

SK HYNIX, INC. and Subsidiaries

Condensed Consolidated Interim Financial Statements

September 30, 2015 and 2014

(Unaudited)

(With Independent Auditors' Review Report Thereon)

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Independent Auditors' Review Report

Based on a report originally issued in Korean

The Board of Directors and Shareholders
SK hynix, Inc.:

Reviewed financial statements

We have reviewed the accompanying condensed consolidated interim financial statements of SK hynix, Inc. and its subsidiaries (the "Group") which comprise the condensed consolidated statement of financial position as of September 30, 2015, the condensed consolidated statements of comprehensive income for the three and nine-month periods ended September 30, 2015 and 2014, and condensed consolidated statements of changes in equity and cash flows for the nine-month periods ended September 30, 2015 and 2014 and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility

Management is responsible for the preparation and fair presentation of these condensed consolidated interim financial statements in accordance with Korean International Financial Reporting Standards ("K-IFRS") No.1034 'Interim Financial Reporting', and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' review responsibility

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

We conducted our reviews in accordance with the Review Standards for Quarterly and Semiannual Financial Statements established by the Securities and Futures Commission of the Republic of Korea. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Korean Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our reviews, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements referred to above are not prepared fairly, in all material respects, in accordance with K-IFRS No.1034 'Interim Financial Reporting'.

Other matters

The consolidated statement of financial position of the Group as of December 31, 2014, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, which are not accompanying this report, were audited by us in accordance with Korean Standards on Auditing and our report thereon, dated February 17, 2015, expressed an unqualified opinion. The accompanying condensed consolidated statement of financial position of the Group as of December 31, 2014, presented for comparative purposes, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

The procedures and practices utilized in the Republic of Korea to review such condensed consolidated interim financial statements may differ from those generally accepted and applied in other countries.



KPMG Samjory Accounting Corp.

Seoul, Korea
October 30, 2015

This report is effective as of October 30, 2015, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying condensed consolidated interim financial statements and notes thereto. Accordingly, the readers of the review report should understand that the above review report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

SK HYNIX, INC. and Subsidiaries
Condensed Consolidated Statements of Financial Position
As of September 30, 2015 and December 31, 2014
(Unaudited)

(In millions of won)

	<u>Note</u>	<u>2015</u>	<u>2014</u>
Assets			
Current assets			
Cash and cash equivalents	5,6 ₩	510,632	436,761
Short-term financial instruments	5,6,7	3,594,475	3,618,014
Trade receivables, net	5,6,8	3,318,727	3,732,926
Loans and other receivables, net	5,6,8	187,613	881,885
Inventories, net	9	1,826,524	1,497,563
Current tax assets		1,717	1,629
Assets held for sale	10	30,060	27,661
Other current assets	11	230,709	167,075
		<u>9,700,457</u>	<u>10,363,514</u>
Non-current assets			
Investments in associates and joint ventures	12	110,474	97,090
Available-for-sale financial assets	5,6,13	130,620	127,314
Loans and other receivables, net	5,6,8	62,755	58,989
Other financial assets	5,6,7	436	323
Property, plant and equipment, net	14,33	16,819,082	14,090,334
Intangible assets, net	15	1,618,504	1,336,680
Investment property, net	16	2,705	28,456
Deferred tax assets		305,156	272,102
Other non-current assets	11	591,951	508,476
		<u>19,641,683</u>	<u>16,519,764</u>
Total assets	₩	<u>29,342,140</u>	<u>26,883,278</u>

See accompanying notes to the condensed consolidated interim financial statements.

SK HYNIX, INC. and Subsidiaries
Condensed Consolidated Statements of Financial Position, Continued
As of September 30, 2015 and December 31, 2014
(Unaudited)

(In millions of won)

	Note	2015	2014
Liabilities			
Current liabilities			
Trade payables	5,6	₩ 776,022	787,822
Other payables	5,6	1,191,120	1,358,816
Other non-trade payables	5,6	1,024,436	1,182,956
Borrowings	5,6,17	1,863,403	1,755,020
Other financial liabilities	5,6,21	-	30
Provisions	19	31,520	25,932
Current tax liabilities		466,194	583,529
Other current liabilities	18	36,645	71,199
		<u>5,389,340</u>	<u>5,765,304</u>
Non-current liabilities			
Other non-trade payables	5,6	102,065	132,947
Borrowings	5,6,17	2,436,700	2,419,739
Other financial liabilities	5,6,21	854	708
Defined benefit liabilities, net	20	583,981	465,350
Deferred tax liabilities		2,754	3,463
Other non-current liabilities	18	60,119	59,464
		<u>3,186,473</u>	<u>3,081,671</u>
Total liabilities		<u>8,575,813</u>	<u>8,846,975</u>
Equity			
Equity attributable to owners of the Parent Company			
Capital stock	1,22	3,657,652	3,657,652
Capital surplus	22	4,143,736	4,143,736
Other equity	22	(753,647)	(24)
Accumulated other comprehensive income (loss)	23	212,891	(41,815)
Retained earnings	24	13,505,758	10,276,904
Total equity attributable to owners of the Parent Company		<u>20,766,390</u>	<u>18,036,453</u>
Non-controlling interests		<u>(63)</u>	<u>(150)</u>
Total equity		<u>20,766,327</u>	<u>18,036,303</u>
Total liabilities and equity	₩	<u>29,342,140</u>	<u>26,883,278</u>

See accompanying notes to the condensed consolidated interim financial statements.

SK HYNIX, INC. and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income
For the three and nine-month periods ended September 30, 2015 and 2014
(Unaudited)

(In millions of won, except per share information)

	Note	2015		2014	
		Three-month period	Nine-month period	Three-month period	Nine-month period
Revenue	4 ₩	4,925,034	14,381,954	4,312,069	11,977,634
Cost of sales	26	2,796,009	7,848,686	2,376,715	6,733,182
Gross profit		2,129,025	6,533,268	1,935,354	5,244,452
Selling and administrative expense	25,26	745,810	2,186,043	634,180	1,802,145
Operating profit		1,383,215	4,347,225	1,301,174	3,442,307
Finance income	27	319,396	680,330	151,072	433,406
Finance expenses	27	364,701	686,497	85,994	607,294
Share of profit of equity-accounted investees	12	8,240	18,510	2,257	15,967
Other income	28	13,268	27,118	5,805	19,585
Other expenses	28	47,756	94,695	59,389	161,566
Profit before income tax		1,311,662	4,291,991	1,314,925	3,142,405
Income tax expense	29	263,300	839,763	219,844	571,320
Profit for the period		1,048,362	3,452,228	1,095,081	2,571,085
Other comprehensive income (loss)					
Item that will never be reclassified to profit or loss:					
Remeasurements of defined benefit liability, net of tax	20	(1,605)	(4,851)	(25)	(74)
Items that are or may be reclassified to profit or loss:					
Available-for-sale financial assets – net change in unrealized fair value, net of tax	13	-	-	(11,786)	(7,824)
Foreign operations – foreign currency translation differences, net of tax		171,440	246,210	108,083	(95,489)
Equity-accounted investees – share of other comprehensive income (loss), net of tax	12	6,200	8,461	2,940	(477)
Other comprehensive income (loss) for the period, net of tax		176,035	249,820	99,212	(103,864)
Total comprehensive income for the period	₩	1,224,397	3,702,048	1,194,293	2,467,221

See accompanying notes to the condensed consolidated interim financial statements.

SK HYNIX, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income, Continued

For the three and nine-month periods ended September 30, 2015 and 2014

(Unaudited)

(In millions of won, except per share information)

	Note	2015		2014	
		Three-month period	Nine-month period	Three-month period	Nine-month period
Profit (loss) attributable to:					
Owners of the Parent Company		1,048,307	3,452,106	1,095,320	2,571,059
Non-controlling interests		55	122	(239)	26
Total comprehensive income					
(loss) attributable to:					
Owners of the Parent Company		1,224,259	3,701,961	1,194,611	2,467,231
Non-controlling interests		138	87	(318)	(10)
Earnings per share					
Basic earnings per share (in won)	30	1,458	4,762	1,516	3,596
Diluted earnings per share (in won)	30	1,458	4,762	1,510	3,596

See accompanying notes to the condensed consolidated interim financial statements.

SK HYNIX, INC. and Subsidiaries
Condensed Consolidated Statements of Changes in Equity
For the nine-month periods ended September 30, 2015 and 2014
(Unaudited)

	Attributable to owners of the Parent Company							Non-controlling interests	Total equity
	Capital stock	Capital surplus	Other equity	Accumulated other comprehensive income (loss)	Retained earnings	Total			
<i>(In millions of won)</i>									
Balance at January 1, 2014	₩ 3,568,645	3,406,083	-	(108,807)	6,201,322	13,067,243	(384)	13,066,859	
Total comprehensive income:									
Profit for the period	-	-	-	-	2,571,059	2,571,059	26	2,571,085	
Unrealized net changes in fair values of available-for-sale financial assets, net of tax	-	-	-	(7,824)	-	(7,824)	-	(7,824)	
Remeasurements of defined benefit liability, net of tax	-	-	-	-	(74)	(74)	-	(74)	
Other comprehensive loss from joint venture and associate, net of tax	-	-	-	(477)	-	(477)	-	(477)	
Foreign currency translation differences for foreign operations, net of tax	-	-	-	(95,453)	-	(95,453)	(36)	(95,489)	
Total comprehensive income	-	-	-	(103,754)	2,570,985	2,467,231	(10)	2,467,221	
Transactions with owners of the Parent Company:									
Issue of ordinary shares related to acquisition of a subsidiary	6,793	47,277	-	-	-	54,070	-	54,070	
Exercise of conversion rights	74,237	627,912	-	-	-	702,149	-	702,149	
Acquisition of treasury shares	-	-	(24)	-	-	(24)	-	(24)	
Transactions with owners of the Parent Company	81,030	675,189	(24)	-	-	756,195	-	756,195	
Balance at September 30, 2014	₩ 3,649,675	4,081,272	(24)	(212,561)	8,772,307	16,290,669	(394)	16,290,275	

See accompanying notes to the condensed consolidated interim financial statements.

SK HYNIX, INC. and Subsidiaries
Condensed Consolidated Statements of Changes in Equity, Continued
For the nine-month periods ended September 30, 2015 and 2014
(Unaudited)

		Attributable to owners of the Parent Company						Non-controlling interests	Total equity
		Capital stock	Capital surplus	Other equity	Accumulated other comprehensive income (loss)	Retained earnings	Total		
<i>(In millions of won)</i>									
Balance at January 1, 2015	₩	3,657,652	4,143,736	(24)	(41,815)	10,276,904	18,036,453	(150)	18,036,303
Total comprehensive income:									
Profit for the period		-	-	-	-	3,452,106	3,452,106	122	3,452,228
Remeasurements of defined benefit liability, net of tax		-	-	-	-	(4,851)	(4,851)	-	(4,851)
Other comprehensive income from joint venture and associate, net of tax		-	-	-	8,461	-	8,461	-	8,461
Foreign currency translation differences for foreign operations, net of tax		-	-	-	246,245	-	246,245	(35)	246,210
Total comprehensive income		-	-	-	254,706	3,447,255	3,701,961	87	3,702,048
Transactions with owners of the Parent Company:									
Dividends paid		-	-	-	-	(218,401)	(218,401)	-	(218,401)
Acquisition of treasury shares		-	-	(753,623)	-	-	(753,623)	-	(753,623)
Transactions with owners of the Parent Company		-	-	(753,623)	-	(218,401)	(972,024)	-	(972,024)
Balance at September 30, 2015	₩	3,657,652	4,143,736	(753,647)	212,891	13,505,758	20,766,390	(63)	20,766,327

See accompanying notes to the condensed consolidated interim financial statements.

SK HYNIX, INC. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
For the nine-month periods ended September 30, 2015 and 2014
(Unaudited)

(In millions of won)

	<u>Note</u>	<u>2015</u>	<u>2014</u>
Cash flows from operating activities			
Cash generated from operating activities	33 ₩	7,893,946	4,879,833
Interest received		43,282	32,973
Interest paid		(92,651)	(115,432)
Dividends received		16,836	17,106
Income tax paid		(985,218)	(169,458)
Net cash provided by operating activities		<u>6,876,195</u>	<u>4,645,022</u>
Cash flows from investing activities			
Decrease in short-term financial instruments		9,490,057	15,989,933
Increase in short-term financial instruments		(9,432,091)	(17,116,461)
Collection of loans and other receivables		16,701	1,270
Increase in loans and other receivables		(9,529)	(11,674)
Proceeds from disposal of available-for-sale financial assets		745	28,578
Acquisition of available-for-sale financial assets		(4,051)	(573)
Decrease in other financial assets		-	275,422
Increase in other financial assets		-	(29,613)
Cash inflows from derivative transactions		1,376	1,761
Cash outflows from derivative transactions		(1,682)	(3,862)
Proceeds from disposal of property, plant and equipment		161,780	136,708
Acquisition of property, plant and equipment		(5,591,862)	(3,964,835)
Proceeds from disposal of intangible assets		431	185
Acquisition of intangible assets		(416,664)	(216,349)
Receipt of government grants		406	20,206
Cash outflows from business combinations		-	(19,271)
Acquisition of investments in associates		(2,194)	(1,467)
Net cash used in investing activities	₩	<u>(5,786,577)</u>	<u>(4,910,042)</u>

See accompanying notes to the condensed consolidated interim financial statements.

SK HYNIX, INC. and Subsidiaries
Condensed Consolidated Statements of Cash Flows, Continued
For the nine-month periods ended September 30, 2015 and 2014
(Unaudited)

(In millions of won)

	2015	2014
Cash flows from financing activities		
Proceeds from borrowings	₩ 3,502,025	2,541,874
Repayments of borrowings	(3,563,291)	(2,527,669)
Acquisition of treasury shares	(753,623)	(24)
Dividends paid	(218,401)	-
Net cash provided by (used in) financing activities	(1,033,290)	14,181
Effect of movements in exchange rates on cash and cash equivalents	17,543	(3,383)
Net increase (decrease) in cash and cash equivalents	73,871	(254,222)
Cash and cash equivalents at beginning of the period	436,761	631,867
Cash and cash equivalents at end of the period	₩ 510,632	377,645

See accompanying notes to the condensed consolidated interim financial statements.

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2015 and 2014
(Unaudited)

1. Reporting Entity

(1) General information about SK hynix, Inc. (the "Parent Company" or the "Company") and its subsidiaries (collectively the "Group") is as follows:

The Parent Company manufactures, distributes and sells semiconductor products and its shares have been listed on the Korea Exchange since 1996. The Parent Company's headquarters is located at 2091 Gyeongchung-daero, Bubal-eup, Icheon-si, Gyeonggi-do, South Korea, and the Group has manufacturing facilities in Icheon-si and Cheongju-si, South Korea, and Wuxi and Chongqing, China.

As of September 30, 2015, the shareholders of the Parent Company are as follows:

Shareholder	Number of shares	Percentage of ownership (%)
SK Telecom Co., Ltd.	146,100,000	20.07
Share Management Council ¹	5,097,667	0.70
National Pension Service and other investors	555,345,030	76.28
Treasury shares	21,459,668	2.95
	728,002,365	100.00

¹ As of September 30, 2015, 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	5,092,500	0.70
Other financial institutions	5,167	0.00
	5,097,667	0.70

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

Accordingly, in substance, SK Telecom Co., Ltd. has the voting rights over the Share Management Council's shares as of September 30, 2015.

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2015 and 2014
(Unaudited)

1. Reporting Entity, Continued

(2) Details of the Group's consolidated subsidiaries as of September 30, 2015 and December 31, 2014 are as follows:

Company	Location	Business	Ownership(%)	
			2015	2014
SK hyeng Inc.	Korea	Domestic subsidiary	100.00	100.00
SK hystec Inc.	Korea	Domestic subsidiary	100.00	100.00
Siliconfile Technologies Inc.	Korea	Development and manufacturing of electronic component	100.00	100.00
SK hynix America Inc. (SKHYA)	U.S.A.	Overseas sales subsidiary	97.74	97.74
Hynix Semiconductor Manufacturing America Inc. (HSMA) ¹	U.S.A.	Discontinued subsidiary	100.00	100.00
SK hynix Deutschland GmbH (SKHYD)	Germany	Overseas sales subsidiary	100.00	100.00
SK hynix U.K. Ltd. (SKHYU)	U.K.	Overseas sales subsidiary	100.00	100.00
SK hynix Asia Pte. Ltd. (SKHYS)	Singapore	Overseas sales subsidiary	100.00	100.00
SK hynix Semiconductor India Private Ltd. (SKHYS) ²	India	Overseas sales subsidiary	100.00	100.00
SK hynix Semiconductor Hong Kong Ltd. (SKHYH)	Hong Kong	Overseas sales subsidiary	100.00	100.00
SK hynix Semiconductor (Shanghai) Co., Ltd. (SKHYCS)	China	Overseas sales subsidiary	100.00	100.00
SK hynix Japan Inc. (SKHYJ)	Japan	Overseas sales subsidiary	100.00	100.00
SK hynix Semiconductor Taiwan Inc. (SKHYT)	Taiwan	Overseas sales subsidiary	100.00	100.00
SK hynix Semiconductor (China) Ltd. (SKHYCL)	China	Overseas manufacturing subsidiary	100.00	100.00
SK hynix Semiconductor (Wuxi) Ltd. (SKHYMC)	China	Overseas manufacturing subsidiary	100.00	100.00
SK hynix (Wuxi) Semiconductor Sales Ltd. (SKHYCW)	China	Overseas sales subsidiary	100.00	100.00
SK hynix Italy S.r.l (SKHYIT)	Italy	Overseas R&D center	100.00	100.00
SK hynix memory solutions Inc. (SKHMS)	U.S.A.	Overseas R&D center	100.00	100.00
SK hynix Flash Solution Taiwan (SKHYFST)	Taiwan	Overseas R&D center	100.00	100.00
SK APTECH Ltd. (SKAPTECH)	Hong Kong	Holding company	100.00	100.00
SK hynix Semiconductor (Chongqing) Ltd. (SKHYCQL) ³	China	Overseas manufacturing subsidiary	100.00	100.00
Softseq Flash Solutions LLC.(SOFTEQ)	Belarus	Overseas R&D center	100.00	100.00
MMT (Money Market Trust)	Korea	Money Market Trust	100.00	100.00

¹ Subsidiary of SK hynix America Inc.

² Subsidiary of SK hynix Asia Pte. Ltd.

³ Subsidiary of SK APTECH Ltd.

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2015 and 2014
(Unaudited)

1. Reporting Entity, Continued

(3) There is no change in subsidiaries for the nine-month period ended September 30, 2015.

(4) Major subsidiaries' summarized separate statements of financial position as of September 30, 2015 and December 31, 2014 are as follows:

(In millions of won)

	2015			2014		
	Assets	Liabilities	Equity	Assets	Liabilities	Equity
SK hynix America Inc.(SKHYA)	₩ 1,651,064	1,549,277	101,787	1,711,746	1,634,047	77,699
SK hynix Asia Pte. Ltd.(SKHYS)	366,151	287,106	79,045	386,135	313,152	72,983
SK hynix Semiconductor Hong Kong Ltd.(SKHYH)	616,131	519,499	96,632	563,598	478,449	85,149
SK hynix Japan Inc.(SKHYJ)	355,129	290,991	64,138	285,122	227,860	57,262
SK hynix Semiconductor Taiwan Inc.(SKHYT)	388,423	371,542	16,881	628,791	605,861	22,930
SK hynix Semiconductor (China) Ltd.(SKHYCL)	4,029,547	766,651	3,262,896	4,179,186	1,197,588	2,981,598
SK hynix Deutschland GmbH(SKHYD)	78,156	39,712	38,443	135,384	98,477	36,907
SK hynix U.K. Ltd.(SKHYU)	201,598	186,327	15,271	194,318	179,990	14,328
SK hynix Semiconductor (Chongqing) Ltd.(SKHYCQL)	412,071	225,885	186,186	341,984	174,936	167,048

(5) Major subsidiaries' summarized separate statements of comprehensive income (loss) for the nine-month periods ended September 30, 2015 and 2014 are as follows:

(In millions of won)

	2015			2014		
	Revenue	Profit (loss)	Total comprehensive income (loss)	Revenue	Profit (loss)	Total comprehensive income (loss)
SK hynix America Inc.(SKHYA)	₩ 5,870,126	20,309	20,309	4,120,903	4,262	4,262
SK hynix Asia Pte. Ltd.(SKHYS)	1,283,685	(206)	(206)	1,232,597	2,408	2,408
SK hynix Semiconductor Hong Kong Ltd.(SKHYH)	3,052,592	3,770	3,770	2,653,830	3,448	3,448
SK hynix Japan Inc.(SKHYJ)	724,095	1,961	1,961	588,522	15,960	15,960
SK hynix Semiconductor Taiwan Inc.(SKHYT)	1,528,428	115	115	1,536,399	5,194	5,194
SK hynix Semiconductor (China) Ltd.(SKHYCL)	1,611,514	84,481	84,481	1,391,051	(65,143)	(65,143)
SK hynix Deutschland GmbH(SKHYD)	324,746	1,240	1,240	408,303	2,939	2,939
SK hynix U.K. Ltd.(SKHYU)	567,916	(281)	(281)	365,169	1,459	1,459
SK hynix Semiconductor (Chongqing) Ltd.(SKHYCQL)	255,236	7,949	7,949	35,976	2,084	2,084

(6) There are no significant non-controlling interests to the Group as of September 30, 2015 and December 31, 2014.

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2015 and 2014
(Unaudited)

2. Basis of Preparation

(1) Statement of compliance

The condensed consolidated interim financial statements have been prepared in accordance with Korean International Financial Reporting Standards ("K-IFRS"), as prescribed in the Act on External Audits of Stock Companies.

These condensed consolidated interim financial statements were prepared in accordance with K-IFRS No. 1034, 'Interim Financial Reporting' as part of the period covered by the Group's K-IFRS annual financial statements. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as of and for the year ended December 31, 2014. These condensed consolidated interim financial statements do not include all of the disclosures required for full annual financial statements.

(2) Use of estimates and judgments

The preparation of the condensed consolidated interim financial statements in conformity with K-IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as of and for the year ended December 31, 2014.

3. Significant Accounting Policies

The accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as of and for the year ended December 31, 2014.

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2015 and 2014
(Unaudited)

4. Geographic, Product and Customer Information

An operating segment is a component of the Group that: 1) engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with other components of the Group, 2) whose operating results are reviewed regularly by the Group's chief operating decision maker ("CODM") in order to allocate resources and assess its performance, and 3) for which discrete financial information is available. The Group's CODM is the board of directors, who do not receive and therefore do not review discrete financial information for any component of the Group. Consequently, no operating segment information is included in these consolidated financial statements.

(1) Details of the Group's revenue for the three and nine-month periods ended September 30, 2015 and 2014 are as follows:

(In millions of won)

	2015		2014	
	Three-month period	Nine-month period	Three-month period	Nine-month period
Sale of goods	₩ 4,912,628	14,288,070	4,276,887	11,905,111
Sale of services	12,406	93,884	35,182	72,523
	₩ 4,925,034	14,381,954	4,312,069	11,977,634

(2) Details of the Group's revenue by product and service types for the three and nine-month periods ended September 30, 2015 and 2014 are as follows:

(In millions of won)

	2015		2014	
	Three-month period	Nine-month period	Three-month period	Nine-month period
DRAM	₩ 3,662,326	10,758,056	3,297,170	9,366,652
NAND Flash	1,091,558	3,187,415	875,386	2,239,658
Other	171,150	436,483	139,513	371,324
	₩ 4,925,034	14,381,954	4,312,069	11,977,634

(3) The Group's revenue information by region based on the location of selling entities for the three and nine-month periods ended September 30, 2015 and 2014 are as follows:

(In millions of won)

	2015		2014	
	Three-month period	Nine-month period	Three-month period	Nine-month period
Korea	₩ 308,517	837,148	371,032	1,012,524
China	1,246,283	3,299,118	983,539	2,717,210
Taiwan	425,476	1,515,618	564,501	1,531,652
Asia (other than China and Taiwan)	630,841	2,001,939	610,407	1,822,538
U.S.A.	2,031,755	5,839,266	1,543,090	4,124,282
Europe	282,162	888,865	239,500	769,428
	₩ 4,925,034	14,381,954	4,312,069	11,977,634

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4. Geographic, Product and Customer Information, Continued

(4) The Group's non-current assets (excluding financial assets, equity-accounted investees and deferred tax assets) information by region based on the location of subsidiaries as of September 30, 2015 and December 31, 2014 are as follows:

<i>(In millions of won)</i>		2015	2014
Korea	₩	15,165,319	12,356,735
China		3,481,745	3,255,550
Taiwan		6,095	5,831
Asia (other than China and Taiwan)		812	798
U.S.A.		367,819	333,908
Europe		10,452	11,124
	₩	<u>19,032,242</u>	<u>15,963,946</u>

(5) Revenues from customers "A" and "B" that each constitutes more than 10% of the Group's consolidated revenue for the nine-month period ended September 30, 2015 amount to ₩2,661,459 million (2014: ₩1,830,780 million) and ₩1,725,309 million (2014: ₩1,170,672 million), respectively.

5. Categories of Financial Instruments

(1) Categories of financial assets as of September 30, 2015 and December 31, 2014 are as follows:

<i>(In millions of won)</i>	2015			
	Financial assets at fair value through profit or loss	Available-for- sale financial assets	Loans and receivables	Total
Cash and cash equivalents	₩ -	-	510,632	510,632
Short-term financial instruments	1,188,356	-	2,406,119	3,594,475
Trade receivables	-	-	3,318,727	3,318,727
Loans and other receivables	-	-	250,368	250,368
Other financial assets	-	-	436	436
Available-for-sale financial assets	-	130,620	-	130,620
	₩ <u>1,188,356</u>	<u>130,620</u>	<u>6,486,282</u>	<u>7,805,258</u>

<i>(In millions of won)</i>	2014			
	Financial assets at fair value through profit or loss	Available-for- sale financial assets	Loans and receivables	Total
Cash and cash equivalents	₩ -	-	436,761	436,761
Short-term financial instruments	1,842,020	-	1,775,994	3,618,014
Trade receivables	-	-	3,732,926	3,732,926
Loans and other receivables	-	-	940,874	940,874
Other financial assets	-	-	323	323
Available-for-sale financial assets	-	127,314	-	127,314
	₩ <u>1,842,020</u>	<u>127,314</u>	<u>6,886,878</u>	<u>8,856,212</u>

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5. Categories of Financial Instruments, Continued

(2) Categories of financial liabilities as of September 30, 2015 and December 31, 2014 are as follows:

(In millions of won)

	2015		
	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Total
Trade payables	₩ -	776,022	776,022
Other payables	-	1,191,120	1,191,120
Other non-trade payables ¹	-	1,126,501	1,126,501
Borrowings	-	4,300,103	4,300,103
Other financial liabilities	854	-	854
	₩ 854	7,393,746	7,394,600

(In millions of won)

	2014		
	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Total
Trade payables	₩ -	787,822	787,822
Other payables	-	1,358,816	1,358,816
Other non-trade payables ¹	-	1,315,903	1,315,903
Borrowings	-	4,174,759	4,174,759
Other financial liabilities	738	-	738
	₩ 738	7,637,300	7,638,038

¹ Details of other non-trade payables as of September 30, 2015 and December 31, 2014 are as follows:

(In millions of won)

	2015	2014
Current		
Accrued expenses	₩ 1,024,436	1,182,956
Non-current		
Rent deposit payables	2,725	2,357
Long-term other payables	99,340	130,566
Long-term accrued expenses	-	24
	₩ 102,065	132,947
	₩ 1,126,501	1,315,903

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6. Financial Risk Management

(1) Financial risk management

The Group's activities are exposed to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The interim financial statements do not include all the financial risk management policies and disclosures that are required in the annual financial statements.

There is no significant change in risk management policies for the nine-month period ended September 30, 2015.

(a) Market risk

(i) Foreign exchange risk

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

Monetary foreign currency assets and liabilities as of September 30, 2015 are as follows:

(In millions of won and millions of foreign currencies)

	Assets		Liabilities	
	Foreign currencies	Korean won equivalent	Foreign currencies	Korean won equivalent
USD	4,429	₩ 5,290,587	4,029	₩ 4,812,420
EUR	1	590	37	49,363
JPY	7,376	73,522	48,172	480,174

As of September 30, 2015, effects on profit before income tax as a result of change in exchange rate by 10% are as follows:

(In millions of won)

	<u>If increased by 10%</u>	<u>If decreased by 10%</u>
USD	₩ 47,817	(47,817)
EUR	(4,877)	4,877
JPY	(40,665)	40,665

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6. Financial Risk Management, Continued

(1) Financial risk management, Continued

(ii) Price risk

As of September 30, 2015, there are no available-for-sale equity securities measured at fair value held by the Group. Accordingly, the Group is not exposed to any equity securities price risk.

(iii) Interest rate risk

Interest rate risk of the Group is defined as the risk that the interest expenses arising from borrowings will fluctuate because of changes in future market interest rate. The interest rate risk mainly arises through floating rate borrowings, and is partially offset by interests received from floating rate financial assets.

The Group manages its interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Group raises long-term borrowings at floating rates and swaps them into fixed rates. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (primarily quarterly), the difference between interests of fixed rates and floating rates, which are calculated based on the agreed notional amounts.

As of September 30, 2015, the Group is partially exposed to the risk of increase in interest rates. If interest rates on borrowings had been 100 basis points higher/lower with all other variables held constant, profit before income tax for the next three-month period would have been ₩4,408 million lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings and interest income on floating rate financial assets.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises mainly from operating and investing activities. In order to manage credit risk, the Group periodically evaluates the credit worthiness of each customer or counterparty through the analysis of its financial information, historical transaction records and other factors, and establishes credit limits for each customer or counterparty.

(i) Trade and other receivables

For each new customer, the Group individually analyzes its credit worthiness before standard payment and delivery terms and conditions are offered. In addition, the Group is consistently managing trade and other receivables by reevaluating the customer's credit worthiness and securing collaterals in order to limit its credit risk exposure.

The Group reviews at the end of each reporting period whether trade and other receivables are impaired and maintains credit insurance policies to manage credit risk exposure from oversea customers. The maximum exposure to credit risk as of September 30, 2015 is the carrying amount of trade and other receivables.

(ii) Other financial assets

Credit risk also arises from other financial assets such as cash and cash equivalents; short-term financial instruments; and deposits with banks and financial institutions as well as short-term and long-term loans mainly due to the bankruptcy of each counterparty to those financial assets. The maximum exposure to credit risk as of September 30, 2015 is the carrying amount of those financial assets. The Group transacts only with banks and financial institutions with high credit ratings, and accordingly management does not expect any loss from non-performance by the counterparties.

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6. Financial Risk Management, Continued

(1) Financial risk management, Continued

(c) Liquidity risk

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

The Group 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.

(2) Capital management

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

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

The debt-to-equity ratio and net borrowing ratio as of September 30, 2015 and December 31, 2014 are as follows:

<i>(In millions of won)</i>	2015	2014
Total liabilities (A)	₩ 8,575,813	8,846,975
Total equity (B)	20,766,327	18,036,303
Cash and cash equivalents and short-term financial instruments (C)	4,105,107	4,054,775
Total borrowings (D)	4,300,103	4,174,759
Debt-to-equity ratio (A/B)	41%	49%
Net borrowing ratio (D-C)/B	1%	1%

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6. Financial Risk Management, Continued

(3) Fair value

Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in valuation techniques 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 (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(a) The following table presents the carrying amounts and fair values of financial instruments by categories, including their levels in the fair value hierarchy, as of September 30, 2015 and December 31, 2014:

(In millions of won)

	Carrying amounts	2015			Total
		Level 1	Level 2	Level 3	
Financial assets measured at fair value					
Short-term financial instruments	₩ 1,188,356	-	1,188,356	-	1,188,356
	<u>1,188,356</u>	<u>-</u>	<u>1,188,356</u>	<u>-</u>	<u>1,188,356</u>
Financial assets not measured at fair value					
Cash and cash equivalents ¹	510,632	-	-	-	-
Short-term financial instruments ¹	2,406,119	-	-	-	-
Trade receivables ¹	3,318,727	-	-	-	-
Loans and other receivables ¹	250,368	-	-	-	-
Other financial assets ¹	436	-	-	-	-
Available-for-sale financial assets ^{1,2}	130,620	-	-	-	-
	<u>6,616,902</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Financial liabilities measured at fair value					
Other financial liabilities	854	-	854	-	854
	<u>854</u>	<u>-</u>	<u>854</u>	<u>-</u>	<u>854</u>
Financial liabilities not measured at fair value					
Trade payables ¹	776,022	-	-	-	-
Other payables ¹	1,191,120	-	-	-	-
Other non-trade payables ¹	1,126,501	-	-	-	-
Borrowings	4,300,103	-	4,363,101	-	4,363,101
	₩ <u>7,393,746</u>	<u>-</u>	<u>4,363,101</u>	<u>-</u>	<u>4,363,101</u>

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6. Financial Risk Management, Continued

(In millions of won)

	Carrying amounts	2014			
		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Short-term financial instruments	₩ 1,842,020	-	1,842,020	-	1,842,020
	<u>1,842,020</u>	<u>-</u>	<u>1,842,020</u>	<u>-</u>	<u>1,842,020</u>
Financial assets not measured at fair value					
Cash and cash equivalents ¹	436,761	-	-	-	-
Short-term financial instruments ¹	1,775,994	-	-	-	-
Trade receivables ¹	3,732,926	-	-	-	-
Loans and other receivables ¹	940,874	-	-	-	-
Other financial assets ¹	323	-	-	-	-
Available-for-sale financial assets ^{1,2}	127,314	-	-	-	-
	<u>7,014,192</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Financial liabilities measured at fair value					
Other financial liabilities	738	-	738	-	738
	<u>738</u>	<u>-</u>	<u>738</u>	<u>-</u>	<u>738</u>
Financial liabilities not measured at fair value					
Trade payables ¹	787,822	-	-	-	-
Other payables ¹	1,358,816	-	-	-	-
Other non-trade payables ¹	1,315,903	-	-	-	-
Borrowings	4,174,759	-	4,243,974	-	4,243,974
	<u>₩ 7,637,300</u>	<u>-</u>	<u>4,243,974</u>	<u>-</u>	<u>4,243,974</u>

¹ Does not include fair values of financial assets and liabilities of which fair values have not been measured as carrying amounts are close to the reasonable approximation of fair values.

² Equity instruments which do not have quoted price in an active market for the identical instruments (inputs for level 1) are measured at cost in accordance with K-IFRS No. 1039, 'Financial Instrument: Recognition and Measurement' as fair values of such equity instruments cannot be reliably measured using other methods.

(b) The valuation techniques used to measure financial instruments with fair value level 2 are the same as those applied by the Group in its consolidated financial statements as of and for the year ended December 31, 2014.

(c) There was no transfer between fair value hierarchy levels for the nine-month period ended September 30, 2015.

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7. Restricted Financial Instruments

Details of restricted financial instruments as of September 30, 2015 and December 31, 2014 are as follows:

<i>(In millions of won)</i>	2015	2014	Description
Short-term financial instruments	₩ -	3	Restricted for government grants
	77,500	46,000	Restricted for supporting small businesses
	23,187	21,655	Pledged for borrowings
	5,981	4,601	Pledged for consumption tax
	-	4,764	Pledged for letter of credit
	628	584	Deposit for import duties
	<u>107,296</u>	<u>77,607</u>	
Other financial assets	308	308	Pledged for borrowings
	12	12	Bank overdraft guarantee deposit
	4	3	Others
	<u>324</u>	<u>323</u>	
	<u>₩ 107,620</u>	<u>77,930</u>	

SK HYNIX, INC. and Subsidiaries
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8. Trade Receivables and Loans and Other Receivables

(1) Details of loans and other receivables as of September 30, 2015 and December 31, 2014 are as follows:

<i>(In millions of won)</i>	2015	2014
Current		
Other receivables	₩ 163,600	845,468
Accrued income	15,140	28,337
Short-term loans	4,116	3,504
Short-term guarantee and other deposits	4,757	4,576
	<u>187,613</u>	<u>881,885</u>
Non-current		
Long-term other receivables	23,401	22,880
Long-term loans	6,658	7,199
Guarantee deposits	32,298	28,585
Long-term deposits	398	325
	<u>62,755</u>	<u>58,989</u>
	<u>₩ 250,368</u>	<u>940,874</u>

(2) Trade receivables and loans and other receivables, net of provision for impairment, as of September 30, 2015 and December 31, 2014 are as follows:

<i>(In millions of won)</i>	2015		
	Gross amount	Provision for impairment	Carrying amount
Trade receivables	₩ 3,321,886	(3,159)	3,318,727
Current loans and other receivables	189,040	(1,427)	187,613
Non-current loans and other receivables	68,901	(6,146)	62,755
	<u>₩ 3,579,827</u>	<u>(10,732)</u>	<u>3,569,095</u>

<i>(In millions of won)</i>	2014		
	Gross amount	Provision for impairment	Carrying amount
Trade receivables	₩ 3,735,845	(2,919)	3,732,926
Current loans and other receivables	883,553	(1,668)	881,885
Non-current loans and other receivables	65,023	(6,034)	58,989
	<u>₩ 4,684,421</u>	<u>(10,621)</u>	<u>4,673,800</u>

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8. Trade Receivables and Loans and Other Receivables, Continued

(3) Details of provision for impairment

Movements in the provision for impairment of trade receivables for the nine-month periods ended September 30, 2015 and 2014 are as follows:

(In millions of won)

	2015	2014
Beginning balance	₩ 2,919	3,446
Provision for receivables impairment	227	290
Foreign exchange difference	13	(161)
Ending balance	₩ 3,159	3,575

Movements in the provision for impairment of current loans and other receivables for the nine-month periods ended September 30, 2015 and 2014 are as follows:

(In millions of won)

	2015	2014
Beginning balance	₩ 1,668	2,062
Provision for receivables impairment	-	3
Unused amounts reversed	(241)	(1)
Receivables written off during the period as uncollectible	-	(26)
Foreign exchange difference	-	1
Ending balance	₩ 1,427	2,039

Movements in the provision for impairment of non-current loans and other receivables for the nine-month periods ended September 30, 2015 and 2014 are as follows:

(In millions of won)

	2015	2014
Beginning balance	₩ 6,034	12,510
Provision for receivables impairment	39	101
Unused amounts reversed	(3)	(27)
Receivables written off during the period as uncollectible	(6)	-
Foreign exchange difference	82	(125)
Ending balance	₩ 6,146	12,459

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9. Inventories

Details of inventories as of September 30, 2015 and December 31, 2014 are as follows:

(In millions of won)

	2015		
	Acquisition cost	Inventory valuation allowance	Carrying amount
Finished goods	₩ 563,761	(37,843)	525,918
Work-in-process	850,469	(59,594)	790,875
Raw materials	246,305	(4,221)	242,084
Supplies	152,252	(23)	152,229
Goods in transit	115,418	-	115,418
	₩ 1,928,205	(101,681)	1,826,524

(In millions of won)

	2014		
	Acquisition cost	Inventory valuation allowance	Carrying amount
Finished goods	₩ 441,393	(33,137)	408,256
Work-in-process	795,844	(33,423)	762,421
Raw materials	189,936	(1,899)	188,037
Supplies	102,738	(33)	102,705
Goods in transit	36,180	(36)	36,144
	₩ 1,566,091	(68,528)	1,497,563

10. Non-current assets held for sale

Changes in non-current assets held for sale for the nine-month periods ended September 30, 2015 and 2014 are as follows:

(In millions of won)

	2015	2014
Beginning balance	₩ 27,661	26,557
Foreign exchange difference	2,399	(119)
Ending balance	₩ 30,060	26,438

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11. Other Current and Non-current Assets

Details of other current and non-current assets as of September 30, 2015 and December 31, 2014 are as follows:

(In millions of won)

	2015	2014
Current		
Advance payments	₩ 3,968	4,501
Prepaid expenses	215,492	156,590
Others	11,249	5,984
	<u>230,709</u>	<u>167,075</u>
Non-current		
Long-term prepaid expenses	582,980	494,908
Others	8,971	13,568
	<u>591,951</u>	<u>508,476</u>
	₩ <u>822,660</u>	<u>675,551</u>

12. Investments in Associates and Joint Ventures

(1) Details of investments in associates and joint ventures as of September 30, 2015 and December 31, 2014 are as follows:

(In millions of won)

Type	Investee	Ownership (%) in 2015	2015		2014
			Net asset value	Carrying amount	Carrying amount
Associate	Stratio, Inc. ¹	9.10	₩ 175	2,175	-
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd. (HITECH)	45.00	108,299	108,299	97,090
			₩ <u>108,474</u>	<u>110,474</u>	<u>97,090</u>

¹ During the nine-month period ended September 30, 2015, the Parent Company acquired 1,136,013 preferred shares of Stratio, Inc. Stratio, Inc. is classified as an associate because the Parent Company has significant influence over Stratio, Inc.'s financial and operating policies through its right to appoint a member of the board of directors.

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12. Investments in Associates and Joint Ventures, Continued

(2) Changes in investments in associates and joint ventures for the nine-month periods ended September 30, 2015 and 2014 are as follows:

(In millions of won)

		2015					
		Beginning balance	Acquisition (disposal)	Share of profit (loss)	Other equity movement	Dividend	Ending balance
Stratio, Inc.	₩	-	2,194	(34)	15	-	2,175
HITECH Semiconductor (Wuxi) Co., Ltd. (HITECH)		97,090	-	18,544	8,446	(15,781)	108,299
	₩	<u>97,090</u>	<u>2,194</u>	<u>18,510</u>	<u>8,461</u>	<u>(15,781)</u>	<u>110,474</u>

(In millions of won)

		2014					
		Beginning balance	Acquisition (disposal)	Share of profit (loss)	Other equity movement	Dividend	Ending balance
Siliconfile Technologies Inc. ¹	₩	10,962	(10,319)	(579)	171	(235)	-
HITECH Semiconductor (Wuxi) Co., Ltd. (HITECH)		96,135	-	5,906	(648)	(15,664)	85,729
	₩	<u>107,097</u>	<u>(10,319)</u>	<u>5,327</u>	<u>(477)</u>	<u>(15,899)</u>	<u>85,729</u>

¹ Siliconfile Technologies Inc. became a subsidiary during the nine-month period ended September 30, 2014 and ₩10,640 million was recognized as a gain on disposal of investments in associates.

(3) Associate and joint venture's condensed statements of financial position as of September 30, 2015 and December 31, 2014 are as follows:

(In millions of won)

		2015			
		Current assets	Non-current assets	Current liabilities	Non-current liabilities
Stratio, Inc.	₩	1,854	120	56	-
HITECH Semiconductor (Wuxi) Co., Ltd. (HITECH)		250,287	314,108	146,315	177,416

(In millions of won)

		2014			
		Current assets	Non-current assets	Current liabilities	Non-current liabilities
HITECH Semiconductor (Wuxi) Co., Ltd. (HITECH)	₩	251,443	306,344	289,990	52,042

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12. Investments in Associates and Joint Ventures, Continued

(4) Associate and joint venture's condensed statements of comprehensive income (loss) for the nine-month periods ended September 30, 2015 and 2014 are as follows:

(In millions of won)

	2015		2014	
	Revenue	Profit (loss) for the period	Revenue	Profit (loss) for the period
Siliconfile Technologies Inc. ¹	₩ -	-	40,339	(2,072)
Stratio, Inc.	-	(382)	-	-
HITECH Semiconductor (Wuxi) Co., Ltd. (HITECH)	513,270	41,208	441,246	13,125

¹ Siliconfile Technologies Inc. was classified as a subsidiary due to the Group's additional acquisition of the remaining interest on April 22, 2014. Accordingly, the information presented in the above table includes the results of Siliconfile Technologies Inc. only for the period from January 1 to April 22, 2014.

13. Available-for-sale Financial Assets

Changes in the carrying amount of available-for-sale financial assets for the nine-month periods ended September 30, 2015 and 2014 are as follows:

(In millions of won)

	2015	2014
Beginning balance	₩ 127,314	158,770
Acquisition	4,051	573
Disposal	(745)	(32,846)
Ending balance	₩ 130,620	126,497

14. Property, Plant and Equipment

(1) Changes in property, plant and equipment for the nine-month periods ended September 30, 2015 and 2014 are as follows:

(In millions of won)

	2015	2014
Beginning balance	₩ 14,090,334	12,129,797
Disposal of investments in a subsidiary	-	(5,166)
Acquisition	5,419,682	4,051,474
Disposal	(167,182)	(139,749)
Depreciation	(2,726,224)	(2,405,099)
Impairment	(22,055)	(27,258)
Transfer ¹	10,583	1,389
Foreign exchange difference and other	213,944	(68,991)
Ending balance	₩ 16,819,082	13,536,397

¹ ₩14,481 million was transferred to intangible assets for the nine-month period ended September 30, 2015 and ₩25,064 million was transferred from investment property for the nine-month period ended September 30, 2015 (2014: ₩1,389 million).

(2) Certain property, plant and equipment are pledged as collaterals for borrowings of the Group as of September 30, 2015 (Note 32).

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14. Property, Plant and Equipment, Continued

(3) Finance lease and operating lease

The Group leases certain machinery and others from ME Semiconductor Rental First L.L.C. and other under finance lease agreements.

The book value of the machinery and others subject to finance lease agreement amounted to ₩155,170 million as of September 30, 2015 (as of December 31, 2014: ₩165,414 million). The machinery and others are pledged as collateral for the finance lease liabilities.

15. Intangible Assets

Changes in intangible assets for the nine-month periods ended September 30, 2015 and 2014 are as follows:

(In millions of won)

	2015	2014
Beginning balance	₩ 1,336,680	1,110,403
Acquisition through business combination	-	84,065
Acquisition	416,664	196,867
Disposal	(4,771)	(7,737)
Amortization	(170,803)	(126,186)
Impairment	(101)	(257)
Transfer ¹	14,481	-
Foreign exchange difference and other	26,354	(1,378)
Ending balance	₩ 1,618,504	1,255,777

¹ Transferred from property, plant and equipment for the nine-month period ended September 30, 2015.

(2) Among costs associated with development activities, ₩277,445 million that met capitalization criteria, were capitalized as development cost for the nine-month period ended September 30, 2015 (2014: ₩126,029 million). In addition, costs associated with research activities and other development expenditures that did not meet the criteria and amounted to ₩1,208,131 million were recognized as expenses for the nine-month period ended September 30, 2015 (2014: ₩1,008,129 million).

16. Investment Property

(1) Changes in investment property for the nine-month periods ended September 30, 2015 and 2014 are as follows:

(In millions of won)

	2015	2014
Beginning balance	₩ 28,456	28,609
Depreciation	(687)	(925)
Transfer ¹	(25,064)	(1,389)
Ending balance	₩ 2,705	26,295

¹ Transferred to property, plant and equipment for the nine-month periods ended September 30, 2015 and 2014.

(2) The depreciation expense of ₩687 million was charged to cost of sales for the nine-month period ended September 30, 2015 (2014: ₩925 million).

(3) Rental income from investment property during the nine-month period ended September 30, 2015 was ₩2,506 million (2014: ₩3,401 million).

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17. Borrowings

(1) Details of borrowings as of September 30, 2015 and December 31, 2014 are as follows:

(In millions of won)

		2015	2014
Current			
Short-term borrowings	₩	789,254	734,165
Current installments of long-term borrowings		674,389	820,855
Current installments of debentures		399,760	200,000
		<u>1,863,403</u>	<u>1,755,020</u>
Non-current			
Long-term borrowings		1,320,651	1,262,772
Debentures		1,116,049	1,156,967
		<u>2,436,700</u>	<u>2,419,739</u>
	₩	<u>4,300,103</u>	<u>4,174,759</u>

(2) Changes in borrowings for the nine-month periods ended September 30, 2015 and 2014 are as follows:

(In millions of won)

		2015	2014
Beginning balance	₩	4,174,759	4,550,215
Borrowings		3,502,025	2,541,874
Repayments		(3,563,291)	(2,527,669)
Exercise of conversion rights		-	(475,307)
Other ¹		186,610	41,784
Ending balance	₩	<u>4,300,103</u>	<u>4,130,897</u>

¹ Effect of changes in foreign exchange rates and unwinding of discount are included.

18. Other Current and Non-current Liabilities

Details of other current and non-current liabilities as of September 30, 2015 and December 31, 2014 are as follows:

(In millions of won)

		2015	2014
Current			
Advance receipts	₩	5,262	2,682
Unearned income		410	322
Withholdings		29,798	67,174
Deposits received		1,135	858
Others		40	163
		<u>36,645</u>	<u>71,199</u>
Non-current			
Other long-term employee benefits		60,119	59,464
	₩	<u>96,764</u>	<u>130,663</u>

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19. Provisions

(1) Changes in provisions for the nine-month periods ended September 30, 2015 and 2014 are as follows:

(In millions of won)

	2015				
	Beginning balance	Increase	Utilization	Others	Ending Balance
Warranty	₩ 6,886	2,152	(3,139)	-	5,899
Sales returns	14,646	35,039	(33,893)	-	15,792
Legal claims	4,400	1,441	-	112	5,953
Emission allowances	-	3,876	-	-	3,876
	₩ 25,932	42,508	(37,032)	112	31,520

(In millions of won)

	2014			
	Beginning balance	Increase	Utilization	Ending Balance
Warranty	13,914	885	(8,204)	6,595
Sales returns	12,564	34,484	(35,461)	11,587
Legal claims	26,106	-	(20,706)	5,400
	₩ 52,584	35,369	(64,371)	23,582

(2) Provisions for warranty

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

(3) Provisions for sales returns

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

(4) Provisions for legal claims

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

(5) Provision for emission allowances

The Group recognizes estimated future payment for greenhouse gas emission rights as emission allowances according to the Act on Allocation and Trading of Greenhouse Gas Emission Permits.

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20. Defined Benefit Liabilities

(1) Details of defined benefit liabilities as of September 30, 2015 and December 31, 2014 are as follows:

(In millions of won)

		2015	2014
Present value of defined benefit obligations	₩	1,002,343	887,277
Fair value of plan assets		(418,362)	(421,927)
	₩	<u>583,981</u>	<u>465,350</u>

(2) Principal actuarial assumptions as of September 30, 2015 and December 31, 2014 are as follows:

		2015	2014
Discount rate for defined benefit obligations		3.19% ~ 4.50%	3.19% ~ 4.50%
Expected rate of salary increase		4.92% ~ 5.81%	4.92% ~ 5.81%

(3) Changes in defined benefit obligations for the nine-month periods ended September 30, 2015 and 2014 are as follows:

(In millions of won)

		2015	2014
Beginning balance	₩	887,277	656,080
Current service cost		100,670	79,208
Interest cost		29,468	26,636
Transferred from associates		322	480
Benefits paid		(15,456)	(20,545)
Business combination and disposal of subsidiaries		-	1,711
Others		62	(87)
Ending balance	₩	<u>1,002,343</u>	<u>743,483</u>

(4) Changes in plan assets for the nine-month periods ended September 30, 2015 and 2014 are as follows:

(In millions of won)

		2015	2014
Beginning balance	₩	421,927	20,340
Interest income		13,922	689
Contributions		1,589	106
Transferred from associates		43	175
Benefits paid		(14,268)	(1,184)
Business combination and disposal of subsidiaries		-	(1,133)
Remeasurements		(4,851)	(74)
Ending balance	₩	<u>418,362</u>	<u>18,919</u>

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20. Defined Benefit Liabilities, Continued

(5) The amounts recognized in profit or loss for the three and nine-month periods ended September 30, 2015 and 2014 are as follows:

(In millions of won)

	2015		2014	
	Three-month period	Nine-month period	Three-month period	Nine-month period
Current service cost	₩ 33,558	100,670	26,521	79,208
Net interest cost	5,182	15,546	8,666	25,947
	₩ <u>38,740</u>	<u>116,216</u>	<u>35,187</u>	<u>105,155</u>

(6) Details of plan assets as of September 30, 2015 and December 31, 2014 are as follows:

(In millions of won)

	2015	2014
Deposits	₩ 416,787	420,300
Other	1,575	1,627
	₩ <u>418,362</u>	<u>421,927</u>

Actual return on plan assets for the nine-month periods ended September 30, 2015 and 2014 amounted to ₩9,071 million and ₩615 million, respectively.

21. Derivative Financial Instruments

(1) The Group has managed financial risks including interest rate risk through interest rates swaps and other derivative instruments. In addition, the Group bifurcated convertible options and separately accounted for them as derivative instruments which were embedded in the foreign-currency convertible bond. These convertible options were measured at fair value and changes in therein were recognized in profit or loss.

(2) Details of derivative financial assets and liabilities as of September 30, 2015 and December 31, 2014 are as follows:

(In millions of won)

	2015	2014
Current		
Interest rates swap	₩ -	30
Non-current		
Interest rates swap	854	708
	₩ <u>854</u>	<u>738</u>

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21. Derivative Financial Instruments, Continued

(3) Details of gains and losses from derivative instruments for the three and nine-month periods ended September 30, 2015 and 2014 are follows:

(In millions of won)

	Gain on valuation			
	2015		2014	
	Three-month period	Nine-month period	Three-month period	Nine-month period
Interest rates swap	₩ 2	-	(146)	188

(In millions of won)

	Loss on valuation			
	2015		2014	
	Three-month period	Nine-month period	Three-month period	Nine-month period
Interest rates swap	-	145	387	774
Embedded derivative instruments	-	-	(14,758)	171,475
	₩ -	145	(14,371)	172,249

(In millions of won)

	Gain on transaction			
	2015		2014	
	Three-month period	Nine-month period	Three-month period	Nine-month period
Interest rates swap	₩ 388	1,376	1,158	2,341

(In millions of won)

	Loss on transaction			
	2015		2014	
	Three-month period	Nine-month period	Three-month period	Nine-month period
Interest rates swap	₩ 507	1,652	1,033	2,274

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22. Capital Stock, Capital Surplus and Other Equity

(1) Details of capital stock, capital surplus and other equity as of September 30, 2015 and December 31, 2014 are as follows:

(In millions of won, thousands of shares)

	<u>2015</u>	<u>2014</u>
Authorized shares	9,000,000	9,000,000
Issued shares ¹	731,530	731,530
Capital stock:		
Common stock	₩ 3,657,652	3,657,652
Capital surplus:		
Additional paid-in capital	3,625,797	3,625,797
Consideration for conversion rights	42,928	42,928
Others	475,011	475,011
	₩ <u>4,143,736</u>	<u>4,143,736</u>
Other equity:		
Acquisition cost of treasury shares	(753,647)	(24)
Number of treasury shares	21,459	1

¹ As of September 30, 2015, the number of outstanding shares is 728,002 thousand shares, which differs from total issued shares due to the result of stock retirement.

(2) Changes in the number of outstanding shares for the nine-month period ended September 30, 2015 and for the year ended December 31, 2014 are as follows:

(In thousands of shares)

	<u>2015</u>	<u>2014</u>
Beginning	728,002	710,201
Issue of ordinary shares related to the acquisition of a subsidiary	-	1,358
Exercise of conversion rights	-	16,443
Acquisition of treasury shares	(21,459)	-
Ending	<u>706,543</u>	<u>728,002</u>

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23. Accumulated Other Comprehensive Income (Loss)

(1) Details of accumulated other comprehensive income (loss) as of September 30, 2015 and December 31, 2014 are as follows:

<i>(In millions of won)</i>	<u>2015</u>	<u>2014</u>
Equity-accounted investees – share of other comprehensive income (loss)	₩ 3,830	(4,631)
Foreign operations – foreign currency translation differences	209,061	(37,184)
	<u>₩ 212,891</u>	<u>(41,815)</u>

(2) Changes in accumulated other comprehensive income (loss) for the nine-month periods ended September 30, 2015 and 2014 are as follows:

<i>(In millions of won)</i>	<u>2015</u>		
	<u>Beginning</u>	<u>Change</u>	<u>Ending</u>
Equity-accounted investees – share of other comprehensive income (loss)	₩ (4,631)	8,461	3,830
Foreign operations – foreign currency translation differences	(37,184)	246,245	209,061
	<u>₩ (41,815)</u>	<u>254,706</u>	<u>212,891</u>

<i>(In millions of won)</i>	<u>2014</u>		
	<u>Beginning</u>	<u>Change</u>	<u>Ending</u>
Available-for-sale financial assets – unrealized net change in fair value	₩ 7,824	(7,824)	-
Equity-accounted investees – share of other comprehensive loss	(8,338)	(477)	(8,815)
Foreign operations – foreign currency translation differences	(108,293)	(95,453)	(203,746)
	<u>₩ (108,807)</u>	<u>(103,754)</u>	<u>(212,561)</u>

24. Retained Earnings

Retained earnings as of September 30, 2015 and December 31, 2014 are as follows:

<i>(In millions of won)</i>	<u>2015</u>	<u>2014</u>
Legal reserve ¹	₩ 30,694	8,854
Discretionary reserve ²	235,506	235,506
Unappropriated retained earnings ³	13,239,558	10,032,544
	<u>₩ 13,505,758</u>	<u>10,276,904</u>

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24. Retained Earnings, Continued

¹ The Commercial Code of the Republic of Korea requires the Company to appropriate for each financial period, 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 cash dividends payment, but may be transferred to capital stock or used to reduce accumulated deficit.

² Discretionary reserve is the reserve for technology development.

³ Dividends in the amount of ₩218,401 million were approved at stockholders' meeting held on March 20, 2015, which were paid during the nine-month period ended September 30, 2015.

25. Selling and Administrative Expenses

Selling and administrative expenses for the three and nine-month periods ended September 30, 2015 and 2014 are as follows:

(In millions of won)

	2015		2014	
	Three-month period	Nine-month period	Three-month period	Nine-month period
Salaries	₩ 98,902	304,253	88,760	248,108
Defined benefit plan related expenses	6,388	18,791	5,754	16,724
Employee benefits	20,537	57,809	14,443	41,555
Commission expense	57,666	150,677	50,338	142,994
Depreciation	23,288	64,331	15,238	41,067
Amortization	58,972	158,013	39,088	124,152
Research and development	409,852	1,208,131	357,467	1,008,129
Freight and custody charge	11,155	32,102	9,460	26,159
Legal cost	1,460	4,631	1,778	6,059
Rental expense	3,832	14,994	2,792	8,417
Taxes and dues	4,712	14,362	3,799	11,842
Training expense	3,602	14,858	3,700	13,403
Sales promotional expense	11,923	36,824	7,652	23,879
Utility expense	3,290	10,202	1,007	4,382
Supplies	11,367	39,265	10,349	28,453
Repair expense	3,353	6,656	1,892	7,649
Others	15,511	50,144	20,663	49,173
	₩ <u>745,810</u>	<u>2,186,043</u>	<u>634,180</u>	<u>1,802,145</u>

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26. Expenses by Nature

Nature of expenses for the three and nine-month periods ended September 30, 2015 and 2014 is as follows:

(In millions of won)

	2015		2014²	
	Three-month period	Nine-month period	Three-month period	Nine-month period
Changes in finished goods and work-in-process	₩ (13,098)	(146,117)	(98,769)	(252,264)
Raw materials and consumables	933,391	2,587,270	748,485	2,017,155
Employee benefits	624,358	1,956,443	562,561	1,649,778
Depreciation and amortization	989,191	2,847,023	872,343	2,520,905
Royalty expense	52,830	152,879	41,513	125,386
Commission expense	206,655	578,675	178,856	506,096
Utilities expense	172,393	481,230	157,680	448,641
Repair expense	154,956	400,615	159,829	523,922
Outsourcing expense	248,009	751,205	254,167	738,407
Others	173,134	425,506	134,230	257,301
Total ¹	₩ 3,541,819	10,034,729	3,010,895	8,535,327

¹ Total expenses consist of cost of sales and selling and administrative expenses.

² Expenses for the three and nine-month periods ended September 30, 2014 were reclassified to conform with the classification for the three and nine-month periods ended September 30, 2015.

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27. Finance Income and Expense

Finance income and expense for the three and nine-month periods ended September 30, 2015 and 2014 are as follows:

(In millions of won)

	2015		2014	
	Three-month period	Nine-month period	Three-month period	Nine-month period
Finance income				
Interest income	₩ 11,867	29,554	11,811	39,808
Dividend income	55	1,056	1,147	1,206
Gain on disposal of financial assets at fair value through profit or loss	6,553	28,365	17,038	27,482
Foreign exchange differences	300,531	616,575	118,238	357,656
Gain from derivative instruments	390	1,376	1,012	2,529
Gain on valuation of financial assets at fair value through profit or loss	-	3,404	1,826	4,725
	<u>319,396</u>	<u>680,330</u>	<u>151,072</u>	<u>433,406</u>
Finance expense				
Interest expenses	33,014	85,931	39,649	142,552
Loss on disposal of available-for-sale financial assets	-	-	3,500	3,500
Foreign exchange differences	331,180	598,769	56,183	283,795
Loss on redemption of bonds	-	-	-	2,924
Loss from derivative instruments	507	1,797	(13,338)	174,523
	<u>364,701</u>	<u>686,497</u>	<u>85,994</u>	<u>607,294</u>
Net finance income (expense)	₩ <u>(45,305)</u>	<u>(6,167)</u>	<u>65,078</u>	<u>(173,888)</u>

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28. Other Income and Expenses

(1) Other income for the three and nine-month periods ended September 30, 2015 and 2014 are as follows:

(In millions of won)

	2015		2014	
	Three-month period	Nine-month period	Three-month period	Nine-month period
Gain on disposal of property, plant and equipment	₩ 9,301	13,716	1,432	2,960
Miscellaneous	3,925	13,151	4,353	16,597
Others	42	251	20	28
	₩ 13,268	27,118	5,805	19,585

(2) Other expenses for the three and nine-month periods ended September 30, 2015 and 2014 are as follows:

(In millions of won)

	2015		2014	
	Three-month period	Nine-month period	Three-month period	Nine-month period
Loss on disposal of property, plant and equipment	₩ 14,460	17,358	1,605	5,203
Loss on disposal of intangible assets	1,074	4,339	1,797	7,552
Donation	2,721	24,377	2,363	3,077
Loss on disposal of trade receivables	418	1,099	923	2,296
Loss on disposal of subsidiaries	-	-	4,296	4,296
Loss on impairment of property, plant and equipment	22,051	22,055	-	25,397
Miscellaneous	4,277	18,412	46,595	109,279
Others	2,755	7,055	1,810	4,466
	₩ 47,756	94,695	59,389	161,566

29. Income Tax Expense

Income tax expense is recognized based on management's best estimate of the annual effective income tax rate expected for the full financial year multiplied by the pre-tax income of the interim reporting period. Income tax expense includes current tax expense adjustments related to prior periods.

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30. Earnings per Share

Basic earnings per share is calculated by dividing the profit attributable to ordinary shareholders of the Group by the weighted average number of outstanding ordinary shares during the three and nine-month periods.

(1) Basic earnings per share for the three and nine-month periods ended September 30, 2015 and 2014 are as follows:

(In millions of won, except for shares and per share amounts)

	2015		2014	
	Three-month period	Nine-month period	Three-month period	Nine-month period
Profit attributable to ordinary shareholders	₩ 1,048,307	3,452,106	1,095,320	2,571,059
Weighted average number of outstanding ordinary shares ¹	718,824,052	724,908,931	722,465,006	714,901,735
Basic earnings per share	₩ 1,458	4,762	1,516	3,596

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

(In shares)

	2015		2014	
	Three-month period	Nine-month period	Three-month period	Nine-month period
Outstanding ordinary shares	728,002,365	728,002,365	716,121,212	710,200,891
Exercise of conversion rights	-	-	6,343,794	3,894,955
Issue of ordinary shares related to the acquisition of a subsidiary	-	-	-	806,165
Acquisition of treasury shares	(9,178,313)	(3,093,434)	-	(276)
Weighted average number of outstanding ordinary shares	718,824,052	724,908,931	722,465,006	714,901,735

(2) There is no potential ordinary shares with dilutive effect during the three-month period ended September 30, 2015 and nine-month periods ended September 30, 2015 and 2014. Therefore, diluted earnings per share during those periods are the same as earnings per share. Diluted earnings per share for the three-month period ended September 30, 2014 is as follows:

(In millions of won, except for shares and per share amounts)

	2014	
	Three-month period	
Profit attributable to ordinary shareholders	₩	1,095,320
Convertible bond related benefits		(1,834)
Adjusted profit attributable to ordinary shareholders		1,093,486
Adjusted weighted average number of outstanding ordinary shares ¹		724,100,073
Diluted earnings per share	₩	1,510

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30. Earnings per Share, Continued

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

(In shares)

	2014
	Three-month period
Weighted average number of outstanding ordinary shares	722,465,006
Effect of convertible bond	1,635,067
Adjusted weighted average number of outstanding ordinary shares	724,100,073

31. Related Party Transactions

(1) Details of related parties as of September 30, 2015 are as follows:

Type	Name of related parties
Associate	Stratio, Inc.
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.
Other related parties	SK Telecom Co., Ltd., which has significant influence over the Group, SK Holdings Co., Ltd., which has control over SK Telecom Co., Ltd., and their subsidiaries

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31. Related Party Transactions, Continued

(2) Significant transactions for the three and nine-month periods ended September 30, 2015 and 2014 are as follows:

(In millions of won)

		For the three-month period ended September 30, 2015			
Company	Operating revenue and others	Operating expense and others	Asset acquisition	Dividend income	
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	₩ 627	161,628	-	-
Other related parties	SK Telecom Co., Ltd.	36	2,201	1,146	-
	SK Holdings Co., Ltd. ²	52	25,815	32,786	-
	ESSENCORE Limited	88,014	-	-	-
	SK Engineering & Construction Co., Ltd.	452	181	198,341	-
	SK Energy Co., Ltd.	1,295	5,159	-	-
	SK Networks Co., Ltd.	-	739	-	-
	Ko-one energy service Co., Ltd.	-	449	7	-
	SKC solmics Co., Ltd.	-	9,903	89	-
	Chungcheong energy service Co., Ltd.	-	2,522	-	-
	HAPPYNARAE Co., Ltd.	4	19,921	7,881	-
	Others	182	20,551	3,607	-
	<u>₩ 90,662</u>	<u>249,069</u>	<u>243,857</u>	<u>-</u>	

(In millions of won)

		For the nine-month period ended September 30, 2015			
Company	Operating revenue and others	Operating expense and others	Asset acquisition	Dividend income	
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	₩ 1,364	511,738	-	15,780
Other related parties	SK Telecom Co., Ltd. ¹	2,235	50,554	1,858	-
	SK Holdings Co., Ltd. ²	52	45,445	32,786	-
	ESSENCORE Limited	88,014	-	-	-
	SK Engineering & Construction Co., Ltd.	627	473	872,623	-
	SK Energy Co., Ltd.	3,949	34,509	-	-
	SK Networks Co., Ltd.	-	2,040	-	-
	Ko-one energy service Co., Ltd.	-	2,109	7	-
	SKC solmics Co., Ltd.	-	26,581	233	-
	Chungcheong energy service Co., Ltd.	-	19,290	-	-
	HAPPYNARAE Co., Ltd.	14	54,003	9,602	-
	Others	333	40,692	11,487	-
	<u>₩ 96,588</u>	<u>787,434</u>	<u>928,596</u>	<u>15,780</u>	

¹ Operating expense and others include dividends of ₩43,830 million.

² The Group entered into a contract with SK Holdings Co., Ltd. under which the Group pays royalty for the use of SK brand in proportion to sales amount. For the nine-month period ended September 30, 2015, royalty on the use of the SK brand amounted to ₩25,948 million (2014: ₩21,588 million). Meanwhile, on August 1, 2015, SK C&C merged with SK Holdings Co., Ltd. and changed its name to SK Holdings Co., Ltd.

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31. Related Party Transactions, Continued

(In millions of won)

For the three-month period ended September 30, 2014

	Company	Operating revenue and others	Operating expense and others	Asset acquisition	Dividend income
Associate	Siliconfile Technologies Inc. ¹	₩ -	-	-	-
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	-	125,219	-	-
Other related parties	SK Telecom Co., Ltd.	-	2,354	236	-
	SK Holdings Co., Ltd.	-	7,218	-	-
	SK Engineering & Construction Co., Ltd.	66	21,664	185,936	-
	SK Energy Co., Ltd.	1,265	5,993	-	-
	SK Networks Co., Ltd.	-	791	-	-
	Ko-one energy service Co., Ltd.	-	626	-	-
	SKC solmics Co., Ltd.	-	8,191	103	-
	Chungcheong energy service Co., Ltd.	-	3,880	-	-
	HAPPYNARAE Co., Ltd.	7	15,486	1,751	-
	Others	127	3,887	90	-
		₩	<u>1,465</u>	<u>195,309</u>	<u>188,116</u>

(In millions of won)

For the nine-month period ended September 30, 2014

	Company	Operating revenue and others	Operating expense and others	Asset acquisition	Dividend income
Associate	Siliconfile Technologies Inc. ¹	₩ 25,109	411	-	236
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	-	389,610	-	15,664
Other related parties	SK Telecom Co., Ltd.	879	5,188	793	-
	SK Holdings Co., Ltd.	-	21,644	-	-
	SK Engineering & Construction Co., Ltd.	419	42,943	458,380	-
	SK Energy Co., Ltd.	3,875	35,775	-	-
	SK Networks Co., Ltd.	-	1,762	2,772	-
	Ko-one energy service Co., Ltd.	-	2,314	-	-
	SKC solmics Co., Ltd.	-	21,948	642	-
	Chungcheong energy service Co., Ltd.	-	22,427	-	-
	HAPPYNARAE Co., Ltd.	49	44,163	6,733	-
	Others	307	12,114	1,352	-
		₩	<u>30,638</u>	<u>600,299</u>	<u>470,672</u>

¹ Siliconfile Technologies Inc. became a subsidiary through the Company's additional acquisition of the remaining interest on April 22, 2014.

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31. Related Party Transactions, Continued

(3) The balances from significant transactions as of September 30, 2015 and December 31, 2014 are as follows:

(In millions of won)

		2015	
	Company	Trade receivables and others	Other payables and others
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.(HITECH) ¹	₩ -	116,412
Other related parties	SK Telecom Co., Ltd.	-	1,919
	SK Holdings Co., Ltd.	26	127,679
	ESSENCORE Limited	41,335	-
	SK Engineering & Construction Co., Ltd.	728	215,003
	SK Energy Co., Ltd.	445	1,685
	SK Networks Co., Ltd.	-	222
	SKC solmics Co., Ltd.	-	9,730
	Chungcheong energy service Co., Ltd.	-	722
	HAPPYNARAE Co., Ltd.	1	17,360
	Others	81	31,618
		₩ <u>42,616</u>	<u>522,350</u>

¹ The Parent Company repaid remaining balance of borrowings from HITECH Semiconductor(Wuxi) Co., Ltd. in the amount of ₩22,552 million for the nine-month period ended September 30, 2015.

(In millions of won)

		2014		
	Company	Trade receivables and others	Other payables and others	Borrowings
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.(HITECH)	₩ 18,393	113,257	22,552
Other related parties	SK Telecom Co., Ltd.	2,763	2,622	-
	SK Holdings Co., Ltd.	-	3,080	-
	SK Engineering & Construction Co., Ltd.	23	561,004	-
	SK Energy Co., Ltd.	462	5,961	-
	SK Networks Co., Ltd.	-	479	-
	SKC solmics Co., Ltd.	-	9,258	-
	Chungcheong energy service Co., Ltd.	-	3,295	-
	HAPPYNARAE Co., Ltd.	1	14,606	-
Others	32	14,455	-	
		₩ <u>21,674</u>	<u>728,017</u>	<u>22,552</u>

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31. Related Party Transactions, Continued

(4) Key management compensation

Key management includes directors, members of the board of directors, chief financial officer, subsidiary's executives and internal auditors. The compensation paid to key management for employee services for the three and nine-month periods ended September 30, 2015 and 2014 are as follows:

(In millions of won)

Details	2015		2014	
	Three-month period	Nine-month period	Three-month period	Nine-month period
Salaries	₩ 19,152	55,420	16,104	52,944
Defined benefit plan related expenses	1,835	5,274	1,605	4,876
Others	4	11	5	14
	₩ 20,991	60,705	17,714	57,834

32. Commitments and Contingencies

(1) Significant pending litigations and claims of the Group as of September 30, 2015 are as follows:

(a) Lawsuit from SanDisk Corporation ("SanDisk")

SanDisk filed a lawsuit against the Parent Company and its subsidiaries (SK hynix America Inc. and SK hynix memory solutions Inc.) in Santa Clara Superior Court of the United States of America, alleging misappropriation of trade secrets jointly owned by SanDisk and Toshiba, on March 13, 2014 ("SanDisk lawsuit"). Meanwhile, on August 4, 2015, SanDisk agreed to withdraw the lawsuit against the Parent Company and its subsidiaries, and therefore, the lawsuit has been terminated.

(b) Lawsuit regarding ordinary wages

On August 1, 2014, some of the Parent Company's employees filed a lawsuit against the Parent Company to the Suwon District Court, seeking additional payment of overtime allowance in relation to ordinary wages. In this regard, the Parent Company submitted a written response on September 5, 2014 and oral pleading has been processed several times after that date. As of September 30, 2015, the Group did not recognize any provision as the likelihood of successfully defending this case appears probable. However, the final outcome of this contingency cannot be predicted as of September 30, 2015.

(c) Other patent infringement claims and litigation

The Group is involved in various alleged patent infringement claims and litigation. No provisions have been made as management believes it is not likely an outflow of the Group's resources will be required to settle these matters. As of September 30, 2015, the final outcome of these matters cannot be determined, but could have a material effect on the Group's consolidated financial statements.

(2) Technology and patent license agreements

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

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32. Commitments and Contingencies, Continued

(3) Contract for supply of industrial water

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

(4) Post-process service contract with HITECH

In 2009, the Group entered into an agreement with HITECH to be provided with post-process service by HITECH. In addition, HITECH entered into agreements to purchase corresponding machinery from the Parent Company and its subsidiary, SKHYMC. According to the contracts, HITECH should use the machinery only for the purpose of providing the post-process service to the Group exclusively for the five years from its establishment. In 2011, the Parent Company entered into an additional contract for the purpose of module processing service and HITECH purchased corresponding machinery from the Parent Company. According to the agreement, the Group is liable to guarantee a certain level of margin to HITECH.

(5) Assets provided as collateral

Details of assets provided as collateral as of September 30, 2015 are as follows:

<i>(In millions of won)</i>	Book value	Pledged amount	Remark
Land	₩ 25,030		
Buildings	100,800	1,472,001	Borrowings for equipment and others
Machinery	764,465		
	₩ <u>890,295</u>	<u>1,472,001</u>	

Other than the above assets provided as collateral, the finance lease assets of the Group are pledged as collateral for the finance lease liabilities in accordance with finance lease contracts.

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32. Commitments and Contingencies, Continued

(6) Financing agreements

Details of credit lines with financial institutions as of September 30, 2015 are as follows:

(In millions of won and millions of foreign currencies)

	Financial Institution	Commitment	Currency	Amount
The Parent Company	Korea Exchange	Import finance including usance	USD	200
	Bank and others	Export finance including bills bought	USD	350
		Comprehensive limit contract for import and export	USD	1,305
SK hynix Semiconductor (China) Ltd. (SKHYCL)	Agricultural Bank of China and others	Import finance including usance	RMB	1,895
SK hynix America Inc. (SKHYA) and other sales entities	Citibank and others	Accounts receivable factoring without recourse	USD	345
Domestic subsidiaries	Korea Exchange Bank	Export finance including bills bought	KRW	5,000
		Guarantee	KRW	2,000
		Foreign currency forward	USD	1

The Group has entered into trade receivables discounting agreements with several financial institutions. There are outstanding trade receivables discounted corresponding to ₩539,114 million as of September 30, 2015 (as of December 31, 2014: ₩220,663 million). The Group is obliged to redeem discounted receivables to financial institutions in case of the default of the counterparties and, accordingly, accounted for the above transactions as collateralized borrowings.

(7) Details of guarantees provided to others as of September 30, 2015 are as follows:

(In millions of won)

	Amount	Remark
Employees	₩ 8	Guarantees for employees' borrowings relating to employee stock ownership

(8) Capital commitments

As of September 30, 2015, the Group has ₩791,757 million (as of December 31, 2014: ₩348,802 million) of commitments in relation to the capital expenditures on property, plant and equipment.

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33. Cash Generated from Operating Activities

(1) Reconciliations between profit and net cash inflow from operating activities for the nine-month periods ended September 30, 2015 and 2014 are as follows:

(In millions of won)

	2015	2014
Profit for the period	₩ 3,452,228	2,571,085
Adjustment		
Income tax expense	839,763	571,320
Defined benefit plan related expenses	116,216	105,155
Depreciation	2,726,224	2,405,099
Depreciation of investment property	687	925
Amortization	170,803	126,186
Loss on foreign currency translation	210,792	64,045
Loss on disposal of property, plant and equipment	17,358	5,203
Loss on impairment of property, plant and equipment	22,055	25,397
Loss on disposal of intangible assets	4,339	7,552
Loss on impairment of intangible assets	101	257
Loss on disposal of financial assets	-	3,500
Interest expense	85,931	142,552
Gain on foreign currency translation	(80,959)	(115,348)
Interest income	(29,554)	(39,808)
Loss on derivative instruments, net	421	171,994
Gain on valuation of financial assets	(3,404)	(4,725)
Gain on disposal of financial assets	(28,365)	(27,482)
Gain on disposal of property, plant and equipment	(13,716)	(2,960)
Gain on equity method investments, net	(18,510)	(5,328)
Gain on disposal of equity-accounted investees	-	(10,639)
Loss on disposal of a subsidiary	-	4,296
Others, net	1,776	9,654
Changes in operating assets and liabilities		
Decrease (increase) in trade receivables	708,965	(786,561)
Decrease in loans and other receivables	716,450	80,721
Increase in inventories	(305,211)	(331,960)
Increase in other assets	(147,911)	(64,539)
Decrease in trade payables	(279,435)	(14,329)
Decrease in other payables	(59,288)	(95,523)
Increase (decrease) in other non-trade payables	(173,860)	100,031
Increase (decrease) in provisions	3,786	(29,133)
Increase (decrease) in other liabilities	(36,903)	32,557
Contributions to plan assets	(348)	-
Payment of defined benefit liabilities	(6,485)	(19,361)
Cash generated from operating activities	₩ <u>7,893,946</u>	<u>4,879,833</u>

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33. Cash Generated from Operating Activities, Continued

(2) Details of significant transactions without inflows and outflows of cash for the nine-month periods ended September 30, 2015 and 2014 are as follows:

(In millions of won)

	2015	2014
Increase in other payables related to acquisition of property, plant and equipment	₩ -	69,771
Issue of ordinary shares related to the acquisition of a subsidiary	-	54,070
Exercise of conversion rights	-	702,149