

SK HYNIX, INC. and Subsidiaries

Condensed Consolidated Interim Financial Statements

**September 30, 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, 2014, the condensed consolidated statements of comprehensive income for the three and nine-month periods ended September 30, 2014, and changes in equity and cash flows for the nine-month period ended September 30, 2014 and notes to the interim financial statements.

## **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 auditing standards generally accepted in the Republic of Korea and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## **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 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.

The condensed consolidated statements of comprehensive income for the three and nine-month periods ended September 30, 2013, and changes in equity and cash flows for the nine-month period ended September 30, 2013 were reviewed by other auditors whose report thereon dated November 7, 2013, expressed that nothing came to their attention that caused them to believe that those condensed consolidated interim financial statements were not prepared fairly, in all material respects, in accordance with K-IFRS No.1034, 'Interim Financial Reporting'.

The consolidated statement of financial position of the Group as of December 31, 2013, 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 other auditors, and their report thereon dated February 25, 2014, expressed an unqualified opinion. The accompanying condensed consolidated statement of financial position of the Group as of December 31, 2013, presented for comparative purposes, is not different from that audited by other auditors in all material respects.

*KPMG Samjory Accounting Corp.*

Seoul, Korea  
November 11, 2014

This report is effective as of November 11, 2014, 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, 2014 and December 31, 2013

(In millions of won)

	<b>Note</b>	<b>2014</b>	<b>2013</b>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	5,6 ₩	377,645	631,867
Short-term financial instruments	5,6,7	3,322,695	2,154,532
Trade receivables, net	5,6,8,31	2,800,144	1,941,675
Loans and other receivables, net	5,6,8	197,582	323,759
Other financial assets	5,6,7	-	245,808
Inventories, net	9	1,503,056	1,178,300
Current tax assets		1,824	9,242
Assets held for sale	10	26,438	26,557
Other current assets	11	165,078	141,384
		<u>8,394,462</u>	<u>6,653,124</u>
<b>Non-current assets</b>			
Equity-accounted investees	12	85,729	107,097
Available-for-sale financial assets	5,6,13	126,497	158,770
Loans and other receivables, net	5,6,8	59,553	43,090
Other financial assets	5,6,7,21	1,679	2,017
Property, plant and equipment, net	14,32	13,536,397	12,129,797
Intangible assets, net	15	1,255,777	1,110,403
Investment property, net	16	26,295	28,609
Deferred tax assets		223,738	198,570
Other non-current assets	11	371,088	365,821
		<u>15,686,753</u>	<u>14,144,174</u>
<b>Total assets</b>	<b>₩</b>	<b><u>24,081,215</u></b>	<b><u>20,797,298</u></b>

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, 2014 and December 31, 2013

(In millions of won)

	<u>Note</u>	<u>2014</u>	<u>2013</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade payables	5,6	₩ 632,936	648,793
Other payables	5,6,31	980,589	788,304
Other non-trade payables	5,6	774,167	677,120
Borrowings	5,6,17,31	1,801,282	870,320
Other financial liabilities	5,6,21	24,329	2,194
Provisions	19,32	23,582	52,584
Current tax liabilities		262,846	12,084
Other current liabilities	18	38,338	26,840
		<u>4,538,069</u>	<u>3,078,239</u>
<b>Non-current liabilities</b>			
Other non-trade payables	5,6	141,666	177,101
Borrowings	5,6,17,31	2,329,615	3,679,895
Other financial liabilities	5,6,21	502	107,094
Defined benefit liabilities, net	20	724,564	635,740
Deferred tax liabilities		2,784	-
Other non-current liabilities	18	53,740	52,370
		<u>3,252,871</u>	<u>4,652,200</u>
<b>Total liabilities</b>		<u>7,790,940</u>	<u>7,730,439</u>
<b>Equity</b>			
<b>Equity attributable to owners of the Parent Company</b>			
Capital stock	1,22	3,649,675	3,568,645
Capital surplus	22	4,081,272	3,406,083
Other equity	22	(24)	-
Accumulated other comprehensive loss	23	(212,561)	(108,807)
Retained earnings	24	8,772,307	6,201,322
<b>Total equity attributable to owners of the Parent Company</b>		<u>16,290,669</u>	<u>13,067,243</u>
<b>Non-controlling interests</b>		<u>(394)</u>	<u>(384)</u>
<b>Total equity</b>		<u>16,290,275</u>	<u>13,066,859</u>
<b>Total liabilities and equity</b>	₩	<u>24,081,215</u>	<u>20,797,298</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, 2014 and 2013

(In millions of won, except per share information)

	Note	2014		2013	
		Three-month period	Nine-month period	Three-month period	Nine-month period
<b>Revenue</b>	4,31	₩ 4,312,069	11,977,634	4,083,621	10,797,415
Cost of sales	26,31	2,376,715	6,733,182	2,379,274	6,848,384
<b>Gross profit</b>		1,935,354	5,244,452	1,704,347	3,949,031
Selling and administrative expense	25,26	634,180	1,802,145	539,866	1,353,997
<b>Operating profit</b>		1,301,174	3,442,307	1,164,481	2,595,034
Finance income	21,27	151,072	433,406	340,882	423,947
Finance expense	21,27	85,994	607,294	279,218	572,844
Share of profit of equity-accounted investees	12	2,257	15,967	5,665	13,369
Other income	28	5,805	19,585	6,995	30,765
Other expenses	28	59,389	161,566	219,058	249,506
<b>Profit before income tax</b>		1,314,925	3,142,405	1,019,747	2,240,765
Income tax expense	29	219,844	571,320	61,511	157,055
<b>Profit for the period</b>		1,095,081	2,571,085	958,236	2,083,710
<b>Other comprehensive income (loss)</b>					
<b>Item that will never be reclassified to profit or loss:</b>					
Remeasurements of defined benefit liability, net of tax	20	(25)	(74)	(17)	(51)
<b>Items that are or may be reclassified to profit or loss:</b>					
Available-for-sale financial assets – unrealized net change in fair value, net of tax	13,23	(11,786)	(7,824)	(4,074)	2,684
Foreign operations – foreign currency translation differences, net of tax	23	108,083	(95,489)	(209,365)	54,903
Equity-accounted investees – share of other comprehensive income (loss), net of tax	12,23	2,940	(477)	(6,190)	586
<b>Other comprehensive income (loss) for the period, net of tax</b>		99,212	(103,864)	(219,646)	58,122
<b>Total comprehensive income for the period</b>		₩ 1,194,293	2,467,221	738,590	2,141,832

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, 2014 and 2013

(In millions of won, except per share information)

	Note	2014		2013	
		Three-month period	Nine-month period	Three-month period	Nine-month period
<b>Profit (loss) attributable to:</b>					
Owners of the Parent Company		1,095,320	2,571,059	958,278	2,083,680
Non-controlling interests		(239)	26	(42)	30
<b>Total comprehensive income</b>					
<b>(loss) attributable to:</b>					
Owners of the Parent Company		1,194,611	2,467,231	738,837	2,141,791
Non-controlling interests		(318)	(10)	(247)	41
<b>Earnings per share</b>					
Basic earnings per share (in won)	30	1,516	3,596	1,349	2,934
Diluted earnings per share (in won)	30	1,510	3,596	1,289	2,934

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, 2014 and 2013

(In millions of won)

	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		
<b>Balance at January 1, 2013</b>	₩ 3,488,419	3,053,874	-	(115,402)	3,313,265	9,740,156	(714)	9,739,442
<b>Total comprehensive income</b>								
Profit for the period	-	-	-	-	2,083,680	2,083,680	30	2,083,710
Remeasurements of defined benefit liability, net of tax	-	-	-	-	(51)	(51)	-	(51)
Unrealized net changes in fair values of available-for-sale financial assets, net of tax	-	-	-	2,684	-	2,684	-	2,684
Other comprehensive income from joint venture and associate, net of tax	-	-	-	586	-	586	-	586
Foreign currency translation differences for foreign operations, net of tax	-	-	-	54,892	-	54,892	11	54,903
<b>Total comprehensive income</b>	-	-	-	58,162	2,083,629	2,141,791	41	2,141,832
<b>Transactions with owners of the Parent Company</b>								
Exercise of conversion rights	80,226	352,208	-	-	-	432,434	-	432,434
Other	-	66	-	-	(70)	(4)	-	(4)
<b>Total transactions with owners of the Parent Company</b>	80,226	352,274	-	-	(70)	432,430	-	432,430
<b>Balance at September 30, 2013</b>	₩ 3,568,645	3,406,148	-	(57,240)	5,396,824	12,314,377	(673)	12,313,704

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, 2014 and 2013

(In millions of won)

	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		
<b>Balance at January 1, 2014</b>	₩ 3,568,645	3,406,083	-	(108,807)	6,201,322	13,067,243	(384)	13,066,859
<b>Total comprehensive income</b>								
Profit for the period	-	-	-	-	2,571,059	2,571,059	26	2,571,085
Remeasurements of defined benefit liability, net of tax	-	-	-	-	(74)	(74)	-	(74)
Unrealized net changes in fair values of available-for-sale financial assets, net of tax	-	-	-	(7,824)	-	(7,824)	-	(7,824)
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)
<b>Total comprehensive income</b>	-	-	-	(103,754)	2,570,985	2,467,231	(10)	2,467,221
<b>Transactions with owners of the Parent Company</b>								
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)
<b>Total transactions with owners of the Parent Company</b>	81,030	675,189	(24)	-	-	756,195	-	756,195
<b>Balance at September 30, 2014</b>	₩ 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 Cash Flows  
For the nine-month periods ended September 30, 2014 and 2013

(In millions of won)

	<u>Note</u>	<u>2014</u>	<u>2013</u>
<b>Cash flows from operating activities</b>			
Cash generated from operating activities	33	₩ 4,879,833	4,765,405
Interest received		32,973	39,111
Interest paid		(115,432)	(152,043)
Dividends received		17,106	17,414
Income tax paid		(169,458)	(17,109)
<b>Net cash provided by operating activities</b>		<u>4,645,022</u>	<u>4,652,778</u>
<b>Cash flows from investing activities</b>			
Decrease in short-term financial instruments		15,989,933	2,114,846
Increase in short-term financial instruments		(17,116,461)	(3,479,392)
Collection of loans and other receivables		1,270	1,414
Increase in loans and other receivables		(11,674)	(4,193)
Proceeds from disposal of available-for-sale financial assets		28,578	331
Acquisition of available-for-sale financial assets		(573)	(2,032)
Decrease in other financial assets		275,422	29,682
Increase in other financial assets		(29,613)	(29,670)
Cash inflows from derivative transactions		1,761	2,663
Cash outflows from derivative transactions		(3,862)	(6,319)
Proceeds from disposal of property, plant and equipment		136,708	13,640
Acquisition of property, plant and equipment		(3,964,835)	(2,370,781)
Proceeds from disposal of intangible assets		185	200
Acquisition of intangible assets		(216,349)	(189,507)
Receipt of government grants		20,206	-
Cash outflows from business combinations		(19,271)	-
Cash outflows from disposal of investments in a subsidiary		(1,467)	-
<b>Net cash used in investing activities</b>		<u>₩ (4,910,042)</u>	<u>(3,919,118)</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, 2014 and 2013

(In millions of won)

	<b>2014</b>	<b>2013</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	₩ 2,541,874	2,801,959
Repayments of borrowings	(2,527,669)	(3,588,449)
Acquisition of treasury shares	(24)	-
<b>Net cash provided by (used in) financing activities</b>	<u>14,181</u>	<u>(786,490)</u>
<b>Effect of movements in exchange rates on cash and cash equivalents</b>	<u>(3,383)</u>	<u>(4,773)</u>
<b>Net decrease in cash and cash equivalents</b>	(254,222)	(57,603)
<b>Cash and cash equivalents at beginning of the period</b>	<u>631,867</u>	<u>658,387</u>
<b>Cash and cash equivalents at end of the period</b>	<u>₩ 377,645</u>	<u>600,784</u>

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, 2014 and 2013

**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, Gyenggi-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, 2014, the shareholders of the Parent Company are as follows:

<b>Shareholder</b>	<b>Number of shares</b>	<b>Percentage of ownership (%)</b>
SK Telecom Co., Ltd.	146,100,000	20.11
Share Management Council <sup>1</sup>	8,082,667	1.11
Other investors <sup>2</sup>	572,224,193	78.78
	726,406,860	100.00

<sup>1</sup> As of September 30, 2014, the number of shares held by each member of Share Management Council is as follows:

<b>Shareholder</b>	<b>Number of shares</b>	<b>Percentage of ownership (%)</b>
Korea Exchange Bank	7,092,500	0.98
National Agricultural Cooperative Federation	590,000	0.08
Shinhan Bank	395,000	0.05
Other financial institutions	5,167	0.00
	8,082,667	1.11

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, 2014.

<sup>2</sup> National Pension Service and other individual investors are included.

SK HYNIX, INC. and Subsidiaries  
Notes to the Condensed Consolidated Interim Financial Statements  
September 30, 2014 and 2013

**1. Reporting Entity, Continued**

(2) Details of the Group's consolidated subsidiaries as of September 30, 2014 and December 31, 2013 are as follows:

Company	Location	Business	Ownership(%)	
			2014	2013
SK hyeng Inc. <sup>1</sup>	Korea	Domestic subsidiary	100.00	100.00
SK hystec Inc.	Korea	Domestic subsidiary	100.00	100.00
Siliconfile Technologies Inc. <sup>2</sup>	Korea	Development and manufacturing of electronic component	100.00	-
SK hynix America Inc. (SKHYA)	U.S.A.	Overseas sales subsidiary	97.74	97.74
Hynix Semiconductor Manufacturing America Inc. (HSMA) <sup>3</sup>	U.S.A.	Discontinued subsidiary	100.00	100.00
SK hynix Deutschland GmbH (SKHYD)	Germany	Overseas sales subsidiary	100.00	100.00
SK hynix Europe Holding Ltd. (SKHYE) <sup>4</sup>	U.K.	Holding company	-	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 Pvt. Ltd. (SKHYIS) <sup>5</sup>	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) <sup>6</sup>	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) <sup>7</sup>	Hong Kong	Holding company	100.00	100.00
SK hynix Semiconductor (Chongqing) Ltd. (SKHYCQL) <sup>8</sup>	China	Overseas manufacturing subsidiary	100.00	100.00
Softeq Flash Solutions LLC.(SOFTEQ) <sup>9</sup>	Belarus	Overseas R&D center	100.00	-

SK HYNIX, INC. and Subsidiaries  
Notes to the Condensed Consolidated Interim Financial Statements  
September 30, 2014 and 2013

1. Reporting Entity, Continued

- <sup>1</sup> QRT Inc., that was established by spin-off from SK hyeng Inc.'s technical service division, has been sold during the nine-month period ended September 30, 2014.
- <sup>2</sup> The Company acquired entire shares held by Siliconfile Technologies Inc.'s existing shareholders in exchange for the Company's newly issued ordinary shares during the nine-month period ended September 30, 2014.
- <sup>3</sup> Subsidiary of SK hynix America Inc. (SKHYA)
- <sup>4</sup> The liquidation process of SK hynix Europe Holding Ltd. has been completed during the nine-month period ended September 30, 2014.
- <sup>5</sup> Subsidiary of SK hynix Asia Pte. Ltd. (SKHYS)
- <sup>6</sup> The Company invested ₩23,681 million in SK hynix memory solutions Inc. (SKHMS) during the nine-month period ended September 30, 2014.
- <sup>7</sup> The Company invested ₩103,699 million in SK APTECH Ltd. during the nine-month period ended September 30, 2014.
- <sup>8</sup> Subsidiary of SK APTECH Ltd. (SKAPTECH)
- <sup>9</sup> The Company acquired Softeq Flash Solutions LLC. (SOFTEQ) during the nine-month period ended September 30, 2014.

(3) Changes in subsidiaries for the nine-month period ended September 30, 2014 are as follows:

	<u>Company</u>	<u>Reason</u>
Newly included	Siliconfile Technologies Inc. Softeq Flash Solutions LLC.(SOFTEQ)	Included in consolidation as subsidiaries through the additional acquisition of the remaining interests Included in consolidation as subsidiaries through the acquisition of interests
Excluded	QRT Inc.	Excluded from consolidation due to diposal

(4) Major subsidiaries' summarized statements of financial position as of September 30, 2014 and December 31, 2013 are as follows:

(In millions of won)

	<u>2014</u>			<u>2013</u>		
	<u>Assets</u>	<u>Liabilities</u>	<u>Equity</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Equity</u>
SK hynix America Inc.(SKHYA)	₩ 1,301,949	1,244,718	57,231	964,682	911,513	53,169
SK hynix Asia Pte. Ltd.(SKHYS)	346,275	276,832	69,443	231,649	164,390	67,259
SK hynix Semiconductor Hong Kong Ltd.(SKHYH)	429,918	358,072	71,846	353,248	284,438	68,810
SK hynix Japan Inc.(SKHYJ)	272,103	207,304	64,799	302,971	250,962	52,009
SK hynix Semiconductor Taiwan Inc.(SKHYT)	412,130	391,717	20,413	240,489	197,975	42,514
SK hynix Semiconductor (China) Ltd.(SKHYCL)	3,539,430	1,221,978	2,317,452	3,652,044	1,212,007	2,440,037
SK hynix Deutschland GmbH(SKHYD)	116,307	82,623	33,684	98,150	63,706	34,444
SK hynix U.K. Ltd.(SKHYU)	92,695	79,337	13,358	78,020	66,080	11,940

SK HYNIX, INC. and Subsidiaries  
Notes to the Condensed Consolidated Interim Financial Statements  
September 30, 2014 and 2013

**1. Reporting Entity, Continued**

(5) Major subsidiaries' summarized statements of comprehensive income for the nine-month periods ended September 30, 2014 and 2013 are as follows:

(In millions of won)

	2014			2013		
	Revenue	Profit (loss)	Total comprehensive income (loss)	Revenue	Profit (loss)	Total comprehensive income (loss)
SK hynix America Inc.(SKHYA)	₩ 4,120,903	4,262	4,262	3,908,018	8,302	8,302
SK hynix Asia Pte. Ltd.(SKHYS)	1,232,597	2,408	2,408	864,507	2,612	2,612
SK hynix Semiconductor Hong Kong Ltd.(SKHYH)	2,653,830	3,448	3,448	2,339,930	6,591	6,591
SK hynix Japan Inc.(SKHYJ)	588,522	15,960	15,960	609,576	8,751	8,751
SK hynix Semiconductor Taiwan Inc.(SKHYT)	1,536,399	5,194	5,194	1,426,308	1,646	1,646
SK hynix Semiconductor (China) Ltd.(SKHYCL)	1,391,051	(65,143)	(65,143)	1,498,906	(37,447)	(37,447)
SK hynix Deutschland GmbH(SKHYD)	408,303	2,939	2,939	449,063	935	935
SK hynix U.K. Ltd.(SKHYU)	365,169	1,459	1,459	384,744	737	737

(6) There are no significant non-controlling interests to the Group as of September 30, 2014 and December 31, 2013.

**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, 2013. 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, 2013.



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**3. Significant Accounting Policies**

Except as described below, 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, 2013. The following changes in accounting policy are also expected to be reflected in the Group's consolidated financial statements as of and for the year ending December 31, 2014.

*Amendment to K-IFRS No. 1032, 'Financial Instruments: Presentation'*

The Group has applied the amendment to K-IFRS No. 1032, 'Financial Instruments: Presentation', since January 1, 2014. The amendment provides that a financial asset and a financial liability shall be offset and the net amount presented in the statement of financial position only when an entity currently has a legally enforceable right to set off the recognized amounts; and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

The legally enforceable right to offset must not be contingent on a future event and must be legally enforceable in all of circumstances including the normal course of business; the event of default; and the event of insolvency or bankruptcy of the entity and all of the counterparties.

The net settlement criterion can be met when the amounts are settled in a manner such that the outcome is, in effect, equivalent to net settlement, which includes case that the gross settlement mechanism has features that eliminate or result in insignificant credit and liquidity risk, and that will process receivables and payables in a single settlement process or cycle.

The amendment has no impact on the Group's financial statements.

*Amendment to K-IFRS No. 1036, 'Impairment of Assets'*

The Group has applied the amendment to K-IFRS No. 1036, 'Impairment of Assets' since January 1, 2014. The amendment provides that the recoverable amount is required to be disclosed only when an impairment loss has been recognized or reversed.

The amendment has no impact on the Group's financial statements.

*K-IFRS No. 2121, 'Levies'*

The Group adopted K-IFRS No. 2121, 'Levies' since January 1, 2014. The interpretation defines that an obligating event that gives rise to the recognition of a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation. If the obligating event occurs over a period of time, the liability to pay a levy is recognized progressively and if the obligating event is the reaching of a minimum activity threshold, the liability to pay a levy is recognized when that minimum activity threshold is reached. An entity shall recognize an asset if it has prepaid a levy but does not yet have a present obligation to pay that levy.

The interpretation clarifies that a levy is not recognized until the obligating event specified in the legislation occurs, even if there is no realistic opportunity to avoid the obligation.

The interpretation has no significant impact on the Group's financial statements.

SK HYNIX, INC. and Subsidiaries  
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**4. Geographic, Product and Customer Information**

The Group's chief operating decision maker 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 interim financial statements.

(1) Details of the Group's revenue for the three and nine-month periods ended September 30, 2014 and 2013 are as follows:

(In millions of won)

	2014		2013	
	Three-month period	Nine-month period	Three-month period	Nine-month period
Sale of goods	₩ 4,276,887	11,905,111	4,056,928	10,783,505
Sale of services	35,182	72,523	26,693	58,910
	₩ 4,312,069	11,977,634	4,083,621	10,797,415

(2) Details of the Group's revenue by product and service types for the three and nine-month periods ended September 30, 2014 and 2013 are as follows:

(In millions of won)

	2014		2013	
	Three-month period	Nine-month period	Three-month period	Nine-month period
DRAM	₩ 3,297,170	9,366,652	2,919,707	7,757,975
NAND Flash	875,386	2,239,658	998,408	2,631,559
Other	139,513	371,324	165,506	407,881
	₩ 4,312,069	11,977,634	4,083,621	10,797,415

(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, 2014 and 2013 are as follows

(In millions of won)

	2014		2013	
	Three-month period	Nine-month period	Three-month period	Nine-month period
Korea	₩ 371,032	1,012,524	328,770	804,658
China	983,539	2,717,210	916,748	2,357,184
Asia (other than China)	1,174,908	3,354,190	1,005,849	2,887,981
U.S.A.	1,543,090	4,124,282	1,531,106	3,921,936
Europe	239,500	769,428	301,148	825,656
	₩ 4,312,069	11,977,634	4,083,621	10,797,415

(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, 2014 and 2013 are as follows:

(In millions of won)

	2014	2013
Korea	₩ 11,673,606	10,424,568
China	3,181,714	2,912,948
Asia (other than China)	6,800	5,834
U.S.A.	315,948	289,682
Europe	11,489	1,598
	₩ 15,189,557	13,634,630

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**4. Geographic, Product and Customer Information, Continued**

(5) Revenue from a customer that constitutes more than 10% of the Group's consolidated revenue for the nine-month periods ended September 30, 2014 and 2013 amounts to ₩1,830,780 million and ₩1,901,749 million, respectively.

**5. Categories of Financial Instruments**

(1) Categories of financial assets as of September 30, 2014 and December 31, 2013 are as follows:

(In millions of won)

	<b>2014</b>				
	<b>Financial assets at fair value through profit or loss</b>	<b>Available-for-sale financial assets</b>	<b>Held-to-maturity financial assets</b>	<b>Loans and receivables</b>	<b>Total</b>
Cash and cash equivalents	₩ -	-	-	377,645	377,645
Short-term financial instruments	1,664,725	-	-	1,657,970	3,322,695
Trade receivables	-	-	-	2,800,144	2,800,144
Loans and other receivables	-	-	-	257,135	257,135
Other financial assets(*)	-	-	-	1,679	1,679
Available-for-sale financial assets	-	126,497	-	-	126,497
	<u>₩ 1,664,725</u>	<u>126,497</u>	<u>-</u>	<u>5,094,573</u>	<u>6,885,795</u>

(In millions of won)

	<b>2013</b>				
	<b>Financial assets at fair value through profit or loss</b>	<b>Available-for-sale financial assets</b>	<b>Held-to-maturity financial assets</b>	<b>Loans and receivables</b>	<b>Total</b>
Cash and cash equivalents	₩ -	-	-	631,867	631,867
Short-term financial instruments	1,045,974	-	-	1,108,558	2,154,532
Trade receivables	-	-	-	1,941,675	1,941,675
Loans and other receivables	-	-	-	366,849	366,849
Other financial assets(*)	272	-	245,808	1,745	247,825
Available-for-sale financial assets	-	158,770	-	-	158,770
	<u>₩ 1,046,246</u>	<u>158,770</u>	<u>245,808</u>	<u>4,050,694</u>	<u>5,501,518</u>

(\*) Details of other financial assets as of September 30, 2014 and December 31, 2013 are as follows:

(In millions of won)

	<b>2014</b>	<b>2013</b>
<b>Current</b>		
Held-to-maturity financial assets	₩ -	245,808
<b>Non-current</b>		
Long-term financial instruments	1,679	1,745
Derivative assets	-	272
	<u>1,679</u>	<u>2,017</u>
	<u>₩ 1,679</u>	<u>247,825</u>

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**5. Categories of Financial Instruments, Continued**

(2) Categories of financial liabilities as of September 30, 2014 and December 31, 2013 are as follows:

(In millions of won)

	<b>2014</b>		
	<b>Financial liabilities at fair value through profit or loss</b>	<b>Financial liabilities measured at amortized cost</b>	<b>Total</b>
Trade payables	₩ -	632,936	632,936
Other payables	-	980,589	980,589
Other non-trade payables(*)	-	915,833	915,833
Borrowings	-	4,130,897	4,130,897
Other financial liabilities	24,831	-	24,831
	<u>₩ 24,831</u>	<u>6,660,255</u>	<u>6,685,086</u>

(In millions of won)

	<b>2013</b>		
	<b>Financial liabilities at fair value through profit or loss</b>	<b>Financial liabilities measured at amortized cost</b>	<b>Total</b>
Trade payables	₩ -	648,793	648,793
Other payables	-	788,304	788,304
Other non-trade payables(*)	-	854,221	854,221
Borrowings	-	4,550,215	4,550,215
Other financial liabilities	109,288	-	109,288
	<u>₩ 109,288</u>	<u>6,841,533</u>	<u>6,950,821</u>

(\*) Details of other non-trade payables as of September 30, 2014 and December 31, 2013 are as follows:

(In millions of won)

	<b>2014</b>	<b>2013</b>
<b>Current</b>		
Accrued expenses	₩ 774,167	677,120
<b>Non-current</b>		
Long-term other payables	139,404	166,641
Rent deposit payables	2,262	9,844
Long-term accrued expenses	-	616
	<u>141,666</u>	<u>177,101</u>
	<u>₩ 915,833</u>	<u>854,221</u>

**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, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The condensed consolidated interim financial statements do not include all the financial risk management and disclosures that are required in the annual financial statements.

There is no significant change in risk management department and policies for the nine-month period ended September 30, 2014.

SK HYNIX, INC. and Subsidiaries  
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**6. Financial Risk Management, Continued**

(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, 2014 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	3,830	₩ 4,023,626	3,639	₩ 3,823,127
EUR	6	7,379	83	110,107
JPY	6,836	65,640	28,483	273,507

As of September 30, 2014, 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	₩ 20,050	(20,050)
EUR	(10,273)	10,273
JPY	(20,787)	20,787

(ii) Price risk

The Group is exposed to equity securities price risk because of investments held by the Group and classified in the consolidated statement of financial position as available-for-sale financial assets. In order to manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. As of September 30, 2014, there are no available-for-sale equity securities measured at fair value.

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**6. Financial Risk Management, Continued**

(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 financial assets held at floating rates.

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, 2014, the Group is in a net borrowing position and is partially exposed to a risk of increase in interest rates.

As of September 30, 2014, 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 ₩3,258 million lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

(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 creditworthiness 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 creditworthiness before standard payment and delivery terms and conditions are offered. In addition, the Group consistently manages trade and other receivables by reevaluating the customer's creditworthiness 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 Global Credit Insurance Program with a credit insurance company, Korea Trade Insurance Corporation, to manage credit risk exposure from oversea customers. The maximum exposure to credit risk as of September 30, 2014 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, 2014 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 losses from non-performance by these counterparties.

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**6. Financial Risk Management, Continued**

(c) Liquidity risk

Due to large investments in facilities made by the Group, maintaining adequate level of liquidity is very important. The Group strives to achieve this goal by periodically forecasting its capital balance, estimating required cash levels, and managing cash inflows and expenditures.

In addition, the Group mitigates liquidity risk by contracting foreign trade finance and trade receivables discount agreements with financial institutions. For large facility investments, liquidity risk is minimized by utilizing internal reserves and long-term borrowings which are in line with the future capital expenditure schedule.

As compared to December 31, 2013, there are no significant changes in the contractual cash flows of financial liability except for exercise of conversion rights and increase in current installments of long-term borrowings during the nine-month period ended September 30, 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, return capital to shareholders, issue new shares or sell assets to reduce debt. The Group monitors its capital structure with debt-to-equity ratio and net borrowing ratios.

The debt-to-equity ratio and net borrowing ratio as of September 30, 2014 and December 31, 2013 are as follows:

*(In millions of won)*

	<b>2014</b>	<b>2013</b>
Total liabilities (A)	₩ 7,790,940	7,730,439
Total equity (B)	16,290,275	13,066,859
Cash and cash equivalents and short-term financial instruments (C)	3,700,340	2,786,399
Total borrowings (D)	4,130,897	4,550,215
Debt-to-equity ratio (A/B)	48%	59%
Net borrowing ratio (D-C)/B	3%	13%

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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: unadjusted quoted prices 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, 2014 and December 31, 2013:

(In millions of won)

	Carrying amounts	2014			Total
		Level 1	Level 2	Level 3	
<b>Financial assets measured at fair value</b>					
Short-term financial instruments	₩ 1,664,725	-	1,664,725	-	1,664,725
	<u>1,664,725</u>	<u>-</u>	<u>1,664,725</u>	<u>-</u>	<u>1,664,725</u>
<b>Financial assets not measured at fair value</b>					
Cash and cash equivalents <sup>1</sup>	377,645	-	-	-	-
Short-term financial instruments <sup>1</sup>	1,657,970	-	-	-	-
Trade receivables <sup>1</sup>	2,800,144	-	-	-	-
Loans and other receivables <sup>1</sup>	257,135	-	-	-	-
Other financial assets <sup>1</sup>	1,679	-	-	-	-
Available-for-sale financial assets <sup>1,2</sup>	126,497	-	-	-	-
	<u>5,221,070</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Financial liabilities measured at fair value</b>					
Other financial liabilities	24,831	-	24,831	-	24,831
	<u>24,831</u>	<u>-</u>	<u>24,831</u>	<u>-</u>	<u>24,831</u>
<b>Financial liabilities not measured at fair value</b>					
Trade payables <sup>1</sup>	632,936	-	-	-	-
Other payables <sup>1</sup>	980,589	-	-	-	-
Other non-trade payables <sup>1</sup>	915,833	-	-	-	-
Borrowings	4,130,897	-	4,211,171	-	4,211,171
	<u>₩ 6,660,255</u>	<u>-</u>	<u>4,211,171</u>	<u>-</u>	<u>4,211,171</u>



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**6. Financial Risk Management, Continued**

(In millions of won)

	Carrying amounts	2013			
		Level 1	Level 2	Level 3	Total
<b>Financial assets measured at fair value</b>					
Short-term financial instruments	₩ 1,045,974	-	1,045,974	-	1,045,974
Other financial assets	272	-	272	-	272
Available-for-sale financial assets	31,966	31,966	-	-	31,966
	<u>1,078,212</u>	<u>31,966</u>	<u>1,046,246</u>	<u>-</u>	<u>1,078,212</u>
<b>Financial assets not measured at fair value</b>					
Cash and cash equivalents <sup>1</sup>	631,867	-	-	-	-
Short-term financial instruments <sup>1</sup>	1,108,558	-	-	-	-
Trade receivables <sup>1</sup>	1,941,675	-	-	-	-
Loans and other receivables <sup>1</sup>	366,849	-	-	-	-
Other financial assets <sup>1</sup>	247,553	-	-	-	-
Available-for-sale financial assets <sup>1,2</sup>	126,804	-	-	-	-
	<u>4,423,306</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Financial liabilities measured at fair value</b>					
Other financial liabilities	109,288	-	109,288	-	109,288
	<u>109,288</u>	<u>-</u>	<u>109,288</u>	<u>-</u>	<u>109,288</u>
<b>Financial liabilities not measured at fair value</b>					
Trade payables <sup>1</sup>	648,793	-	-	-	-
Other payables <sup>1</sup>	788,304	-	-	-	-
Other non-trade payables <sup>1</sup>	854,221	-	-	-	-
Borrowings	4,550,215	-	4,785,180	-	4,785,180
	<u>₩ 6,841,533</u>	<u>-</u>	<u>4,785,180</u>	<u>-</u>	<u>4,785,180</u>

<sup>1</sup> 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 approximate fair values.

<sup>2</sup> 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) Valuation Techniques

The valuation techniques to measure the fair value of level 2 were the same as those applied by the Group in its consolidated financial statements as of and for the year ended December 31, 2013.

(c) There was no transfer between fair value hierarchy levels for the nine-month period ended September 30, 2014.

SK HYNIX, INC. and Subsidiaries  
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**7. Restricted Financial Instruments**

Details of restricted financial instruments as of September 30, 2014 and December 31, 2013 are as follows:

<i>(In millions of won)</i>		<b>2014</b>	<b>2013</b>	<b>Description</b>
Short-term financial instruments	₩	3	8	Restricted for government grants
		21,203	23,713	Pledged for borrowings
		4,801	5,023	Pledged for consumption tax
		46,000	34,600	Restricted for supporting small businesses
		4,794	-	Pledged for letter of credit
		565	-	Deposit for import duties
		<u>77,366</u>	<u>63,344</u>	
Other financial assets		308	308	Pledged for borrowings
		12	14	Bank overdraft guarantee deposit
		1,356	1,419	Deposit for import duties
		3	3	Others
		<u>1,679</u>	<u>1,744</u>	
₩	<u><u>79,045</u></u>	<u><u>65,088</u></u>		

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**8. Trade Receivables, Loans and Other Receivables**

(1) Details of loans and other receivables as of September 30, 2014 and December 31, 2013 are as follows:

*(In millions of won)*

	<b>2014</b>	<b>2013</b>
<b>Current</b>		
Other receivables	₩ 171,350	307,414
Accrued income	18,560	11,071
Short-term loans	3,321	2,665
Short-term guarantee deposits	4,351	2,609
	<u>197,582</u>	<u>323,759</u>
<b>Non-current</b>		
Long-term other receivables	26,418	21,152
Long-term loans	6,525	6,659
Guarantee deposits	26,304	14,409
Long-term deposits	306	870
	<u>59,553</u>	<u>43,090</u>
	<u>₩ 257,135</u>	<u>366,849</u>

(2) Trade receivables, loans and other receivables, net of provision for impairment, as of September 30, 2014 and December 31, 2013 are as follows:

*(In millions of won)*

	<b>2014</b>		
	<b>Gross amount</b>	<b>Provision for impairment</b>	<b>Carrying amount</b>
Trade receivables	₩ 2,803,719	(3,575)	2,800,144
Current loans and other receivables	199,621	(2,039)	197,582
Non-current loans and other receivables	72,012	(12,459)	59,553
	<u>₩ 3,075,352</u>	<u>(18,073)</u>	<u>3,057,279</u>

*(In millions of won)*

	<b>2013</b>		
	<b>Gross amount</b>	<b>Provision for impairment</b>	<b>Carrying amount</b>
Trade receivables	₩ 1,945,121	(3,446)	1,941,675
Current loans and other receivables	325,821	(2,062)	323,759
Non-current loans and other receivables	55,600	(12,510)	43,090
	<u>₩ 2,326,542</u>	<u>(18,018)</u>	<u>2,308,524</u>

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**8. Trade Receivables, 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, 2014 and 2013 are as follows:

*(In millions of won)*

	<b>2014</b>	<b>2013</b>
<b>Beginning balance</b>	₩ 3,446	3,257
Provision for receivables impairment	290	1,026
Foreign exchange difference	(161)	26
<b>Ending balance</b>	₩ 3,575	4,309

Movements in the provision for impairment of current loans and other receivables for the nine-month periods ended September 30, 2014 and 2013 are as follows:

*(In millions of won)*

	<b>2014</b>	<b>2013</b>
<b>Beginning balance</b>	₩ 2,062	5,035
Provision for receivables impairment	3	-
Receivables written off during the period as uncollectible	(26)	-
Unused amounts reversed	(1)	(2,656)
Foreign exchange difference	1	-
<b>Ending balance</b>	₩ 2,039	2,379

Movements in the provision for impairment of non-current loans and other receivables for the nine-month periods ended September 30, 2014 and 2013 are as follows:

*(In millions of won)*

	<b>2014</b>	<b>2013</b>
<b>Beginning balance</b>	₩ 12,510	12,839
Provision for receivables impairment	101	243
Unused amounts reversed	(27)	-
Foreign exchange difference	(125)	(65)
<b>Ending balance</b>	₩ 12,459	13,017

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**9. Inventories**

Details of inventories as of September 30, 2014 and December 31, 2013 are as follows:

*(In millions of won)*

	<b>2014</b>		
	<b>Acquisition cost</b>	<b>Inventory valuation allowance</b>	<b>Carrying amount</b>
Finished goods	₩ 527,252	(45,354)	481,898
Work-in-process	742,362	(17,722)	724,640
Raw materials	171,439	(11,987)	159,452
Supplies	89,101	(40)	89,061
Goods in transit	48,005	-	48,005
	₩ 1,578,159	(75,103)	1,503,056

*(In millions of won)*

	<b>2013</b>		
	<b>Acquisition cost</b>	<b>Inventory valuation allowance</b>	<b>Carrying amount</b>
Finished goods	₩ 375,783	(29,911)	345,872
Work-in-process	650,450	(42,048)	608,402
Raw materials	142,727	(1,102)	141,625
Supplies	45,727	(55)	45,672
Goods in transit	36,729	-	36,729
	₩ 1,251,416	(73,116)	1,178,300

**10. Non-current assets held for sale**

Details of changes in non-current assets held for sale for the nine-month periods ended September 30, 2014 and 2013 are as follows:

*(In millions of won)*

	<b>2014</b>	<b>2013</b>
<b>Beginning balance</b>	₩ 26,557	26,958
Disposal	-	(4)
Other	(119)	114
<b>Ending balance</b>	₩ 26,438	27,068

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**11. Other Current and Non-current Assets**

Details of other current and non-current assets as of September 30, 2014 and December 31, 2013 are as follows:

*(In millions of won)*

	<b>2014</b>	<b>2013</b>
<b>Current</b>		
Advance payments	₩ 8,800	7,405
Prepaid expenses	150,284	128,125
Others	5,994	5,854
	<u>165,078</u>	<u>141,384</u>
<b>Non-current</b>		
Long-term advance payments	-	21
Long-term prepaid expenses	356,134	346,774
Others	14,954	19,026
	<u>371,088</u>	<u>365,821</u>
	<u>₩ 536,166</u>	<u>507,205</u>

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**12. Investments in Associates and Joint Ventures**

(1) Details of investments in associates and joint ventures as of September 30, 2014 and December 31, 2013 are as follows:

(In millions of won)

Type	Investee	Ownership (%)	2014		2013
			Net asset value	Carrying amount	Carrying amount
Associate	Siliconfile Technologies Inc.(*)	-	₩ -	-	10,962
Joint venture	HITECH Semiconductor (Wuxi) Co.,Ltd. (HITECH)	45	85,729	85,729	96,135
			₩ 85,729	85,729	107,097

(\*) Siliconfile Technologies Inc. became a subsidiary due to the Group's additional acquisition of the remaining interest on April 22, 2014.

(2) Changes in investments in associates and joint ventures for the nine-month periods ended September 30, 2014 and 2013 are as follows:

(In millions of won)

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

(\*) The remeasurement to fair value of the Group's existing 27.93% interest in Siliconfile Technologies Inc. resulted in a disposal gain of ₩10,639 million.

(In millions of won)

		2013					Ending balance
		Beginning balance	Acquisition (disposal)	Share of profit	Other equity movement	Dividend	
Siliconfile Technologies Inc.	₩	8,909	-	1,719	(99)	-	10,529
HITECH Semiconductor (Wuxi) Co.,Ltd. (HITECH)		95,191	-	11,650	685	(15,033)	92,493
	₩	104,100	-	13,369	586	(15,033)	103,022

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**12. Investments in Associates and Joint Ventures, Continued**

(3) Associate and joint venture's condensed statements of financial position as of September 30, 2014 and December 31, 2013 are as follows:

(In millions of won)

		<b>2014</b>			
		<u>Current assets</u>	<u>Non-current assets</u>	<u>Current liabilities</u>	<u>Non-current liabilities</u>
HITECH Semiconductor (Wuxi) Co.,Ltd. (HITECH)	₩	207,191	306,929	246,465	77,148

(In millions of won)

		<b>2013</b>			
		<u>Current assets</u>	<u>Non-current assets</u>	<u>Current liabilities</u>	<u>Non-current liabilities</u>
Siliconfile Technologies Inc.	₩	44,042	19,644	26,034	1,860
HITECH Semiconductor (Wuxi) Co.,Ltd. (HITECH)		213,172	353,432	182,036	170,935

(4) Associate and joint venture's condensed statements of comprehensive income for the nine-month periods ended September 30, 2014 and 2013 are as follows:

(In millions of won)

		<u>2014</u>		<u>2013</u>	
		<u>Revenue</u>	<u>Profit (loss) for the period</u>	<u>Revenue</u>	<u>Profit for the period</u>
Siliconfile Technologies Inc.(*)	₩	40,339	(2,072)	100,902	6,153
HITECH Semiconductor (Wuxi) Co.,Ltd. (HITECH)		441,246	13,125	455,225	25,890

(\*) Siliconfile Technologies Inc. became 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.



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**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, 2014 and 2013 are as follows:

(In millions of won)

	<b>2014</b>	<b>2013</b>
<b>Beginning balance</b>	₩ 158,770	44,297
Acquisition	573	2,032
Disposal	(32,846)	(126)
Change in fair value	-	3,378
<b>Ending balance</b>	₩ 126,497	49,581

**14. Property, Plant and Equipment**

Changes in property, plant and equipment for the nine-month periods ended September 30, 2014 and 2013 are as follows:

(In millions of won)

	<b>2014</b>	<b>2013</b>
<b>Beginning balance</b>	₩ 12,129,797	11,586,192
Disposal of investments in a subsidiary	(5,166)	-
Acquisition	4,051,474	2,573,362
Disposal	(139,749)	(11,559)
Depreciation	(2,405,099)	(2,184,078)
Impairment	(27,258)	(73,837)
Transfer(*)	1,389	-
Foreign exchange difference and other	(68,991)	60,429
<b>Ending balance</b>	₩ 13,536,397	11,950,509

(\*) Transfer from investment property.

Certain amounts of the property, plant and equipment are pledged as collaterals for borrowings as of September 30, 2014 (Note 32).

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

The book value of the machinery and others subject to finance lease agreement amounted to ₩184,767 million as of September 30, 2014 (as of December 31, 2013: ₩242,187 million). The machinery and others are pledged as collateral for the finance lease liabilities.

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**15. Intangible Assets**

Changes in intangible assets for the nine-month periods ended September 30, 2014 and 2013 are as follows:

*(In millions of won)*

	<b>2014</b>	<b>2013</b>
<b>Beginning balance</b>	₩ 1,110,403	983,630
Acquisition through business combination	84,065	-
Acquisition	196,867	189,507
Disposal	(7,737)	(12,302)
Impairment	(257)	-
Amortization	(126,186)	(105,989)
Foreign exchange difference and other	(1,378)	736
<b>Ending balance</b>	<u>₩ 1,255,777</u>	<u>1,055,582</u>

Among costs associated with development activities, ₩126,029 million that met capitalization criteria, were capitalized as development cost for the nine-month period ended September 30, 2014 (2013: ₩147,749 million). In addition, costs associated with research activities and other development expenditures that did not meet the criteria and amounted to ₩1,008,129 million were recognized as expenses for the nine-month period ended September 30, 2014 (2013: ₩669,962 million).

**16. Investment Property**

Changes in investment property during the nine-month periods ended September 30, 2014 and 2013 are as follows:

*(In millions of won)*

	<b>2014</b>	<b>2013</b>
<b>Beginning balance</b>	₩ 28,609	29,888
Depreciation	(925)	(959)
Transfer(*)	(1,389)	-
<b>Ending balance</b>	<u>₩ 26,295</u>	<u>28,929</u>

(\*) Transfer to property, plant and equipment.

The depreciation expense of ₩925 million was charged to cost of sales for the nine-month period ended September 30, 2014 (2013: ₩959 million).

Rental income from investment property during the nine-month period ended September 30, 2014 was ₩3,401 million (2013: ₩3,501 million).

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**17. Borrowings**

(1) Details of borrowings as of September 30, 2014 and December 31, 2013 are as follows:

<i>(In millions of won)</i>	<b>2014</b>	<b>2013</b>
<b>Current</b>		
Short-term borrowings	₩ 823,390	137,979
Current installments of debentures	199,941	-
Current installments of convertible bonds	47,694	-
Current installments of long-term borrowings	730,257	732,341
	<u>1,801,282</u>	<u>870,320</u>
<b>Non-current</b>		
Debentures	1,151,849	1,450,777
Convertible bonds	-	498,935
Long-term borrowings	1,177,766	1,730,183
	<u>2,329,615</u>	<u>3,679,895</u>
	<u>₩ 4,130,897</u>	<u>4,550,215</u>

(2) Changes in borrowings during the nine-month periods ended September 30, 2014 and 2013 are as follows:

<i>(In millions of won)</i>	<b>2014</b>	<b>2013</b>
<b>Beginning balance</b>	₩ 4,550,215	6,471,976
Borrowings	2,541,874	2,801,959
Repayments	(2,527,669)	(3,588,449)
Exercise of conversion rights	(475,307)	(432,878)
Other(*)	41,784	26,719
<b>Ending balance</b>	<u>₩ 4,130,897</u>	<u>5,279,327</u>

(\*) Effect of changes in foreign exchange rates and present value discount are included.

**18. Other Current and Non-current Liabilities**

Details of other current and non-current liabilities as of September 30, 2014 and December 31, 2013 are as follows:

<i>(In millions of won)</i>	<b>2014</b>	<b>2013</b>
<b>Current</b>		
Advance receipts	₩ 5,092	2,616
Unearned income	355	2,403
Withholdings	32,098	21,180
Deposits received	635	531
Others	158	110
	<u>38,338</u>	<u>26,840</u>
<b>Non-current</b>		
Long-term advance receipts	-	155
Long-term withholdings	-	935
Other long-term employee benefits	53,740	51,280
	<u>53,740</u>	<u>52,370</u>
	<u>₩ 92,078</u>	<u>79,210</u>

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**19. Provisions**

(1) Details of changes in provisions for the nine-month periods ended September 30, 2014 and 2013 are as follows:

(In millions of won)

		<b>2014</b>				
		<b>Beginning balance</b>	<b>Increase</b>	<b>Utilization</b>	<b>Reversal</b>	<b>Ending balance</b>
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
	₩	<u>52,584</u>	<u>35,369</u>	<u>(64,371)</u>	-	<u>23,582</u>

(In millions of won)

		<b>2013</b>				
		<b>Beginning balance</b>	<b>Increase</b>	<b>Utilization and reversal</b>	<b>Other(*)</b>	<b>Ending balance</b>
Warranty	₩	2,949	-	(1,060)	-	1,889
Sales returns		5,305	11,183	-	-	16,488
Legal claims		322,361	57,680	(173,014)	(128,337)	78,690
	₩	<u>330,615</u>	<u>68,863</u>	<u>(174,074)</u>	<u>(128,337)</u>	<u>97,067</u>

(\*) Transfer to long-term other payables and change due to exchange rate fluctuations are included.

(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.

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**20. Defined Benefit Liabilities**

(1) Details of defined benefit liabilities as of September 30, 2014 and December 31, 2013 are as follows:

*(In millions of won)*

	<b>2014</b>	<b>2013</b>
Present value of defined benefit obligations	₩ 743,483	656,080
Fair value of plan assets	(18,919)	(20,340)
	<u>₩ 724,564</u>	<u>635,740</u>

(2) Principal actuarial assumptions as of September 30, 2014 and December 31, 2013 are as follows:

	<b>2014</b>	<b>2013</b>
Discount rate for defined benefit obligations	1.11% ~ 5.85%	1.11% ~ 5.85%
Expected rate of salary increase	4.92% ~ 6.18%	4.92% ~ 6.18%

(3) Changes in defined benefit obligations for the nine-month periods ended September 30, 2014 and 2013 are as follows:

*(In millions of won)*

	<b>2014</b>	<b>2013</b>
<b>Beginning balance</b>	₩ 656,080	592,171
Current service cost	79,208	73,589
Interest cost	26,636	21,060
Benefits paid	(20,545)	(24,548)
Business combinations and disposal of a subsidiary	1,711	-
Transfer from associates	480	418
Others	(87)	(170)
<b>Ending balance</b>	<u>₩ 743,483</u>	<u>662,520</u>

(4) Changes in plan assets for the nine-month periods ended September 30, 2014 and 2013 are as follows:

*(In millions of won)*

	<b>2014</b>	<b>2013</b>
<b>Beginning balance</b>	₩ 20,340	17,075
Interest income	689	523
Contributions	106	-
Benefits paid	(1,184)	(1,318)
Remeasurements	(74)	(51)
Business combinations	(1,133)	-
Others	175	21
<b>Ending balance</b>	<u>₩ 18,919</u>	<u>16,250</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, 2014 and 2013 are as follows:

(In millions of won)

		2014		2013	
		Three-month period	Nine-month period	Three-month period	Nine-month period
Current service cost	₩	26,521	79,208	24,530	73,589
Net interest cost		8,666	25,947	6,846	20,537
	₩	<u>35,187</u>	<u>105,155</u>	<u>31,376</u>	<u>94,126</u>

(6) Details of plan assets as of September 30, 2014 and December 31, 2013 are as follows:

(In millions of won)

		2014	2013
Deposits	₩	17,275	18,485
Other		1,644	1,855
	₩	<u>18,919</u>	<u>20,340</u>

Actual return on plan assets for the nine-month periods ended September 30, 2014 and 2013 amounted to ₩615 million and ₩472 million, respectively.

**21. Derivative Financial Instruments**

(1) The Group has managed foreign exchange risk and cash-flow interest risk through interest and principal swaps, forward exchange, interest swap, currency option 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, 2014 and December 31, 2013 are as follows:

(In millions of won)

		2014	2013	
		Liabilities	Assets	Liabilities
<b>Current</b>				
Interest rates swap	₩	57	-	2,194
Embedded derivative instruments		24,272	-	-
		<u>24,329</u>	<u>-</u>	<u>2,194</u>
<b>Non-current</b>				
Interest rates swap		502	272	245
Embedded derivative instruments		-	-	106,849
		<u>502</u>	<u>272</u>	<u>107,094</u>
	₩	<u>24,831</u>	<u>272</u>	<u>109,288</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, 2014 and 2013 are follows:

*(In millions of won)*

		<b>Gain on valuation</b>			
		<b>2014</b>		<b>2013</b>	
	₩	<b>Three-month period</b>	<b>Nine-month period</b>	<b>Three-month period</b>	<b>Nine-month period</b>
Foreign currency forward contract	₩	-	-	7,470	878
Interest rates swap		(146)	188	608	2,015
	₩	<u>(146)</u>	<u>188</u>	<u>8,078</u>	<u>2,893</u>

*(In millions of won)*

		<b>Loss on valuation</b>			
		<b>2014</b>		<b>2013</b>	
	₩	<b>Three-month period</b>	<b>Nine-month period</b>	<b>Three-month period</b>	<b>Nine-month period</b>
Interest rates swap	₩	387	774	-	-
Embedded derivative instruments		(14,758)	171,475	3,497	30,605
	₩	<u>(14,371)</u>	<u>172,249</u>	<u>3,497</u>	<u>30,605</u>

*(In millions of won)*

		<b>Gain on transaction</b>			
		<b>2014</b>		<b>2013</b>	
	₩	<b>Three-month period</b>	<b>Nine-month period</b>	<b>Three-month period</b>	<b>Nine-month period</b>
Foreign currency forward contract	₩	-	-	2,186	2,637
Interest rates swap		1,158	2,341	4	26
	₩	<u>1,158</u>	<u>2,341</u>	<u>2,190</u>	<u>2,663</u>

*(In millions of won)*

		<b>Loss on transaction</b>			
		<b>2014</b>		<b>2013</b>	
	₩	<b>Three-month period</b>	<b>Nine-month period</b>	<b>Three-month period</b>	<b>Nine-month period</b>
Foreign currency forward contract	₩	-	-	345	5,308
Interest rates swap		1,033	2,274	321	1,011
	₩	<u>1,033</u>	<u>2,274</u>	<u>666</u>	<u>6,319</u>

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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, 2014 and December 31, 2013 are as follows:

*(In millions of won, thousands of shares)*

	<b>2014</b>	<b>2013</b>
Authorized shares	9,000,000	9,000,000
Issued shares(*)	729,935	713,729
Capital stock		
Common stock	₩ 3,649,675	3,568,645
Capital surplus		
Paid-in surplus	3,563,333	2,888,144
Consideration for conversion rights	42,928	42,928
Others	475,011	475,011
	₩ <u>4,081,272</u>	<u>3,406,083</u>
Other equity		
Acquisition cost of treasury shares	(24)	-
Number of treasury shares	1	-

(\*) As of September 30, 2014, the number of shares owned by shareholders is 726,407 thousand shares, which differs from total issued shares due to the result of stock retirement.

(2) Issue of ordinary shares related to the acquisition of a subsidiary and exercise of conversion rights resulted in increase in both capital stock and capital surplus during the nine-month period ended September 30, 2014. Changes in group's number of shares outstanding as of September 30, 2014 and December 31, 2013 are as follows:

*(In thousands of shares)*

	<b>2014</b>	<b>2013</b>
<b>Beginning</b>	<u>710,201</u>	<u>694,156</u>
Issue of ordinary shares related to the acquisition of a subsidiary	1,359	-
Exercise of conversion rights	14,847	16,045
<b>Ending</b>	<u>726,407</u>	<u>710,201</u>



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**23. Accumulated Other Comprehensive Loss**

(1) Details of accumulated other comprehensive loss as of September 30, 2014 and December 31, 2013 are as follows:

<i>(In millions of won)</i>	<b>2014</b>	<b>2013</b>
Available-for-sale financial assets		
– unrealized net change in fair value	₩ -	7,824
Equity-accounted investees – share of other comprehensive loss	(8,815)	(8,337)
Foreign operations – foreign currency translation differences	(203,746)	(108,294)
	₩ <u>(212,561)</u>	<u>(108,807)</u>

(2) Changes in accumulated other comprehensive income (loss) for the nine-month periods ended September 30, 2014 and 2013 are as follows:

<i>(In millions of won)</i>	<b>2014</b>		
	<b>Beginning</b>	<b>Change</b>	<b>Ending</b>
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>

<i>(In millions of won)</i>	<b>2013</b>		
	<b>Beginning</b>	<b>Change</b>	<b>Ending</b>
Available-for-sale financial assets			
– unrealized net change in fair value	₩ 8,479	2,684	11,163
Equity-accounted investees – share of other comprehensive loss	(7,111)	586	(6,525)
Foreign operations – foreign currency translation differences	(116,770)	54,892	(61,878)
	₩ <u>(115,402)</u>	<u>58,162</u>	<u>(57,240)</u>

**24. Retained Earnings**

Retained earnings as of September 30, 2014 and December 31, 2013 are as follows:

<i>(In millions of won)</i>	<b>2014</b>	<b>2013</b>
Legal reserve <sup>1</sup>	₩ 8,854	8,854
Discretionary reserve <sup>2</sup>	235,506	235,506
Unappropriated retained earnings	8,527,947	5,956,962
	₩ <u>8,772,307</u>	<u>6,201,322</u>

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**24. Retained Earnings, Continued**

<sup>1</sup> 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.

<sup>2</sup> Discretionary reserve is a reserve for technology development.

**25. Selling and Administrative Expenses**

Selling and administrative expenses for the three and nine-month periods ended September 30, 2014 and 2013 are as follows:

(In millions of won)

	<b>2014</b>		<b>2013</b>	
	<b>Three-month period</b>	<b>Nine-month period</b>	<b>Three-month period</b>	<b>Nine-month period</b>
Salaries	₩ 88,760	248,108	65,144	194,324
Defined benefit plan related expenses	5,754	16,724	4,851	14,202
Employee benefits	14,443	41,555	14,544	45,849
Commission expense	50,338	142,994	41,656	114,402
Depreciation	15,238	41,067	13,291	38,953
Amortization	39,088	124,152	30,115	105,267
Research and development	357,467	1,008,129	318,134	669,962
Freight and custody charge	9,460	26,159	3,083	8,785
Legal cost	1,778	6,059	1,769	8,952
Rental expense	2,792	8,417	3,483	11,107
Taxes and dues	3,799	11,842	4,215	13,670
Training expense	3,700	13,403	1,712	8,947
Sales promotional expenses	7,652	23,879	7,048	24,158
Utility expense	1,007	4,382	2,582	8,217
Supplies	10,349	28,453	5,408	18,593
Repair expense	1,892	7,649	5,249	10,530
Other	20,663	49,173	17,582	58,079
	₩ <u>634,180</u>	<u>1,802,145</u>	<u>539,866</u>	<u>1,353,997</u>

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**26. Expenses by Nature**

Nature of expenses for the three and nine-month periods ended September 30, 2014 and 2013 is as follows:

*(In millions of won)*

	<b>2014</b>		<b>2013</b>	
	<b>Three-month period</b>	<b>Nine-month period</b>	<b>Three-month period</b>	<b>Nine-month period</b>
Changes in finished goods and work-in-process	₩ (98,769)	(252,264)	280,064	307,985
Raw materials and consumables	659,195	1,852,881	606,487	1,790,635
Employee benefit expenses	566,324	1,671,841	409,424	1,279,329
Depreciation and amortization	872,682	2,528,148	759,930	2,288,738
Royalty expense	41,514	125,386	81,383	154,051
Commission expense	178,810	509,103	110,153	333,365
Utilities expense	157,895	450,999	127,499	408,105
Repair expense	250,212	693,830	251,854	742,990
Outsourcing expense	254,144	738,425	255,209	756,213
Other	128,888	216,978	37,137	140,970
	₩ <u>3,010,895</u>	<u>8,535,327</u>	<u>2,919,140</u>	<u>8,202,381</u>

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

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**27. Finance Income and Expense**

Finance income and expense for the three and nine-month periods ended September 30, 2014 and 2013 are as follows:

*(In millions of won)*

	2014		2013	
	Three-month period	Nine-month period	Three-month period	Nine-month period
<b>Finance income</b>				
Interest income	₩ 11,811	39,808	20,121	45,659
Dividend income	1,147	1,206	963	2,381
Gain on disposal of available-for-sale financial assets	17,038	27,482	-	205
Foreign exchange differences	118,238	357,656	309,530	370,146
Gain from derivative instruments	1,012	2,529	10,268	5,556
Gain on valuation of financial assets at fair value through profit or loss	1,826	4,725	-	-
	<u>151,072</u>	<u>433,406</u>	<u>340,882</u>	<u>423,947</u>
<b>Finance expense</b>				
Interest expenses	39,649	142,552	63,664	200,558
Foreign exchange differences	56,183	283,795	211,391	335,362
Loss on redemption of bonds	-	2,924	-	-
Loss from derivative instruments	(13,338)	174,523	4,163	36,924
Loss on disposition of financial assets	3,500	3,500	-	-
	<u>85,994</u>	<u>607,294</u>	<u>279,218</u>	<u>572,844</u>
<b>Net finance income (expense)</b>	₩ <u>65,078</u>	<u>(173,888)</u>	<u>61,664</u>	<u>(148,897)</u>

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**28. Other Income and Expenses**

Other income for the three and nine-month periods ended September 30, 2014 and 2013 are as follows:

(In millions of won)

	2014		2013	
	Three-month period	Nine-month period	Three-month period	Nine-month period
Gain on disposal of property, plant and equipment	₩ 1,432	2,960	1,022	8,828
Gain on disposal of intangible assets	-	-	-	191
Other	4,373	16,625	5,973	21,746
	₩ 5,805	19,585	6,995	30,765

Other expenses for the three and nine-month periods ended September 30, 2014 and 2013 are as follows:

(In millions of won)

	2014		2013	
	Three-month period	Nine-month period	Three-month period	Nine-month period
Loss on disposal of property, plant and equipment	₩ 1,605	5,203	796	6,746
Loss on disposal of intangible assets	1,797	7,552	5,277	12,292
Loss on disposal of trade receivables	923	2,296	778	2,207
Donation	2,363	3,077	994	1,871
Loss from disposal of investments in a subsidiary	4,296	4,296	-	-
Loss on impairment of property, plant and equipment	-	25,397	-	-
Amortization of idle assets	1,545	4,061	1,136	2,289
Other	46,860	109,684	210,077	224,101
	₩ 59,389	161,566	219,058	249,506

**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.

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**30. Earnings per Share**

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

(1) Basic earnings per share for the three and nine-month periods ended September 30, 2014 and 2013 are as follows:

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

	2014		2013	
	Three-month period	Nine-month period	Three-month period	Nine-month period
Profit attributable to ordinary shareholders	₩ 1,095,320	2,571,059	958,278	2,083,680
Weighted average number of ordinary shares outstanding(*)	722,465,006	714,901,735	710,200,891	710,200,891
<b>Basic earnings per share</b>	<u>₩ 1,516</u>	<u>3,596</u>	<u>1,349</u>	<u>2,934</u>

(\*) Weighted average number of ordinary shares outstanding is calculated as follows:

*(In shares)*

	2014		2013	
	Three-month period	Nine-month period	Three-month period	Nine-month period
Outstanding ordinary shares	716,121,212	710,200,891	694,716,983	694,155,767
Exercise of conversion rights	6,343,794	3,894,955	15,483,908	16,045,124
Issue of ordinary shares related to acquisition of a subsidiary	-	806,165	-	-
Acquisition of treasury shares	-	(276)	-	-
<b>Weighted average number of common shares outstanding</b>	<u>722,465,006</u>	<u>714,901,735</u>	<u>710,200,891</u>	<u>710,200,891</u>

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**30. Earnings per Share, Continued**

(2) Diluted earnings per share for the three and nine-month periods ended September 30, 2014 and 2013 are as follows:

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

	2014		2013	
	Three-month period	Nine-month period	Three-month period	Nine-month period
Profit attributable to ordinary shareholders	₩ 1,095,320	2,571,059	958,277	2,083,680
Convertible bond related benefits <sup>1</sup>	(1,834)	-	(22,388)	-
Adjusted profit attributable to ordinary shareholders	1,093,486	2,571,059	935,889	2,083,680
Adjusted weighted average number of ordinary shares outstanding <sup>2</sup>	724,100,073	714,901,735	725,837,339	710,200,891
<b>Diluted earnings per share</b>	₩ <u>1,510</u>	<u>3,596</u>	<u>1,289</u>	<u>2,934</u>

<sup>1</sup> The convertible bond was excluded from diluted earnings per share calculation as its effect was anti-dilutive during the nine-month periods ended September 30, 2014 and 2013. Accordingly, diluted earnings per share for the nine-month periods ended September 30, 2014 and 2013 are the same as basic earnings per share.

<sup>2</sup> Adjusted weighted average number of ordinary shares outstanding is calculated as follows:

*(In shares)*

	2014		2013	
	Three-month period	Nine-month period	Three-month period	Nine-month period
Weighted average number of ordinary shares outstanding	722,465,006	714,901,735	710,200,891	710,200,891
Effect of convertible bond	1,635,067	-	15,636,448	-
<b>Adjusted weighted average number of ordinary shares outstanding</b>	<u>724,100,073</u>	<u>714,901,735</u>	<u>725,837,339</u>	<u>710,200,891</u>

As of September 30, 2014 and 2013, the number of potentially dilutive ordinary shares by exercise of conversion rights embedded in convertible bonds was 1,635,067 and 15,636,448 shares, respectively, which was excluded from adjusted weighted average number of ordinary shares outstanding for the nine-month periods ended September 30, 2014 and 2013, as their effect would have been anti-dilutive.

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**31. Related Party Transactions**

(1) Details of joint ventures and other related parties as of September 30, 2014 are as follows:

Type	Name of related parties
Subsidiaries	SKHYA and other 21 entities
Joint venture	SKhynix Semiconductor (Wuxi) Co., Ltd.
Other related parties	SK Telecom Co., Ltd., which has significant influence over the Company, SK Holdings Co., Ltd., which has control over SK Telecom Co., Ltd., and their subsidiaries

(2) Significant transactions for the three and nine-month periods September 30, 2014 and 2013 are as follows:

(In millions of won)

		For the three-month period ended September 30, 2014		
Company		Operating revenue and others	Operating expense and others	Asset acquisition
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.(HITECH)	₩ -	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>



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**31. Related Party Transactions, Continued**

(In millions of won)

**For the nine-month period ended September 30, 2014**

	<b>Company</b>		<b>Operating revenue and others</b>	<b>Operating expense and others</b>	<b>Asset acquisition</b>
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.(HITECH)	₩	-	389,610	-
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>5,529</u>	<u>599,888</u>	<u>470,672</u>

(\*) The Group entered into a contract with SK Holdings Co., Ltd. under which the Group shall pay royalty for the use of SK brand in proportion to sales amount from March 2012 to December 2014. For the nine-month period ended September 30, 2014, royalty paid for the use of the SK brand amounted to ₩21,588 million (2013: ₩13,030 million).

(In millions of won)

**For the three-month period ended September 30, 2013**

	<b>Company</b>		<b>Operating revenue and others</b>	<b>Operating expense and others</b>	<b>Asset acquisition</b>
Associate	Siliconfile Technologies Inc.	₩	28,839	400	-
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.(HITECH)		-	142,984	-
Other related parties	SK Telecom Co., Ltd.		937	762	-
	SK Holdings Co., Ltd.(*)		-	5,150	-
	SK C&C Co., Ltd.		34	8,535	3,897
	SK Engineering & Construction Co., Ltd.		135	6,656	41,631
	SK Energy Co., Ltd.		1,165	5,775	-
	SK Networks Co., Ltd.		-	47	333
	Ko-one energy service co.,Ltd.		-	462	-
	SKC solmics Co., Ltd.		-	5,799	88
	Chungcheong energy service Co., Ltd.		-	3,640	-
	HAPPYNARAE Co., Ltd.		3	15,588	1,833
Others		81	3,267	-	
		₩	<u>31,194</u>	<u>199,065</u>	<u>47,782</u>

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**31. Related Party Transactions, Continued**

(In millions of won)

		<b>For the nine-month period ended September 30, 2013</b>		
	<b>Company</b>	<b>Operating revenue and others</b>	<b>Operating expense and others</b>	<b>Asset acquisition</b>
Associate	Siliconfile Technologies Inc.	₩ 76,959	1,133	-
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.(HITECH)	-	419,314	-
Other related parties	SK Telecom Co., Ltd.	954	2,231	-
	SK Holdings Co., Ltd.(*)	-	13,030	-
	SK C&C Co., Ltd.	110	15,483	17,600
	SK Engineering & Construction Co., Ltd.	151	6,656	106,005
	SK Energy Co., Ltd.	11,815	19,440	-
	SK Networks Co., Ltd.	-	376	333
	Ko-one energy service co.,Ltd.	-	19,808	-
	SKC solmics Co., Ltd.	-	18,351	145
	Chungcheong energy service Co., Ltd.	-	22,556	-
	HAPPYNARAE Co., Ltd.	36	44,030	3,771
	Others	179	6,182	-
		₩ 90,204	588,590	127,854

(3) The balances of significant transactions as of September 30, 2014 and December 31, 2013 are as follows:

(In millions of won)

		<b>2014</b>		
	<b>Company</b>	<b>Trade receivables and others</b>	<b>Other payables and others</b>	<b>Borrowings(*)</b>
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.(HITECH)	₩ 17,783	107,231	40,667
Other related parties	SK Telecom Co., Ltd.	-	786	-
	SK Engineering & Construction Co., Ltd.	31	290,692	-
	SK Energy Co., Ltd.	469	1,623	-
	SK Networks Co., Ltd.	-	279	-
	SKC solmics Co., Ltd.	-	7,498	-
	Chungcheong energy service Co., Ltd.	-	976	-
	HAPPYNARAE Co., Ltd.	5	10,243	-
	Others	1	4,156	-
		₩ 18,289	423,484	40,677

(\*) Out of intercompany borrowings from HITECH Semiconductor (Wuxi) Co., Ltd. ₩60,426 million was repaid for the nine-month period ended September 30, 2014.

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**31. Related Party Transactions, Continued**

(In millions of won)

		2013		
	Company	Trade receivables and others	Other payables and others	Borrowings
Associate	Siliconfile Technologies Inc.	₩ 18,102	-	-
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.(HITECH)	11,356	2,828	101,093
Other related parties	SK Telecom Co., Ltd.	-	419	-
	SK Holdings Co., Ltd.	-	2,332	-
	SK C&C Co., Ltd.	11	25,388	-
	SK Engineering & Construction Co., Ltd.	234	82,238	-
	SK Energy Co., Ltd.	76	5,802	-
	SK Networks Co., Ltd.	-	78	-
	SKC solmics Co., Ltd.	-	3,116	-
	Chungcheong energy service Co., Ltd.	-	3,102	-
	HAPPYNARAE Co., Ltd.	22	13,670	-
	Others	-	1,579	-
		₩ 29,801	140,552	101,093

(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, 2014 and 2013 are as follows:

(In millions of won)

Details	2014		2013	
	Three- month period	Nine-month period	Three-month period	Nine-month period
Salaries	₩ 16,104	52,944	6,983	19,250
Defined benefit plan related expenses	1,605	4,876	1,158	3,773
Others	5	14	1	4
	₩ 17,714	57,834	8,142	23,027

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**32. Commitments and Contingencies**

(1) Significant pending litigations and claims of the Group as of September 30, 2014 are as follows:

(a) Lawsuits from SanDisk Corporation ("SanDisk") and Toshiba Corporation ("Toshiba")  
Toshiba filed a lawsuit against the Parent Company in Tokyo District Court, alleging misappropriation of trade secrets, on March 13, 2014, in which it is seeking JPY109,151 million ("Toshiba lawsuit"). Toshiba's petition was delivered to the Parent Company on July 21, 2014 and the Parent Company's response against the petition submitted November 5, 2014. As of September 30, 2014, the lawsuit was at an early stage and first oral proceedings is going to begin on November 12, 2014.

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. As of September 30, 2014, the SanDisk lawsuit is at an early stage and reopening after Santa Clara Superior Court suspended the litigation process due to the complexity of the case.

As of September 30, 2014, the final outcome of these matters cannot be determined, but could have a material effect on the Group's consolidated financial statements.

(b) A ordinary wage litigation

As of September 30, 2014, the Parent Company is involved in litigation regarding ordinary wage. Litigation outcome and the effects of these matters cannot be determined.

(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 Group resources will be required to settle these matters.

(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.

(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.

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**32. Commitments and Contingencies, Continued**

(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 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, 2014 are as follows:

<i>(In millions of won)</i>	<b>Book value</b>	<b>Pledged amount</b>	<b>Remark</b>
Land	₩ 25,202		Syndicated loan, collateralized borrowings, revolving credit facility and financial guarantee contracts of Cheongju manufacturing facilities
Buildings	122,117	1,197,878	
Machinery	923,915		
	₩ 1,071,234	1,197,878	

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 the 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, 2014 are as follows:

*(In millions of won and millions of foreign currencies)*

	<b>Financial Institution</b>	<b>Commitment</b>	<b>Currency</b>	<b>Amount</b>
The Parent Company	Korea Exchange Bank and others	Import finance including usance	USD	445
		Export finance including bills bought	USD	370
	Comprehensive limit contract for import and export	USD	1,040	
	Export trade receivables discount agreement(*)	USD	120	
	Trade receivables discount agreement	KRW	380,000	
SK Hynix Semiconductor (China) Ltd. (SKHYCL)	Agricultural Bank of China and others	Import finance including usance	RMB	1,700
			EUR	68
SK Hynix America Inc. (SKHYA) and other sales entities	Citibank and others	Accounts receivable factoring contracts which have no right to recourse	USD	853
			USD	1,564
Domestic subsidiaries	Korea Exchange Bank	Export finance including bills bought	KRW	5,000
		Guarantee	KRW	2,000
		Foreign currency forward	KRW	1

(\*)Discount of trade receivables is only applicable to trade receivables from the customers, which were designated and authorized at the export trade receivables discounting agreements.

The Group has entered into trade receivables discounting agreements with several financial institutions. There are outstanding trade receivables discounted corresponding to ₩453,826 million as of September 30, 2014 (as of December 31, 2013: ₩401,201 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, 2014 are as follows:

*(In millions of won)*

	<b>Amount</b>	<b>Remark</b>
Employees	₩ 27	Guarantees for employees' borrowings relating to employee stock ownership

(8) Capital commitments

As of September 30, 2014, the Group has ₩332,735 million (as of December 31, 2013: ₩385,106 million) of commitments in relation to the capital expenditures on fixed assets.

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September 30, 2014 and 2013

**33. Cash Generated from Operating Activities**

Reconciliations between profit and net cash inflow from operating activities for the nine-month periods ended September 30, 2014 and 2013 are as follows:

*(In millions of won)*

	<b>2014</b>	<b>2013</b>
<b>Profit for the period</b>	₩ 2,571,085	2,083,710
<b>Adjustment</b>		
Income tax expense	571,320	157,055
Defined benefit plan related expenses	105,155	94,126
Depreciation	2,405,099	2,184,078
Depreciation of investment property	925	959
Amortization	126,186	105,989
Loss on foreign currency translation	64,045	60,091
Loss on impairment of property, plant and equipment	25,397	73,837
Interest expense	142,552	200,558
Gain on foreign currency translation	(115,348)	(81,659)
Interest income	(39,808)	(45,659)
Loss on derivative instruments, net	171,994	31,368
Gain on equity method investments, net	(5,328)	(13,369)
Gain on disposal of equity method investments	(10,639)	-
Others, net	(4,705)	39,768
<b>Changes in operating assets and liabilities</b>		
Increase in trade receivables	(786,561)	(519,946)
Decrease (increase) in loans and other receivables	80,721	(64,087)
Decrease (increase) in inventories	(331,960)	332,817
Increase (decrease) in trade payables	(14,329)	131,918
Increase (decrease) in other payables	(95,523)	26,409
Increase in other non-trade payables	100,031	173,104
Decrease in provisions	(29,133)	(86,394)
Payment of defined benefit liabilities	(19,361)	(23,230)
Others, net	(31,982)	(96,038)
<b>Cash generated from operating activities</b>	₩ <u>4,879,833</u>	<u>4,765,405</u>

Details of significant transactions without inflows and outflows of cash for the nine-month periods ended September 30, 2014 and 2013 are as follows:

*(In millions of won)*

	<b>2014</b>	<b>2013</b>
Other payables related to acquisition of property, plant and equipment	₩ 69,771	190,667
Fair value of issued ordinary shares related to acquisition of a subsidiary	54,070	-
Exercise of conversion rights	702,149	432,434

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**34. Business Combination**

(1) In April 2014, the Parent Company acquired all remaining interest in Siliconfile Technologies Inc., which is CMOS image sensor developer, located in Korea, in exchange for the Parent Company's newly issued ordinary shares and obtained control over Siliconfile Technologies Inc. The fair value of the identifiable net assets acquired at acquisition date was ₩42,432 million and the excess of the consideration transferred amounting to ₩75,028 million over the identifiable net assets acquired was accounted for as goodwill.

The following table summarizes the consideration transferred for Siliconfile Technologies Inc., the fair value of assets acquired and liabilities assumed at the acquisition date:

*(In millions of won)*

	<b>Amount</b>
<b>Consideration</b>	₩ 75,028
Recognized amounts of identifiable assets acquired and liabilities assumed(*)	
Cash and cash equivalents	14,872
Other current assets	30,179
Non-current assets	25,052
Current liabilities	20,588
Non-current liabilities	7,083
Fair value of net identifiable assets	₩ 42,432
<b>Goodwill</b>	32,596

(\*) Assets acquired and liabilities assumed were measured at their fair values.

The revenue of Siliconfile Technologies Inc. included in the consolidated statement of comprehensive income after acquisition date was ₩43,588 million. Siliconfile Technologies Inc. also contributed a net loss of ₩998 million over the same period.

(2) The Parent Company acquired Softeq Flash Solutions LLC., which is NAND solution developer, located in Belarus, for ₩10,236 million. The fair value of the identifiable net asset acquired was ₩1,546 million and the excess of the consideration transferred over the identifiable net assets acquired was recognized as goodwill.

(3) The Group acquired PCIe card operation division of Violin Memory, Inc., which is memory solution developer, located in United states, for USD23 million. The fair value of the identifiable net asset acquired was USD3 million and the excess of the consideration transferred over the identifiable net assets acquired was recognized as goodwill.