchases**
Sales entities	9,513,528	500,493	11,204,765	569,057
Manufacturing entities	17,750	2,226,415	27,605	2,083,822
Domestic subsidiaries	16,429	219,105	23,212	192,482
Associate	35,279	618	30,076	102
Jointly controlled entity	937	444,463	762	329,840
	9,583,923	**3,391,094**	**11,286,420**	**3,175,303**

The balances of significant transactions as of December 31, 2011 and December 31, 2010, are as follows:

	December 31, 2011		December 31, 2010	
(in millions of Korean won)	**Receivables**	**Payables**	**Receivables**	**Payables**
Sales entities	1,328,544	148,956	1,360,814	168,801
Manufacturing entities	37,817	294,005	36,657	348,922
Domestic subsidiaries	55,874	20,619	61,787	77,458
Associate	6,573	-	5,425	-
Jointly controlled entity	5,924	295,693	4,052	328,691
	1,434,732	**759,273**	**1,468,735**	**923,872**

Key management compensation

Key management includes the chief executive officer, seven directors, three internal auditors and 38 others. The compensation paid to key management for employee services as of December 31, 2011and 2010, is shown below:

(in millions of Korean won)	**Details**	**2011**	**2010**
Short-term employee benefits	Wages, salaries, bonus and other	15,056	10,117
Post-employment benefits	Retirement payment and other	2,225	1,526
Other long-term benefits	Long-term employment allowance	1	8
		17,282	11,651

37. Commitments and Contingencies

Special agreement with Creditor Financial Institutions' Council

On July 12, 2005, the Creditor Financial Institutions ("Creditor Council") operational control over the Company since October 4, 2001, was terminated by entering into a special agreement between the Company and the Share Management Council (formerly the Creditor Council). Under the special agreement, the Company is required to consult with the Share Management Council in advance on events that could have significant influence on the Company' management including (a) appointment and dismissal of directors, (b) adoption of annual budgets, (c) investments in subsidiaries, (d) mergers, acquisitions or other strategic projects, and (e) organization and operation of corporate governance structures. The special agreement remains in effect until the members of the Share Management Council substantially sell their equity interests in the Company (Note 42).

In 2010, the Company entered into an additional credit agreement with six financial institutions, including Korea Exchange Bank, which is a member of the Share Management Council. In accordance with the agreement, when the Share Management Council determines that a change in the controlling shareholders or a majority of the Company's Board of Directors significantly affects the Company's capability to repay its borrowings, the Share Management Council reserves the right to request for an early redemption on all the borrowings from the six financial institutions. The additional agreement remains in effect until change in the controlling shareholders, or in the majority of the Company's Board of Directors is approved by the Share Management Council.

Anti-Trust Act

In June 2002, the United States Department of Justice ("DOJ") notified the Company that the DOJ had commenced an investigation whether certain Dynamic Random Access Memory ("DRAM") manufacturers had breached the US Anti-Trust Act. In order to settle the investigation commenced by the DOJ, on April 22, 2005, the Company entered into a plea agreement with the DOJ to pay a fine in the amount of US$ 185 million in installments over the next five years without interest. Meanwhile, DRAM product users in the United States filed lawsuits claiming damages for the breach of the US Anti-trust Act by the Company and Hynix Semiconductor America Inc. ("HSA"), its sales subsidiary located in the United States.

In relation to the lawsuits, the Company reached settlements through separate negotiations with the direct purchaser classes and individual companies. Also, in November 2010, the Company reached settlements with the indirect purchaser classes to pay US$ 50 million.

The Ninth Circuit Court of Appeals denied the plaintiffs' motion for rehearing en banc in the Rule 23(f) petition asking the Court to accept an appeal of District Court's ruling denying flash indirect purchaser class certification in August, 2011. As a result, the flash indirect purchaser action, consisting of 23 individual purchasers, is pending as of December 31, 2011. In addition, civil suits filed by the direct and indirect purchaser classes in three provinces in Canada in connection with DRAM, SRAM and

Flash memory are also pending.

As of December 31, 2011, the ultimate outcome of the lawsuits described above cannot be determined, but will not have a material effect on the Company's separate financial statements. The accompanying separate financial statements do not include any additional adjustments in excess of managements' current expectation in relation to such uncertainty.

Company's pending litigations as of December 31, 2011

(a) Litigation filed by Rambus

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

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

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 and remanded the case for further proceedings to the court. On January 11, 2012, in light of the fact that the court's judgment has been vacated, the court ordered that Hynix's obligation to maintain the bond was released, while declining to lift Hynix's obligation to make continuing on-going royalties amounting to USD 59 million into the escrow account.

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

As of December 31, 2011, the ultimate outcome of the lawsuits described above cannot be determined, but could have a material effect on the Companty's separate financial statements. The accompanying consolidated financial statements do not include any additional adjustments in excess of managements' current expectation in relation to such uncertainty.

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

On July 24, 1997, the Company sold 13 million shares of Hyundai Investment & Securities Co., Ltd. ("HIS") to Canadian Imperial Bank of Commerce ("CIBC"). In relation to this transaction, HHI entered into a share option agreement with CIBC in which HHI was obligated to buy back the 13 million shares of HIS if CIBC exercised its put option. In return, the Company and Hyundai Securities Co., Ltd. ("HSC") provided HHI with a comfort letter stating that HHI would not suffer any burden as a result of the transaction. The Company, in turn, received a similar letter from HSC in which HSC acknowledged that all of the above transactions were initiated by HSC and that HSC guaranteed that the Company would not suffer any legal or economic losses in connection with the above transaction. Upon CIBC's exercise of its put option, HHI repurchased the shares and requested approximately US$ 220 million of compensation for damage which is equivalent to the repurchase price to the Company and HSC.

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

In January 2002, the court rendered a ruling that the Company, HSC and the former CEO of HSC jointly and severally pay 70% of the claim amount (₩ 171,822 million) and interest thereon to HHI. In 2004, the Company paid HHI ₩ 123,677 million, which represented the estimated portion of its share of compensation pursuant to the ruling and interest thereon. However, the Company made an appeal to the Seoul High Court on February 15, 2002, and on June 14, 2006, the court rendered a ruling that the Company and HSC should pay approximately 80% of the claim amount (₩ 192,942 million).

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

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

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

The Company, in order to minimize the possible payment of interest, made a conditional/provisional payment of ₩ 7,971 million in principal and interest as the litigation mentioned above is in progress in Seoul High Court. As of December 31, 2011, the ultimate outcome of the lawsuits described cannot be determined, but may have a material effect. The accompanying consolidated financial statements do not include any additional adjustments in excess of managements' current expectation in relation to such uncertainty.

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

However, the Company appealed to the Seoul High Court on November 11, 2009, and on November 10, 2011, the court rendered a ruling that the Company and HSC should only pay ₩ 48,770 million and related interest. HSC and HHI appealed to the Supreme Court of Korea on November 25, 2011. As of December 31, 2011 the ultimate outcome of the lawsuits described above cannot be determined, but could have a material effect.

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

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

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

As of December 31, 2011, the ultimate outcome of the lawsuits described above cannot be determined, but could have a material effect.

Separately, the Company filed a lawsuit against HSC on September 21, 2009 at Seoul Central District

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

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

Meanwhile, on February 25, 2011, HSC filed a lawsuit against the Company seeking the Company to pay ₩ 27,917 million and delay interest on the grounds that the Company is finally liable to HSC's payment to HHI in relation to the taxes levied on HHI and any related losses incurred by HHI in connection with HHI's repurchase of shares of HIS. The Company 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 unfavorable ruling against the Company.

As of December 31, 2011, the ultimate outcome of the lawsuits described above cannot be determined, but could have a material effect.

(d) Other litigation and patent-related claims

Apart from the above litigation, the Company is in the midst of defending itself against other various lawsuits and claims regarding patent infringements. As a result, as of December 31, 2011, the Company recognized a liability for the expected future losses that are probable and can be reliably estimated. However, the final outcome of these matters cannot be determined, but could have a material effect on the Company's separate financial statements. The accompanying separate financial statements do not include any adjustments in relation to such uncertainty.

Technology and patent license agreements

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

Contract for supply of industrial water

In March 2001, the Company and Veolia Water Industrial Development Co., Ltd. ("VWID", formerly Vivendi Water Industrial Development Co., Ltd.) entered into a contract for the purpose of purchasing industrial water from VWID for 12 years from March 2001 to March 2013. The contract was subsequently extended to March 2018 in December 2006, and amended in March 2007 due to the establishment of additional plants. According to the amended contract, the Company is obligated to pay base service charges which are predetermined and additional service charges which are variable according to the amount of water used.

Post- process service contract with HITECH

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

Repurchase agreement of Sithe Ichon power plants

The Company has previously entered into a long-term service agreement for the purchase of steam and electricity from Sithe Ichon Power Generating Corp. ("Sithe Ichon"). In March 2005, the Sithe Ichon and Hynix Engineering Co., Ltd. ("Hynix Engineering", formerly Astec Co., Ltd.), the Company' subsidiary, entered into an agreement to purchase the power generating facility from Sithe Ichon for ₩ 119,000 million. In connection with the agreement, in July 2005, the Company entered into an agreement with Sithe Ichon and Hynix Engineering under which the Company provides Sithe Ichon a guarantee for Hynix Engineering's performance under the purchase contract, and also the Company entered into an agreement with Hynix Engineering to pay ₩ 56,319 million, which consisted of ₩ 39,106 million of compensation to Sithe Ichon for the early termination of the previously entered service agreement between the Company and Sithe Ichon, and ₩ 17,213 million of indemnity for expected losses from the planned disposal of a part of the facility. In 2005, the Company recognized the related liabilities and charged the losses in the statement of operations. As of December 31, 2011, the aforementioned agreement and all the related assets have been transferred to Ami Power Co., Ltd. ("Ami Power"), a newly incorporated entity that was spun off from Hynix Engineering. In addition, the Company, Hynix Engineering and Ami Power entered into agreements under which Ami Power provides steam and electricity ("Energy") to the Company. In November 2011, Ami Power received notice of the cancellation of a contract related the purchase of Energy from the Company. Accordingly, Ami Power is scheduled to dispose of the related facility and will be liquidated. In connection with the onerous contract, the Company charged ₩30,530 million of indemnity for expected losses. The compensation for losses on disposal of Ami Power's assets above is to be settled based on actual losses sustained from the disposal, and accordingly, and additional loss could be incurred, which cannot be determined as of December 31, 2011. The accompanying separate financial statements do not include any adjustments in relation to such uncertainty.

Assets provided as collaterals

Details of assets provided as collaterals as of December 31, 2011, are as follows:

(in millions of Korean won)	**Book value**	**Pledged amount**	**Remark**
Land	405,098		
Buildings	808,703	2,585,964	Borrowings and others[1]
Structures	72,075		
Machinery	3,877,843		
	5,163,719	**2,585,964**	

[1] The Company provides newly acquired assets as additional collaterals every six months for revolving credit facility and syndicated loan which were obtained in July 2005 and May 2007, respectively.

Bank overdraft agreement

As of December 31, 2011, the Company has bank overdraft agreement with a limit of ₩41,000 million (2010: ₩41,000 million) with Korea Exchange Bank and other.

Details of credit lines with financial institutions as of December 31, 2011, are as follows:

(in millions of USD)		**Limit**	
Financial Institution	**Commitment**	**Currency**	**Amount**
Korea Exchange Bank and other	Import finance like usance	USD	832
	Export finance like bills bought	USD	525
	Comprehensive limit contract for Import & Export	USD	535

Guarantees provided to others

Details of guarantees provided to others as of December 31, 2011, are as follows:

(in millions of Korean won)	**Amount**	**Remark**
Employees	35	Guarantees for employees' borrowings relating to employee stock ownership
HSA	15,772	Guarantees for financial institution's borrowing relating to mortgage loan of HSA
	15,807	

38. Derivative Financial Instruments

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

Details of derivative financial assets and liabilities as of December 31, 2011 and 2010, and January 1, 2010, are as follows:

	December 31, 2011		December 31, 2010		January 1, 2010,	
(in millions of Korean won)	**Assets**	**Liabilities**	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Current						
Foreign currency forward contract	-	-	-	230	-	-
Interest and principal swap	-	33,696	-	-	-	-
Interest rates swap	-	619	-	-	-	-
Option contracts	-	-	-	42,196	-	29,417
Embedded derivatives	-	-	-	-	-	3,747
	-	34,315	-	42,426	-	33,164
Non-current						
Interest and principle swap	-	-	-	25,861	-	31,596
Interest rates swap	-	1,325	-	1,401	-	-
Option contracts	-	-	-	-	-	31,294
Embedded derivative instruments	3,114	6,471	7,695	27,299	4,390	-
	3,114	7,796	7,695	54,561	4,390	62,890
	3,114	**42,111**	**7,695**	**96,987**	**4,390**	**96,054**

Details of gains and losses from derivative instruments during the years ended December 31, 2011 and 2010, are as follows:

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

	2010			
(in millions of Korean won)	**Gain on valuation**	**Loss on valuation**	**Gain on transaction**	**Loss on transaction**
Interest and principal swap	5,735	-	6,091	-
Interest rates swap	-	1,401	-	227
Foreign currency forward contract	-	230	-	1,480
Option contracts	-	10,903	-	4,539
Embedded derivative instruments	68,864	-	-	-
	74,599	**12,534**	**6,091**	**6,246**

39. Cash Generated from Operations

Reconciliations between operating profit and net cash inflow from operating activities for the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	2011	2010
Profit for the period before income tax	236,313	2,867,587
Adjustments		
Defined benefits	85,592	69,370
Depreciation	2,011,372	1,796,137
Depreciation of investment properties	1,313	1,316
Amortization	64,957	18,436
Loss on foreign currency translation	80,816	19,774
Loss on disposal of assets held-for-sale	6,884	34,260
Impairment loss on property, plant and equipment	14,230	-
Impairment loss on intangible assets	728	350
Impairment loss on assets held-for-sale	-	7,390
Impairment loss on available-for-sale financial assets	21,847	1,295
Impairment loss on equity investment in associates	10,637	-
Loss on disposal of property, plant and equipment	3,392	5,289
Loss on disposal of intangible assets	4,984	3,406
Loss on redemption of debenture	-	27,266
Interest expenses	271,753	299,813
Gain on foreign currency translation	(25,563)	(85,446)
Gain on disposal of assets held-for-sale	(6,440)	(12,160)
Gain on disposal of Investments in subsidiaries, jointly controlled entities and associates	(1,166)	-
Gain on disposal of property, plant and equipment	(1,329)	(26,711)
Gain on disposal of investment property	(7,447)	-
Gain on disposal of intangible assets	(9,352)	-
Interest income	(56,402)	(69,552)
Dividends income	(8,882)	(687)
Gain (loss) on derivative instruments	(17,927)	(61,910)
Others	949	1,187
Changes in operating assets and liabilities		
Decrease(Increase) in trade receivables	16,540	(409,258)
Decrease(Increase) in loans and other receivables	1,391	(20,042)
Increase in inventories	(2,436)	(142,715)
Decrease(Increase) in other assets	(22,858)	31,343
Decrease in trade payables	(29,127)	(75,562)
Increase(Decrease) in other payables	(271,085)	111,720
Increase(Decrease) in other non-trade payables	(186,495)	375,511
Decrease in provision	(169,205)	(101,185)
Increase(Decrease) in other liabilities	3,534	(64,133)
Payment of defined benefit liability	(48,808)	(47,757)
Cash Generated from Operations	**1,972,710**	**4,554,332**

40. Share-based Payments

The Company grants share options to directors and selected employees with approval of the shareholders and the Board of Directors. As of December 31, 2011, details of the share options are as follows:

- Type of shares issued for the exercise of share options: Registered ordinary shares
- Grant method: Distribute newly issued common shares
- Exercisable condition: Over two years of employment after the grant dates
- Details of the stock options which have been granted as of December 31, 2011, are as follows:

Grant dates	Number of shares to be issued (thousands)	Exercise price Per share		Exercise period
October 24, 2005	334	₩	22,800	Oct. 25, 2007~Oct. 24, 2012

Changes in details of share-based payments during the years ended December 31, 2011 and 2010, are as follows:

(in millions of Korean won)	2011	2010
At January 1	5,762	5,769
Exercised/ Expired	-	(7)
At December 31	**5,762**	**5,762**

Changes in details of options and weighted-average exercisable prices during the years ended December 31, 2011 and 2010, are as follows:

(in thousands of shares, except for price)	2011			2010		
	Weighted average exercise price		Options	Weighted average exercise price		Options
At January 1	₩	22,800	324	₩	22,655	327
Granted		-	-		-	-
Exercised		-	-		5,000	(3)
Expired		-	-		-	-
At December 31	₩	**22,800**	**324**	₩	**22,800**	**324**

The weighted average fair value of options was determined using the Black-Scholes valuation model. The significant inputs into the model were weighted average share price at the grant date, exercise price, volatility of share price, dividend yield, an expected option life and an annual risk-free interest rate. For the year ended December 31, 2011, there is no expense recognized in the statement of comprehensive income for share options granted to directors and employees.

41. Transition to Korean-IFRS

41.1 First-time Adoption of Korean-IFRS

The Company's transition date to Korean-IFRS is January 1, 2010, and adoption date is January 1, 2011.

In preparing separate financial statements in accordance with Korean-IFRS 1101(First-time Adoption of Korean International Financial Reporting Standards), the Company has applied the mandatory exceptions and certain optional exemptions allowed by Korean-IFRS.

41.2 Exemption Options under Korean-IFRS 1101

The Company elected to apply the following optional exemptions from full retrospective application.

(1) Business combinations

The Company elected to apply the exemption for business combinations allowed under Korean-IFRS 1101 and has not retrospectively applied Korean-IFRS 1103 to past business combinations that occurred before the transition date.

(2) Fair value as deemed cost

The Company elected to use the revaluations of certain property, plant and equipment prior to the date of transition to Korean-IFRS as deemed cost at the transition date.

The Company elected to measure certain property, plant and equipment at fair value as of the transition date to Korean-IFRS and use that fair value as its deemed cost at that date as follows:

(in millions of Korean won)

Reported amount under previous K-GAAP	Adjusted amount	Fair value as of the transition date
259,399	181,633	441,032

(3) Subsidiaries, associates, and joint ventures

Investments in subsidiaries, joint ventures, and associates are recognised at cost under the direct equity method. Management applied the carrying amounts under the previous K-GAAP at the time of first adoption of the Korean IFRS as deemed cost of investments.

41.3 Mandatory Exceptions to Retroactive Application of Other Korean-IFRS

Exceptions to other Korean-IFRS applied by the Company are as follows:

(1) Derecognition of financial assets

The Company applied the derecognition requirements in Korean-IFRS 1039, Financial Instruments: Recognition and Measurement, prospectively for transfers of financial assets occurring on or after the transition date. Where the Company had derecognized financial assets before the transition date in accordance with previous K-GAAP, the Company did not recognizes these assets even when the transfers did not meet the derecognition criteria under Korean-IFRS.

(2) Exception for estimates

The Company's Korean-IFRS estimates at the transition date are consistent with the estimates as at the same date made in accordance with previous K-GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error.

41.4 Reconciliations between Previous K-GAAP and Korean-IFRS

Effects of Korean-IFRS adoption on the Company's total assets, liabilities and equity, as of January 1, 2010, the date of Korean-IFRS transition, are as follows:

(In millions of Korean won)	**Total assets**	**Total liabilities**	**Total equity**
Reported amount under previous K-GAAP	13,424,767	7,972,385	5,452,382
Adjustments for:			
Transfer of receivables [1]	471,562	471,562	-
Investments in associates [2]	43	-	43
Land revaluation [4]	181,633	-	181,633
Fair value measurement and other [5]	4,389	197,461	(193,072)
Other long-term employee benefit obligations [6]	-	(49,205)	49,205
Recognition of deferred tax liabilities of advanced depreciation provision relating previous revaluation [8]	(55,666)	-	(55,666)
Total adjustments	601,961	619,818	(17,857)
Adjusted amount under Korean-IFRS	**14,026,728**	**8,592,203**	**5,434,525**

Effects of Korean-IFRS adoption on the Company's total assets, liabilities and equity, as of December 31, 2010, are as follows:

(In millions of Korean won)	**Total assets**	**Total liabilities**	**Total equity**
Reported amount under previous K-GAAP	15,940,007	7,770,158	8,169,849
Adjustments for:			
Investments in associates [2]	(109,045)	-	(109,045)
Amortization of goodwill [3]	39,636	-	39,636
Land revaluation[4]	181,633	-	181,633
Fair value measurement and other [5]	7,695	97,720	(90,025)
Other long-term employee benefit obligations [6]	-	(30,664)	30,664
Recognition of deferred tax liabilities of advanced depreciation provision relating previous revaluation [8]	(55,666)	-	(55,666)
Total adjustments	64,253	67,056	(2,803)
Adjusted amount under Korean-IFRS	**16,004,260**	**7,837,214**	**8,167,046**

Effects of Korean-IFRS adoption on the Company's profit and comprehensive income for the year ended December 31, 2010, are as follows:

(In millions of Korean won)	**Profit**	**Comprehensive income**
Reported amount under previous K-GAAP	2,647,889	2,603,072
Adjustments for:		
Investments in associates [2]	(142,861)	(111,002)
Amortization of goodwill [3]	39,636	39,636
Fair value measurement and other [5]	204,851	204,851
Other long-term employee benefit obligations [6]	36,431	(18,540)
Total adjustments	138,057	114,945
Adjusted amount under Korean-IFRS	**2,785,946**	**2,718,017**

[1] The factoring of trade receivables with no transfer of risk and rewards are treated as borrowings.

[2] Investments in subsidiaries, joint ventures, and associates are recognised at cost under the direct equity method. Management applied the carrying amounts under the previous K-GAAP at the time of first adoption of the Korean IFRS as deemed cost of investments.

[3] Amortization effect of goodwill acquired from business combination in accordance with the previous K-GAAP was eliminated.

[4] Certain land was measured at the fair value on the transition date and the value was used for replacement cost for the period.

[5] Conversion rights are separated from convertible bonds and are measured at fair value with gains (losses) recognized in profit or loss.

[6] Defined benefit liability is calculated by using an actuarial method and actuarial losses (gains) on defined benefit liability is recognized in other comprehensive income (immediately recognized in retained earnings). And other long-term employee benefit obligations are calculated by using an actuarial method. Actuarial losses (gains) on other long-term employee benefit obligations are recognized in profit or loss for the period.
[7] Changes in total assets and liabilities due to changes in scope of consolidation
[8] Recognition of deferred tax liabilities of advanced depreciation provision relating previous revaluation of lands unlikely to dispose of.

Effects on the cash flows

On adoption of Korean-IFRS, cash flows from interest received, interest paid, dividends received, and income taxes paid, which had not been separated presented, are presented separately on the face of the statement of cash flows. In order to accommodate the change, cash flows related to relevant income/expenses, assets/liabilities have been adjusted.

Cash flows from operating and financing activities are adjusted due to certain transfers of trade receivables that were derecognized under the previous K-GAAP but are treated as collateralized borrowings under Korean-IFRS. Also, other Korean-IFRS transition effects are reflected on cash flows where they have an effect on cash flows.

42. Event after the Reporting Period

On November 14, 2011, the Share Management Council and the Company entered into a share purchase agreement with SK telecom Co., Ltd. In accordance with the terms of the agreement, SK Telecom Co., Ltd., on February 14, 2012, purchased 44.25 million shares of the Company from the Share Management Council and acquired newly issued 101.85 million shares of the Company through an allotment to a third party. Consequently, SK Telecom Co., Ltd. acquired 146.1 million shares of common stock of the Company, representing approximately 21.05% of the outstanding common stock and became a largest shareholder of the Company. The special agreement with the Share Management Council, explained in Note 37, is not valid anymore.

Report on Review of Internal Accounting Control System

To the President of
Hynix Semiconductor Inc.

We have reviewed the accompanying management's report on the operations of the Internal Accounting Control System ("IACS") of Hynix Semiconductor Inc. (the "Company") as of December 31, 2011. The Company's management is responsible for designing and operating IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review the management's report on the operations of the IACS and issue a report based on our review. The management's report on the operations of the IACS of the Company states that "based on its assessment of the operations of the IACS as of December 31, 2011, the Company's IACS has been designed and is operating effectively as of December 31, 2011, in all material respects, in accordance with the IACS standards established by the Internal Accounting Control System Operations Committee (IACSOC) of the Korea Listed Companies Association."

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

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

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

Our review is based on the Company's IACS as of December 31, 2011, and we did not review management's assessment of its IACS subsequent to December 31, 2011. This report has been prepared pursuant to the Acts on External Audit for Stock Companies in Korea and may not be appropriate for other purposes or for other users.

Samil PricewaterhouseCoopers
March 12, 2012

Report on the Operations of the Internal Accounting Control System

To the Board of Directors and Audit Committee of
Hynix Semiconductor Inc.

I, as the Internal Accounting Control Officer (“IACO”) of Hynix Semiconductor Inc. (“the Company”), assessed the status of the design and operations of the Company’s internal accounting control system (“IACS”) for the year ended December 31, 2011.

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

Based on the assessment on the operations of the IACS, the Company’s IACS has been effectively designed and is operating as of December 31, 2011, in all material respects, in accordance with the IACS standards.

January,19, 2012

Min Chul Kim, Internal Accounting Control Officer

Oh Chul Kwon, Chief Executive Officer or President