

SK HYNIX, INC. and Subsidiaries

Condensed Consolidated Interim Financial Statements

June 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 June 30, 2015, the condensed consolidated statements of comprehensive income for the three and six-month periods ended June 30, 2015 and 2014, and changes in equity and cash flows for the six-month periods ended June 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 not different from that audited by us in all material respects.

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 Samjong Accounting Corp.

KPMG Samjong Accounting Corp.
Seoul, Korea
July 31, 2015

This report is effective as of July 31, 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 June 30, 2015 and December 31, 2014
(Unaudited)

(In millions of won)

	Note	2015	2014
Assets			
Current assets			
Cash and cash equivalents	5,6 ₩	650,081	436,761
Short-term financial instruments	5,6,7	3,555,431	3,618,014
Trade receivables, net	5,6,8	3,238,495	3,732,926
Loans and other receivables, net	5,6,8	212,114	881,885
Inventories, net	9	1,750,796	1,497,563
Current tax assets		1,453	1,629
Assets held for sale	10	28,288	27,661
Other current assets	11	220,330	167,075
		<u>9,656,988</u>	<u>10,363,514</u>
Non-current assets			
Investments in associates and joint ventures	12	96,034	97,090
Available-for-sale financial assets	5,6,13	130,036	127,314
Loans and other receivables, net	5,6,8	64,252	58,989
Other financial assets	5,6,7	323	323
Property, plant and equipment, net	14,33	16,084,135	14,090,334
Intangible assets, net	15	1,519,467	1,336,680
Investment property, net	16	27,795	28,456
Deferred tax assets		291,223	272,102
Other non-current assets	11	593,452	508,476
		<u>18,806,717</u>	<u>16,519,764</u>
Total assets	₩	<u><u>28,463,705</u></u>	<u><u>26,883,278</u></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 June 30, 2015 and December 31, 2014
(Unaudited)

(In millions of won)

	Note	2015	2014
Liabilities			
Current liabilities			
Trade payables	5,6	₩ 686,012	787,822
Other payables	5,6	1,470,003	1,358,816
Other non-trade payables	5,6	889,822	1,182,956
Borrowings	5,6,17	1,578,560	1,755,020
Other financial liabilities	5,6,21	-	30
Provisions	19	30,714	25,932
Current tax liabilities		565,970	583,529
Other current liabilities	18	47,795	71,199
		<u>5,268,876</u>	<u>5,765,304</u>
Non-current liabilities			
Other non-trade payables	5,6	111,560	132,947
Borrowings	5,6,17	2,179,645	2,419,739
Other financial liabilities	5,6,21	855	708
Defined benefit liabilities, net	20	545,156	465,350
Deferred tax liabilities		1,915	3,463
Other non-current liabilities	18	60,145	59,464
		<u>2,899,276</u>	<u>3,081,671</u>
Total liabilities		<u>8,168,152</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	(24)	(24)
Accumulated other comprehensive income (loss)	23	35,334	(41,815)
Retained earnings	24	12,459,056	10,276,904
Total equity attributable to owners of the Parent Company		<u>20,295,754</u>	<u>18,036,453</u>
Non-controlling interests		<u>(201)</u>	<u>(150)</u>
Total equity		<u>20,295,553</u>	<u>18,036,303</u>
Total liabilities and equity	₩	<u><u>28,463,705</u></u>	<u><u>26,883,278</u></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 six-month periods ended June 30, 2015 and 2014
(Unaudited)

(In millions of won, except per share information)

	Note	2015		2014	
		Three-month period	Six-month period	Three-month period	Six-month period
Revenue	4 ₩	4,638,579	9,456,920	3,922,875	7,665,565
Cost of sales	26	2,522,728	5,052,677	2,246,045	4,356,467
Gross profit		2,115,851	4,404,243	1,676,830	3,309,098
Selling and administrative expense	25,26	740,371	1,440,233	592,963	1,167,965
Operating profit		1,375,480	2,964,010	1,083,867	2,141,133
Finance income	27	160,432	360,934	169,429	282,334
Finance expense	27	142,774	321,796	383,652	521,300
Share of profit of equity-accounted investees	12	4,575	10,270	13,322	13,710
Other income	28	8,428	13,850	6,895	13,780
Other expenses	28	27,892	46,939	31,870	102,177
Profit before income tax		1,378,249	2,980,329	857,991	1,827,480
Income tax expense	29	269,839	576,463	184,241	351,476
Profit for the period		1,108,410	2,403,866	673,750	1,476,004
Other comprehensive income (loss)					
Item that will never be reclassified to profit or loss:					
Remeasurements of defined benefit liability, net of tax	20	(1,630)	(3,246)	(25)	(49)
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	-	-	544	3,962
Foreign operations – foreign currency translation differences, net of tax		61,344	74,770	(182,296)	(203,572)
Equity-accounted investees – share of other comprehensive income (loss), net of tax	12	1,694	2,261	(4,562)	(3,417)
Other comprehensive income (loss) for the period, net of tax		61,408	73,785	(186,339)	(203,076)
Total comprehensive income for the period	₩	1,169,818	2,477,651	487,411	1,272,928

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 six-month periods ended June 30, 2015 and 2014

(Unaudited)

(In millions of won, except per share information)

	Note	2015		2014	
		Three-month period	Six-month period	Three-month period	Six-month period
Profit attributable to:					
Owners of the Parent Company		1,108,069	2,403,799	673,201	1,475,739
Non-controlling interests		341	67	549	265
Total comprehensive income					
(loss) attributable to:					
Owners of the Parent Company		1,169,530	2,477,702	486,833	1,272,620
Non-controlling interests		288	(51)	578	308
Earnings per share					
Basic earnings per share (in won)	30	1,522	3,302	940	2,063
Diluted earnings per share (in won)	30	1,522	3,302	940	2,063

See accompanying notes to the condensed consolidated interim financial statements.

SK HYNIX, INC. and Subsidiaries
Condensed Consolidated Statements of Changes in Equity

For the six-month periods ended June 30, 2015 and 2014

(Unaudited)

	Attributable to owners of the Parent Company							
	Capital stock	Capital surplus	Other equity	Accumulated other comprehensive income (loss)	Retained earnings	Total	Non-controlling interests	Total equity
<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	-	-	-	-	1,475,739	1,475,739	265	1,476,004
Unrealized net changes in fair values of available-for-sale financial assets, net of tax	-	-	-	3,962	-	3,962	-	3,962
Remeasurements of defined benefit liability, net of tax	-	-	-	-	(49)	(49)	-	(49)
Other comprehensive loss from joint venture and associate, net of tax	-	-	-	(3,417)	-	(3,417)	-	(3,417)
Foreign currency translation differences for foreign operations, net of tax	-	-	-	(203,615)	-	(203,615)	43	(203,572)
Total comprehensive income	-	-	-	(203,070)	1,475,690	1,272,620	308	1,272,928
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	22,811	193,342	-	-	-	216,153	-	216,153
Acquisition of treasury shares	-	-	(24)	-	-	(24)	-	(24)
Transactions with owners of the Parent Company	29,604	240,619	(24)	-	-	270,199	-	270,199
Balance at June 30, 2014	₩ 3,598,249	3,646,702	(24)	(311,877)	7,677,012	14,610,062	(76)	14,609,986

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 six-month periods ended June 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	-	-	-	-	2,403,799	2,403,799	67	2,403,866	
Remeasurements of defined benefit liability, net of tax	-	-	-	-	(3,246)	(3,246)	-	(3,246)	
Other comprehensive income from joint venture and associate, net of tax	-	-	-	2,261	-	2,261	-	2,261	
Foreign currency translation differences for foreign operations, net of tax	-	-	-	74,888	-	74,888	(118)	74,770	
Total comprehensive income	-	-	-	77,149	2,400,553	2,477,702	(51)	2,477,651	
Transactions with owners of the Parent Company									
Dividends paid	-	-	-	-	(218,401)	(218,401)	-	(218,401)	
Transactions with owners of the Parent Company	-	-	-	-	(218,401)	(218,401)	-	(218,401)	
Balance at June 30, 2015	₩ 3,657,652	4,143,736	(24)	35,334	12,459,056	20,295,754	(201)	20,295,553	

See accompanying notes to the condensed consolidated interim financial statements.

SK HYNIX, INC. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
For the six-month periods ended June 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 ₩	5,315,549	3,068,310
Interest received		30,319	22,053
Interest paid		(63,775)	(81,196)
Dividends received		16,781	15,959
Income tax paid		(612,484)	(5,267)
Net cash provided by operating activities		<u>4,686,390</u>	<u>3,019,859</u>
Cash flows from investing activities			
Decrease in short-term financial instruments		7,224,289	8,881,351
Increase in short-term financial instruments		(7,135,676)	(9,184,178)
Collection of loans and other receivables		7,679	813
Increase in loans and other receivables		(3,947)	(4,300)
Proceeds from disposal of available-for-sale financial assets		696	770
Acquisition of available-for-sale financial assets		(3,417)	(414)
Decrease in other financial assets		-	245,808
Increase in other financial assets		-	(29,617)
Cash inflows from derivative transactions		989	868
Cash outflows from derivative transactions		(1,174)	(2,842)
Proceeds from disposal of property, plant and equipment		62,862	74,607
Acquisition of property, plant and equipment		(3,662,230)	(2,711,828)
Proceeds from disposal of intangible assets		406	17
Acquisition of intangible assets		(286,945)	(137,628)
Receipt of government grants		378	502
Cash inflows from business combinations		-	4,638
Acquisition of investments in associates		(2,194)	-
Net cash used in investing activities	₩	<u>(3,798,284)</u>	<u>(2,861,433)</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 six-month periods ended June 30, 2015 and 2014
(Unaudited)

(In millions of won)

	2015	2014
Cash flows from financing activities		
Proceeds from borrowings	₩ 1,854,550	1,889,955
Repayments of borrowings	(2,317,930)	(2,075,788)
Acquisition of treasury shares	-	(24)
Dividends paid	(218,401)	-
Net cash used in financing activities	<u>(681,781)</u>	<u>(185,857)</u>
Effect of movements in exchange rates on cash and cash equivalents	<u>6,995</u>	<u>(13,193)</u>
Net increase (decrease) in cash and cash equivalents	213,320	(40,624)
Cash and cash equivalents at beginning of the period	436,761	631,867
Cash and cash equivalents at end of the period	<u>₩ 650,081</u>	<u>591,243</u>

See accompanying notes to the condensed consolidated interim financial statements.

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
June 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 is engaged in the manufacture, distribution and sales of semiconductor products and its shares have been listed on the Korea Exchange since 1996. The Parent Company's headquarters is located in 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 June 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	576,804,698	79.23
	<u>728,002,365</u>	<u>100.00</u>

¹ As of June 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
	<u>5,097,667</u>	<u>0.70</u>

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 June 30, 2015.

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

1. Reporting Entity, Continued

(2) Details of the Group's consolidated subsidiaries as of June 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
Softaq 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

June 30, 2015 and 2014

(Unaudited)

1. Reporting Entity, Continued

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

(4) Major subsidiaries' summarized statements of financial position as of June 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)	₩ 1,480,211	1,396,844	83,367	1,711,746	1,634,047	77,699
SK hynix Asia Pte. Ltd.(SKHYS)	406,337	332,485	73,852	386,135	313,152	72,983
SK hynix Semiconductor Hong Kong Ltd.(SKHYH)	542,751	453,104	89,647	563,598	478,449	85,149
SK hynix Japan Inc.(SKHYJ)	293,232	234,947	58,285	285,122	227,860	57,262
SK hynix Semiconductor Taiwan Inc.(SKHYT)	496,335	493,238	3,097	628,791	605,861	22,930
SK hynix Semiconductor (China) Ltd.(SKHYCL)	3,866,048	745,797	3,120,251	4,179,186	1,197,588	2,981,598
SK hynix Deutschland GmbH(SKHYD)	97,118	61,174	35,944	135,384	98,477	36,907
SK hynix U.K. Ltd.(SKHYU)	195,662	180,365	15,297	194,318	179,990	14,328
SK hynix Semiconductor (Chongqing) Ltd.(SKHYCQL)	397,910	214,774	183,136	341,984	174,936	167,048

(5) Major subsidiaries' summarized statements of comprehensive income (loss) for the six-month periods ended June 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)	₩ 3,823,909	7,742	7,742	2,579,155	14,481	14,481
SK hynix Asia Pte. Ltd.(SKHYS)	911,850	(755)	(755)	841,247	1,272	1,272
SK hynix Semiconductor Hong Kong Ltd.(SKHYH)	1,889,119	2,458	2,458	1,691,966	6,471	6,471
SK hynix Japan Inc.(SKHYJ)	462,915	1,206	1,206	365,065	(3,800)	(3,800)
SK hynix Semiconductor Taiwan Inc.(SKHYT)	1,100,287	(13,357)	(13,357)	966,748	3,013	3,013
SK hynix Semiconductor (China) Ltd.(SKHYCL)	1,047,137	64,812	64,812	910,096	(57,244)	(57,244)
SK hynix Deutschland GmbH(SKHYD)	237,671	1,105	1,105	293,494	1,532	1,532
SK hynix U.K. Ltd.(SKHYU)	372,378	631	631	239,236	492	492
SK hynix Semiconductor (Chongqing) Ltd.(SKHYCQL)	166,565	11,742	11,742	-	(5,843)	(5,843)

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

SK HYNIX, INC. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

June 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

June 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 six-month periods ended June 30, 2015 and 2014 are as follows:

(In millions of won)

	2015		2014	
	Three-month period	Six-month period	Three-month period	Six-month period
Sale of goods	₩ 4,601,991	9,375,442	3,903,519	7,628,224
Sale of services	36,588	81,478	19,356	37,341
	₩ 4,638,579	9,456,920	3,922,875	7,665,565

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

(In millions of won)

	2015		2014	
	Three-month period	Six-month period	Three-month period	Six-month period
DRAM	₩ 3,462,743	7,095,730	3,077,365	6,069,482
NAND Flash	1,051,015	2,095,856	741,139	1,364,272
Other	124,821	265,334	104,371	231,811
	₩ 4,638,579	9,456,920	3,922,875	7,665,565

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

(In millions of won)

	2015		2014	
	Three-month period	Six-month period	Three-month period	Six-month period
Korea	₩ 235,576	528,632	343,363	641,492
China	1,099,951	2,052,835	993,668	1,733,671
Taiwan	571,589	1,090,142	504,847	967,151
Asia (other than China and Taiwan)	631,168	1,371,098	600,579	1,212,131
U.S.A.	1,813,815	3,807,511	1,246,642	2,581,192
Europe	286,480	606,702	233,776	529,928
	₩ 4,638,579	9,456,920	3,922,875	7,665,565

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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 June 30, 2015 and December 31, 2014 are as follows:

(In millions of won)

	2015	2014
Korea	₩ 14,425,846	12,356,735
China	3,436,450	3,255,550
Taiwan	6,014	5,831
Asia (other than China and Taiwan)	797	798
U.S.A.	345,581	333,908
Europe	10,161	11,124
	<u>₩ 18,224,849</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 six-month period ended June 30, 2015 amount to ₩1,676,526 million (2014: ₩1,093,102 million) and ₩1,205,440 million (2014: ₩747,676 million), respectively.

5. Categories of Financial Instruments

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

(In millions of won)

	2015			
	Financial assets at fair value through profit or loss	Available-for- sale financial assets	Loans and receivables	Total
Cash and cash equivalents	₩ -	-	650,081	650,081
Short-term financial instruments	1,605,444	-	1,949,987	3,555,431
Trade receivables	-	-	3,238,495	3,238,495
Loans and other receivables	-	-	276,366	276,366
Other financial assets	-	-	323	323
Available-for-sale financial assets	-	130,036	-	130,036
	<u>₩ 1,605,444</u>	<u>130,036</u>	<u>6,115,252</u>	<u>7,850,732</u>

(In millions of won)

	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 June 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	₩ -	686,012	686,012
Other payables	-	1,470,003	1,470,003
Other non-trade payables ¹	-	1,001,382	1,001,382
Borrowings	-	3,758,205	3,758,205
Other financial liabilities	855	-	855
	₩ <u>855</u>	<u>6,915,602</u>	<u>6,916,457</u>

(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
	₩ <u>738</u>	<u>7,637,300</u>	<u>7,638,038</u>

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

(In millions of won)

	2015	2014
Current		
Accrued expenses	₩ 889,822	1,182,956
Non-current		
Rent deposit payables	2,428	2,357
Long-term other payables	109,132	130,566
Long-term accrued expenses	-	24
	<u>111,560</u>	<u>132,947</u>
	₩ <u>1,001,382</u>	<u>1,315,903</u>

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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 six-month period ended June 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 June 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	4,448	₩ 4,999,793	4,077	₩ 4,582,442
EUR	-	101	100	125,801
JPY	8,458	77,574	40,406	370,582

As of June 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	₩ 41,735	(41,735)
EUR	(12,570)	12,570
JPY	(29,301)	29,301

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6. Financial Risk Management, Continued

(1) Financial risk management, Continued

(ii) Price risk

As of June 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 June 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 six-month period would have been ₩8,664 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 June 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 June 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.

There are no significant changes in the contractual cash flows of financial liability except for proceeds from borrowings, repayments of borrowings, increase in current installments of long-term borrowings during the six-month period ended June 30, 2015 compared to the expected cash flows as of December 31, 2014.

(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 June 30, 2015 and December 31, 2014 are as follows:

<i>(In millions of won)</i>	2015	2014
Total liabilities (A)	₩ 8,168,152	8,846,975
Total equity (B)	20,295,553	18,036,303
Cash and cash equivalents and short-term financial instruments (C)	4,205,512	4,054,775
Total borrowings (D)	3,758,205	4,174,759
Debt-to-equity ratio (A/B)	40%	49%
Net borrowing ratio (D-C)/B	N/A	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 June 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	₩ 1,605,444	-	1,605,444	-	1,605,444
	<u>1,605,444</u>	<u>-</u>	<u>1,605,444</u>	<u>-</u>	<u>1,605,444</u>
Financial assets not measured at fair value					
Cash and cash equivalents ¹	650,081	-	-	-	-
Short-term financial instruments ¹	1,949,987	-	-	-	-
Trade receivables ¹	3,238,495	-	-	-	-
Loans and other receivables ¹	276,366	-	-	-	-
Other financial assets ¹	323	-	-	-	-
Available-for-sale financial assets ^{1,2}	130,036	-	-	-	-
	<u>6,245,288</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Financial liabilities measured at fair value					
Other financial liabilities	855	-	855	-	855
	<u>855</u>	<u>-</u>	<u>855</u>	<u>-</u>	<u>855</u>
Financial liabilities not measured at fair value					
Trade payables ¹	686,012	-	-	-	-
Other payables ¹	1,470,003	-	-	-	-
Other non-trade payables ¹	1,001,382	-	-	-	-
Borrowings	3,758,205	-	3,812,626	-	3,812,626
	₩ <u>6,915,602</u>	<u>-</u>	<u>3,812,626</u>	<u>-</u>	<u>3,812,626</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 six-month period ended June 30, 2015.

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7. Restricted Financial Instruments

Details of restricted financial instruments as of June 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
	21,694	21,655	Pledged for borrowings
	5,503	4,601	Pledged for consumption tax
	-	4,764	Pledged for letter of credit
	585	584	Deposit for import duties
	<u>105,282</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>₩ 105,606</u>	<u>77,930</u>	

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8. Trade Receivables and Loans and Other Receivables

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

(In millions of won)

	2015	2014
Current		
Other receivables	₩ 189,362	845,468
Accrued income	16,062	28,337
Short-term loans	3,605	3,504
Short-term guarantee and other deposits	3,085	4,576
	<u>212,114</u>	<u>881,885</u>
Non-current		
Long-term other receivables	24,539	22,880
Long-term loans	6,573	7,199
Guarantee deposits	32,819	28,585
Long-term deposits	321	325
	<u>64,252</u>	<u>58,989</u>
	<u>₩ 276,366</u>	<u>940,874</u>

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

(In millions of won)

	2015		
	Gross amount	Provision for impairment	Carrying amount
Trade receivables	₩ 3,240,837	(2,342)	3,238,495
Current loans and other receivables	213,572	(1,458)	212,114
Non-current loans and other receivables	70,349	(6,097)	64,252
	<u>₩ 3,524,758</u>	<u>(9,897)</u>	<u>3,514,861</u>

(In millions of won)

	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 six-month periods ended June 30, 2015 and 2014 are as follows:

(In millions of won)

	2015	2014
Beginning balance	₩ 2,919	3,446
Provision for receivables impairment	-	704
Unused amounts reversed	(531)	-
Foreign exchange difference	(46)	(104)
Ending balance	₩ 2,342	4,046

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

(In millions of won)

	2015	2014
Beginning balance	₩ 1,668	2,062
Provision for receivables impairment	-	66
Unused amounts reversed	(210)	-
Receivables written off during the period as uncollectible	-	(26)
Ending balance	₩ 1,458	2,102

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

(In millions of won)

	2015	2014
Beginning balance	₩ 6,034	12,510
Provision for receivables impairment	47	23
Receivables written off during the period as uncollectible	(6)	-
Foreign exchange difference	22	(7)
Ending balance	₩ 6,097	12,526

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9. Inventories

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

(In millions of won)

	2015		
	Acquisition cost	Inventory valuation allowance	Carrying amount
Finished goods	₩ 510,144	(37,569)	472,575
Work-in-process	870,880	(39,760)	831,120
Raw materials	224,446	(3,161)	221,285
Supplies	137,558	(26)	137,532
Goods in transit	88,284	-	88,284
	₩ 1,831,312	(80,516)	1,750,796

(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 six-month periods ended June 30, 2015 and 2014 are as follows:

(In millions of won)

	2015	2014
Beginning balance	₩ 27,661	26,557
Foreign exchange difference	627	(1,030)
Ending balance	₩ 28,288	25,527

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11. Other Current and Non-current Assets

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

(In millions of won)

		2015	2014
Current			
Advance payments	₩	9,466	4,501
Prepaid expenses		204,874	156,590
Others		5,990	5,984
		220,330	167,075
Non-current			
Long-term prepaid expenses		582,986	494,908
Others		10,466	13,568
		593,452	508,476
	₩	813,782	675,551

12. Investments in Associates and Joint Ventures

(1) Details of investments in associates and joint ventures as of June 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	₩ 191	2,191	-
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd. (HITECH)	45.00	93,843	93,843	97,090
			₩ 94,034	96,034	97,090

¹ During the six-month period ended June 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 six-month periods ended June 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.	₩	-	2,193	(7)	5	-	2,191
HITECH Semiconductor (Wuxi) Co., Ltd. (HITECH)		97,090	-	10,277	2,256	(15,780)	93,843
	₩	<u>97,090</u>	<u>2,193</u>	<u>10,270</u>	<u>2,261</u>	<u>(15,780)</u>	<u>96,034</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	-	3,650	(3,588)	(15,666)	80,531
	₩	<u>107,097</u>	<u>(10,319)</u>	<u>3,071</u>	<u>(3,417)</u>	<u>(15,901)</u>	<u>80,531</u>

¹ Siliconfile Technologies Inc. became a subsidiary during the six-month period ended June 30, 2014 and ₩11 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 June 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.	₩	1,745	402	53	-
HITECH Semiconductor (Wuxi) Co., Ltd. (HITECH)		160,858	297,152	165,362	84,108

(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 six-month periods ended June 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.	-	(81)	-	-
HITECH Semiconductor (Wuxi) Co., Ltd. (HITECH)	335,325	22,838	291,796	8,111
	₩ 335,325	22,757	332,135	6,039

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 six-month periods ended June 30, 2015 and 2014 are as follows:

(In millions of won)

	2015	2014
Beginning balance	₩ 127,314	158,770
Acquisition	3,417	414
Disposal	(695)	(548)
Change in fair value	-	5,012
Ending balance	₩ 130,036	163,648

14. Property, Plant and Equipment

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

(In millions of won)

	2015	2014
Beginning balance	₩ 14,090,334	12,129,797
Acquisition through business combination	-	1,739
Acquisition	3,759,717	3,001,925
Disposal	(63,094)	(76,676)
Depreciation	(1,784,567)	(1,571,477)
Impairment	(5)	(27,271)
Transfer ¹	(131)	1,389
Foreign exchange difference and other	81,881	(196,686)
Ending balance	₩ 16,084,135	13,262,740

¹ Transferred to intangible assets for the six-month period ended June 30, 2015 and transferred from investment property for the six-month period ended June 30, 2014.

(2) Certain the property, plant and equipment are pledged as collaterals for borrowings of the Group as of June 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 ₩127,513 million as of June 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 six-month periods ended June 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	-	60,157
Acquisition	286,945	137,628
Disposal	(3,671)	(5,771)
Amortization	(107,007)	(85,882)
Impairment	(91)	-
Transfer ¹	131	-
Foreign exchange difference and other	6,480	(11,448)
Ending balance	₩ 1,519,467	1,205,087

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

(2) Among costs associated with development activities, ₩189,669 million that met capitalization criteria, were capitalized as development cost for the six-month period ended June 30, 2015 (2014: ₩77,141 million). In addition, costs associated with research activities and other development expenditures that did not meet the criteria and amounted to ₩798,279 million were recognized as expenses for the six-month period ended June 30, 2015 (2014: ₩650,662 million).

16. Investment Property

(1) Changes in investment property during the six-month periods ended June 30, 2015 and 2014 are as follows:

(In millions of won)

	2015	2014
Beginning balance	₩ 28,456	28,609
Depreciation	(661)	(618)
Transfer ¹	-	(1,389)
Ending balance	₩ 27,795	26,602

¹ Transferred to property, plant and equipment for the six-month period ended June 30, 2014.

(2) The depreciation expense of ₩661 million was charged to cost of sales for the six-month period ended June 30, 2015 (2014: ₩618 million).

(3) Rental income from investment property during the six-month period ended June 30, 2015 was ₩2,371 million (2014: ₩2,267 million).

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17. Borrowings

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

(In millions of won)

		2015	2014
Current			
Short-term borrowings	₩	616,390	734,165
Current installments of long-term borrowings		562,513	820,855
Current installments of debentures		399,657	200,000
		<u>1,578,560</u>	<u>1,755,020</u>
Non-current			
Long-term borrowings		1,419,329	1,262,772
Debentures		760,316	1,156,967
		<u>2,179,645</u>	<u>2,419,739</u>
	₩	<u>3,758,205</u>	<u>4,174,759</u>

(2) Changes in borrowings during the six-month periods ended June 30, 2015 and 2014 are as follows:

(In millions of won)

		2015	2014
Beginning balance	₩	4,174,759	4,550,215
Borrowings		1,854,550	1,889,955
Repayments		(2,317,930)	(2,072,727)
Exercise of conversion rights		-	(135,811)
Other ¹		46,826	(80,937)
Ending balance	₩	<u>3,758,205</u>	<u>4,150,695</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 June 30, 2015 and December 31, 2014 are as follows:

(In millions of won)

		2015	2014
Current			
Advance receipts	₩	1,979	2,682
Unearned income		447	322
Withholdings		44,235	67,174
Deposits received		1,107	858
Others		27	163
		<u>47,795</u>	<u>71,199</u>
Non-current			
Other long-term employee benefits		60,145	59,464
	₩	<u>107,940</u>	<u>130,663</u>

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19. Provisions

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

(In millions of won)

	2015				Ending Balance
	Beginning balance	Increase	Utilization	Others	
Warranty	6,886	1,404	(2,317)	-	5,973
Sales returns	14,646	15,874	(15,262)	-	15,258
Legal claims	4,400	2,992	-	43	7,435
Emission allowances	-	2,048	-	-	2,048
₩	25,932	22,318	(17,579)	43	30,714

(In millions of won)

	2014				Ending Balance
	Beginning balance	Increase	Utilization	Others	
Warranty	13,914	592	(6,542)	-	7,964
Sales returns	12,564	28,569	(29,441)	-	11,692
Legal claims	26,106	-	(20,706)	-	5,400
₩	52,584	29,161	(56,689)	-	25,056

(2) Provisions for warranty

The Group estimates the expected warranty costs based on historical results and accrues 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 June 30, 2015 and December 31, 2014 are as follows:

(In millions of won)

	2015	2014
Present value of defined benefit obligations	₩ 962,037	887,277
Fair value of plan assets	(416,881)	(421,927)
	₩ <u>545,156</u>	<u>465,350</u>

(2) Principal actuarial assumptions as of June 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 six-month periods ended June 30, 2015 and 2014 are as follows:

(In millions of won)

	2015	2014
Beginning balance	₩ 887,277	656,080
Current service cost	67,112	52,687
Interest cost	19,645	17,740
Transferred from associates	322	482
Benefits paid	(12,296)	(15,792)
Business combination	-	3,858
Others	(23)	(15)
Ending balance	₩ <u>962,037</u>	<u>715,040</u>

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

(In millions of won)

	2015	2014
Beginning balance	₩ 421,927	20,340
Interest income	9,281	459
Contributions	1,559	89
Transferred from associates	43	-
Benefits paid	(12,683)	(1,099)
Business combination	-	80
Remeasurements	(3,246)	(49)
Ending balance	₩ <u>416,881</u>	<u>19,820</u>

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20. Defined Benefit Liabilities, Continued

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

(In millions of won)

	2015		2014	
	Three-month period	Six-month period	Three-month period	Six-month period
Current service cost	₩ 33,555	67,112	26,402	52,687
Net interest cost	5,183	10,364	8,654	17,281
	₩ 38,738	77,476	35,056	69,968

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

(In millions of won)

	2015	2014
Deposits	₩ 415,299	420,300
Other	1,582	1,627
	₩ 416,881	421,927

Actual return on plan assets for the six-month periods ended June 30, 2015 and 2014 amounted to ₩6,035 million and ₩410 million, respectively.

21. Derivative Financial Instruments

(1) The Group has managed financial risk 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 June 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	855	708
	₩ 855	738

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21. Derivative Financial Instruments, Continued

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

(In millions of won)

	Gain on valuation			
	2015		2014	
	Three-month period	Six-month period	Three-month period	Six-month period
Interest rates swap	₩ 100	-	134	334

(In millions of won)

	Loss on valuation			
	2015		2014	
	Three-month period	Six-month period	Three-month period	Six-month period
Interest rates swap	-	147	272	387
Embedded derivative instruments	-	-	201,860	186,233
	₩ -	147	202,132	186,620

(In millions of won)

	Gain on transaction			
	2015		2014	
	Three-month period	Six-month period	Three-month period	Six-month period
Interest rates swap	429	989	861	1,183

(In millions of won)

	Loss on transaction			
	2015		2014	
	Three-month period	Six-month period	Three-month period	Six-month period
Interest rates swap	507	1,145	1,004	1,241

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22. Capital Stock, Capital Surplus and Other Equity

(1) Details of capital stock, capital surplus and other equity as of June 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	(24)	(24)
Number of treasury shares	1	1

¹ As of June 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 number of outstanding shares for the six-month period ended June 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
Ending	<u>728,002</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 June 30, 2015 and December 31, 2014 are as follows:

<i>(In millions of won)</i>	2015	2014
Equity-accounted investees – share of other comprehensive loss	(2,370)	(4,631)
Foreign operations – foreign currency translation differences	37,704	(37,184)
₩	<u>35,334</u>	<u>(41,815)</u>

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

<i>(In millions of won)</i>	2015		
	Beginning	Change	Ending
Equity-accounted investees – share of other comprehensive loss	(4,631)	2,261	(2,370)
Foreign operations – foreign currency translation differences	(37,184)	74,888	37,704
₩	<u>(41,815)</u>	<u>77,149</u>	<u>35,334</u>

<i>(In millions of won)</i>	2014		
	Beginning	Change	Ending
Available-for-sale financial assets – unrealized net change in fair value	₩ 7,824	3,962	11,786
Equity-accounted investees – share of other comprehensive loss	(8,338)	(3,417)	(11,755)
Foreign operations – foreign currency translation differences	(108,293)	(203,615)	(311,908)
₩	<u>(108,807)</u>	<u>(203,070)</u>	<u>(311,877)</u>

24. Retained Earnings

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

<i>(In millions of won)</i>	2015	2014
Legal reserve ¹	₩ 30,694	8,854
Discretionary reserve ²	235,506	235,506
Unappropriated retained earnings ³	12,192,856	10,032,544
₩	<u>12,459,056</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 a reserve for technology development.

³ The dividends in the amount of ₩218,401 million were approved at stockholders' meeting held on March 20, 2015, which have been paid for the six-month period ended June 30, 2015.

25. Selling and Administrative Expenses

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

(In millions of won)

	2015		2014	
	Three-month period	Six-month period	Three-month period	Six-month period
Salaries	₩ 105,760	205,351	82,515	159,348
Defined benefit plan related expenses	6,219	12,403	5,548	10,970
Employee benefits	18,408	37,272	13,072	27,112
Commission expense	55,294	93,011	46,928	92,656
Depreciation	21,048	41,043	11,742	25,829
Amortization	41,050	99,041	36,131	85,064
Research and development	406,212	798,279	336,418	650,662
Freight and custody charge	10,757	20,947	7,028	16,699
Legal cost	2,169	3,171	1,813	4,280
Rental expense	5,362	11,162	2,536	5,625
Taxes and dues	5,290	9,650	4,576	8,042
Training expense	4,021	11,256	6,497	9,703
Sales promotional expense	14,864	24,901	9,032	16,226
Utility expense	3,648	6,912	1,012	3,375
Supplies	14,395	27,898	10,855	18,104
Repair expense	1,744	3,303	1,177	5,758
Others	24,130	34,633	16,083	28,512
	₩ <u>740,371</u>	<u>1,440,233</u>	<u>592,963</u>	<u>1,167,965</u>

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26. Expenses by Nature

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

(In millions of won)

	2015		2014²	
	Three-month period	Six-month period	Three-month period	Six-month period
Changes in finished goods and work-in-process	₩ (116,761)	(133,019)	(66,479)	(153,495)
Raw materials and consumables	897,335	1,731,485	699,040	1,354,703
Employee benefits	739,064	1,403,021	589,421	1,105,517
Depreciation and amortization	947,387	1,888,073	832,037	1,655,466
Royalty expense	54,700	100,049	41,932	83,872
Commission expense	212,753	386,294	182,546	330,293
Utilities expense	149,379	316,750	138,712	293,104
Repair expense	134,881	252,384	152,259	282,601
Outsourcing expense	238,628	503,231	249,197	484,281
Others	5,733	44,642	20,343	88,090
Total ¹	₩ <u>3,263,099</u>	<u>6,492,910</u>	<u>2,839,008</u>	<u>5,524,432</u>

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

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

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27. Finance Income and Expense

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

(In millions of won)

	2015		2014	
	Three-month period	Six-month period	Three-month period	Six-month period
Finance income				
Interest income	₩ 8,723	17,687	11,724	27,996
Dividend income	6	1,001	55	59
Gain on disposal of financial assets at fair value through profit or loss	7,099	20,522	10,224	10,444
Foreign exchange differences	139,868	316,041	146,431	239,419
Gain from derivative instruments	529	989	995	1,517
Gain on valuation of financial assets at fair value through profit or loss	4,207	4,694	-	2,899
	<u>160,432</u>	<u>360,934</u>	<u>169,429</u>	<u>282,334</u>
Finance expense				
Interest expenses	26,906	52,917	49,563	102,903
Foreign exchange differences	115,361	267,588	124,846	227,612
Loss on redemption of bonds	-	-	2,924	2,924
Loss from derivative instruments	507	1,291	203,136	187,861
Loss on valuation of financial assets at fair value through profit or loss	-	-	3,183	-
	<u>142,774</u>	<u>321,796</u>	<u>383,652</u>	<u>521,300</u>
Net finance income (expense)	₩ <u>17,658</u>	<u>39,138</u>	<u>(214,223)</u>	<u>(238,966)</u>

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28. Other Income and Expenses

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

(In millions of won)

	2015		2014	
	Three-month period	Six-month period	Three-month period	Six-month period
Gain on disposal of property, plant and equipment	₩ 4,415	4,415	1,071	1,527
Others	4,013	9,435	5,824	12,253
	₩ 8,428	13,850	6,895	13,780

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

(In millions of won)

	2015		2014	
	Three-month period	Six-month period	Three-month period	Six-month period
Loss on disposal of property, plant and equipment	₩ 2,812	2,898	1,517	3,598
Loss on disposal of intangible assets	1,413	3,265	2,237	5,755
Loss on disposal of trade receivables	364	681	592	1,374
Donation	9,292	21,656	371	714
Loss on impairment of property, plant and equipment	3	5	-	25,397
Loss on impairment of intangible assets	35	91	-	-
Others	13,973	18,343	27,153	65,339
	₩ 27,892	46,939	31,870	102,177

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 six-month periods.

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

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

	2015		2014	
	Three-month period	Six-month period	Three-month period	Six-month period
Profit attributable to ordinary shareholders	₩ 1,108,069	2,403,799	673,201	1,475,739
Weighted average number of outstanding ordinary shares ¹	728,001,795	728,001,795	715,808,023	715,288,520
Basic earnings per share	₩ 1,522	3,302	940	2,063

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

(In shares)

	2015		2014	
	Three-month period	Six-month period	Three-month period	Six-month period
Outstanding ordinary shares	₩ 728,002,365	728,002,365	710,200,891	710,200,891
Exercise of conversion rights	-	-	4,562,354	4,562,354
Issue of ordinary shares related to the acquisition of a subsidiary	-	-	1,045,028	525,401
Acquisition of treasury shares	(570)	(570)	(250)	(126)
Weighted average number of outstanding common shares	₩ 728,001,795	728,001,795	715,808,023	715,288,520

(2) There is no potential ordinary shares with dilutive effect during the three and six-month periods ended June 30, 2015 and 2014. Therefore, diluted earnings per share are the same as earnings per share.

31. Related Party Transactions

(1) Details of related parties as of June 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 six-month periods ended June 30, 2015 and 2014 are as follows:

(In millions of won)

		For three-month period ended June 30, 2015			
Company	Operating revenue and others	Operating expense and others	Asset acquisition	Dividend income	
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	₩ 222	175,681	-	15,780
Other related parties	SK Telecom Co., Ltd.	2,194	1,792	459	-
	SK Holdings Co., Ltd. ²	-	10,106	-	-
	SK Engineering & Construction Co., Ltd.	113	238	287,274	-
	SK Energy Co., Ltd.	1,315	10,736	-	-
	SK Networks Co., Ltd.	-	585	-	-
	Ko-one energy service Co., Ltd.	-	642	-	-
	SKC solmics Co., Ltd.	-	8,547	109	-
	Chungcheong energy service Co., Ltd.	-	5,779	-	-
	HAPPYNARAE Co., Ltd.	3	19,016	1,313	-
	Others	77	10,831	5,163	-
	<u>₩ 3,924</u>	<u>243,953</u>	<u>294,318</u>	<u>15,780</u>	

(In millions of won)

		For six-month period ended June 30, 2015			
Company	Operating revenue and others	Operating expense and others	Asset acquisition	Dividend income	
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	₩ 737	350,110	-	15,780
Other related parties	SK Telecom Co., Ltd. ¹	2,199	48,353	712	-
	SK Holdings Co., Ltd. ²	-	19,630	-	-
	SK Engineering & Construction Co., Ltd.	175	292	674,282	-
	SK Energy Co., Ltd.	2,654	29,350	-	-
	SK Networks Co., Ltd.	-	1,301	-	-
	Ko-one energy service Co., Ltd.	-	1,660	-	-
	SKC solmics Co., Ltd.	-	16,678	144	-
	Chungcheong energy service Co., Ltd.	-	16,768	-	-
	HAPPYNARAE Co., Ltd.	10	34,082	1,721	-
	Others	151	20,141	7,880	-
	<u>₩ 5,926</u>	<u>538,365</u>	<u>684,739</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 six-month period ended June 30, 2015, royalty on the use of the SK brand amounted to ₩17,298 million (2014: ₩14,395 million).

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31. Related Party Transactions, Continued

(In millions of won)

		For three-month period ended June 30, 2014		
Company		Operating revenue and others	Operating expense and others	Asset acquisition
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	₩ 665	132,460	-
Other related parties	SK Telecom Co., Ltd.	-	1,216	249
	SK Holdings Co., Ltd.	-	9,205	-
	SK Engineering & Construction Co., Ltd.	91	13,479	148,203
	SK Energy Co., Ltd.	1,248	10,729	-
	SK Networks Co., Ltd.	-	412	-
	Ko-one energy service Co., Ltd.	-	741	-
	SKC solmics Co., Ltd.	-	7,150	213
	Chungcheong energy service Co., Ltd.	-	7,047	-
	HAPPYNARAE Co., Ltd.	4	14,538	2,962
	Others	107	3,879	823
		₩	2,115	200,856

(In millions of won)

		For six-month period ended June 30, 2014		
Company		Operating revenue and others	Operating expense and others	Asset acquisition
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	₩ 755	265,146	-
Other related parties	SK Telecom Co., Ltd.	879	2,834	557
	SK Holdings Co., Ltd.	-	14,426	-
	SK Engineering & Construction Co., Ltd.	353	21,279	272,444
	SK Energy Co., Ltd.	2,610	29,782	-
	SK Networks Co., Ltd.	-	971	2,772
	Ko-one energy service Co., Ltd.	-	1,688	-
	SKC solmics Co., Ltd.	-	13,757	539
	Chungcheong energy service Co., Ltd.	-	18,547	-
	HAPPYNARAE Co., Ltd.	42	28,677	4,982
	Others	180	8,227	1,262
		₩	4,819	405,334

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31. Related Party Transactions, Continued

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

(In millions of won)

		2015		
Company		Trade receivables and others	Other payables and others	Borrowings ¹
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.(HITECH)	₩ 11,754	107,347	277
Other related parties	SK Telecom Co., Ltd. ¹	2,413	1,424	-
	SK Holdings Co., Ltd.	-	2,383	-
	SK Engineering & Construction Co., Ltd.	79	336,362	-
	SK Energy Co., Ltd.	511	1,588	-
	SK Networks Co., Ltd.	-	191	-
	SKC solmics Co., Ltd.	-	8,663	-
	Chungcheong energy service Co., Ltd.	-	707	-
	HAPPYNARAE Co., Ltd.	1	11,693	-
	Others	30	28,570	-
		₩	<u>14,788</u>	<u>498,928</u>

¹ The Parent Company repaid ₩22,275 million of borrowings from HITECH Semiconductor(Wuxi) Co., Ltd. for the six-month period ended June 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>

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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 six-month periods ended June 30, 2015 and 2014 are as follows:

(In millions of won)

Details	2015		2014	
	Three-month period	Six-month period	Three-month period	Six-month period
Salaries	₩ 17,052	35,983	14,640	36,840
Defined benefit plan related expenses	1,723	3,439	1,872	3,271
Others	3	7	4	9
	₩ 18,778	39,429	16,516	40,120

32. Commitments and Contingencies

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

(a) 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"). The litigation value of the SanDisk lawsuit has not been determined. Meanwhile, on November 6, 2014, the Parent Company requested transfer of the lawsuit to the United States District Court for California (the Federal court), however, its request was rejected on March 26, 2015 and the lawsuit is ongoing at Santa Clara Superior Court. As of June 30, 2015, the above lawsuit is at an early stage and the final outcome of this matter cannot be predicted.

(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 is in process. As of June 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 June 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 not likely an outflow of the Group's resources will be required to settle these matters. As of June 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 June 30, 2015 are as follows:

<i>(In millions of won)</i>	Book value	Pledged amount	Remark
Land	₩ 25,202		
Buildings	117,543	1,433,005	Borrowings for equipment and others
Machinery	766,943		
	<u>₩ 909,688</u>	<u>1,433,005</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 June 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 Comprehensive limit contract for import and export	USD	350
SK hynix Semiconductor (China) Ltd. (SKHYCL)	Agricultural Bank of China and others	Import finance including usance	USD	1,355
			RMB	1,350
SK hynix America Inc. (SKHYA) and other sales entities	Citibank and others	Accounts receivable factoring without recourse	USD	1,327
				USD
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 ₩339,328 million as of June 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 June 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 June 30, 2015, the Group has ₩787,158 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 six-month periods ended June 30, 2015 and 2014 are as follows:

(In millions of won)

	2015	2014
Profit for the period	₩ 2,403,866	1,476,004
Adjustment		
Income tax expense	576,463	351,476
Defined benefit plan related expenses	77,476	69,968
Depreciation	1,784,567	1,571,477
Depreciation of investment property	661	618
Amortization	107,007	85,882
Loss on disposal of property, plant and equipment	2,898	3,598
Loss on disposal of intangible assets	3,265	5,755
Loss on impairment of property, plant, and equipment	5	25,397
Interest expense	52,917	102,903
Loss on foreign currency translation	61,878	49,287
Gain on valuation of equity-accounted investees	(10,270)	(3,071)
Gain on disposal of equity-accounted investees	-	(10,639)
Gain on disposal of property, plant and equipment	(4,415)	(1,527)
Gain on valuation of financial assets	(4,694)	(2,899)
Gain on disposal of financial assets	(20,522)	(10,444)
Loss on derivative instruments, net	303	186,344
Interest income	(17,687)	(27,996)
Gain on foreign currency translation	(78,682)	(86,339)
Others, net	760	8,352
Changes in operating assets and liabilities		
Decrease (increase) in trade receivables	619,958	(411,411)
Decrease in loans and other receivables	658,354	50,929
Increase in inventories	(243,542)	(204,001)
Increase in other assets	(144,342)	(53,051)
Increase (decrease) in trade payables	(187,575)	132,728
Decrease in other payables	(8,800)	(158,456)
Decrease in other non-trade payables	(291,200)	(42,850)
Increase (decrease) in provisions	3,376	(27,618)
Increase (decrease) in other liabilities	(21,355)	2,676
Contributions to plan assets	(1,559)	(89)
Payment of defined benefit liabilities	(3,562)	(14,693)
Cash generated from operating activities	₩ <u>5,315,549</u>	<u>3,068,310</u>

(2) Details of significant transactions without inflows and outflows of cash for the six-month periods ended June 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	₩ 80,835	286,484
Issue of ordinary shares related to the acquisition of a subsidiary	-	54,070