

SK HYNIX, INC. and Subsidiaries

Condensed Consolidated Interim Financial Statements

June 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 June 30, 2014, the condensed consolidated statements of comprehensive income for the three and six-month periods ended June 30, 2014, and changes in equity and cash flows for the six-month period ended June 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 six-month periods ended June 30, 2013, and changes in equity and cash flows for the six-month period ended June 30, 2013 were reviewed by other auditors whose report thereon dated August 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 Samjong Accounting Corp.

KPMG Samjong Accounting Corp.
Seoul, Korea
August 11, 2014

This report is effective as of August 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 June 30, 2014 and December 31, 2013

(In millions of won)

	<u>Note</u>	<u>2014</u>	<u>2013</u>
Assets			
Current assets			
Cash and cash equivalents	5,6 ₩	591,243	631,867
Short-term financial instruments	5,6,7	2,489,172	2,154,532
Trade receivables, net	5,6,8	2,280,369	1,941,675
Loans and other receivables, net	5,6,8	222,369	323,759
Other financial assets	5,6,7	29,611	245,808
Inventories, net	9	1,366,157	1,178,300
Current tax assets		1,342	9,242
Assets held for sale	10	25,527	26,557
Other current assets	11	165,314	141,384
		<u>7,171,104</u>	<u>6,653,124</u>
Non-current assets			
Equity-accounted investees	12	80,531	107,097
Available-for-sale financial assets	5,6,13	163,648	158,770
Loans and other receivables, net	5,6,8	46,834	43,090
Other financial assets	5,6,7,21	1,684	2,017
Property, plant and equipment, net	14,32	13,262,740	12,129,797
Intangible assets, net	15	1,205,087	1,110,403
Investment property, net	16	26,602	28,609
Deferred tax assets		210,797	198,570
Other non-current assets	11	387,680	365,821
		<u>15,385,603</u>	<u>14,144,174</u>
Total assets	₩	<u>22,556,707</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 Financial Position, Continued
As of June 30, 2014 and December 31, 2013

<i>(In millions of won)</i>	<u>Note</u>	<u>2014</u>	<u>2013</u>
Liabilities			
Current liabilities			
Trade payables	5,6 ₩	682,577	648,793
Other payables	5,6	956,437	788,304
Other non-trade payables	5,6	622,817	677,120
Borrowings	5,6,17	1,957,315	870,320
Other financial liabilities	5,6,21	212,780	2,194
Provisions	19,32	25,056	52,584
Current tax liabilities		362,752	12,084
Other current liabilities	18	33,388	26,840
		<u>4,853,122</u>	<u>3,078,239</u>
Non-current liabilities			
Other non-trade payables	5,6	148,551	177,101
Borrowings	5,6,17	2,193,380	3,679,895
Other financial liabilities	5,6,21	116	107,094
Defined benefit liabilities, net	20	695,220	635,740
Deferred tax liabilities		3,009	-
Other non-current liabilities	18	53,323	52,370
		<u>3,093,599</u>	<u>4,652,200</u>
Total liabilities		<u>7,946,721</u>	<u>7,730,439</u>
Equity			
Equity attributable to owners of the Parent Company			
Capital stock	1,22	3,598,249	3,568,645
Capital surplus	22	3,646,702	3,406,083
Other equity	22	(24)	-
Accumulated other comprehensive loss	23	(311,877)	(108,807)
Retained earnings	24	7,677,012	6,201,322
Total equity attributable to owners of the Parent Company		<u>14,610,062</u>	<u>13,067,243</u>
Non-controlling interests		<u>(76)</u>	<u>(384)</u>
Total equity		<u>14,609,986</u>	<u>13,066,859</u>
Total liabilities and equity	₩	<u>22,556,707</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 six-month periods ended June 30, 2014 and 2013

(In millions of won, except per share information)

	Note	2014		2013	
		Three-month period	Six-month period	Three-month period	Six-month period
Revenue	4 ₩	3,922,875	7,665,565	3,932,647	6,713,794
Cost of sales	26	2,246,045	4,356,467	2,450,880	4,469,109
Gross profit		1,676,830	3,309,098	1,481,767	2,244,685
Selling and administrative expense	25,26	592,963	1,167,965	368,164	814,131
Operating profit		1,083,867	2,141,133	1,113,603	1,430,554
Finance income	21,27	169,429	282,334	157,276	299,834
Finance expense	21,27	383,652	521,300	252,615	510,394
Share of profit of equity-accounted investees	12	13,322	13,710	4,090	7,703
Other income	28	6,895	13,780	6,208	23,770
Other expenses	28	31,870	102,177	15,760	30,449
Profit before income tax		857,991	1,827,480	1,012,802	1,221,018
Income tax expense	29	184,241	351,476	66,041	95,545
Profit for the period		673,750	1,476,004	946,761	1,125,473
Other comprehensive income					
Item that will never be reclassified to profit or loss:					
Remeasurements of defined benefit liability, net of tax	20	(25)	(49)	(19)	(35)
Items that are or may be reclassified to profit or loss:					
Available-for-sale financial assets – unrealized net change in fair value, net of tax	13	544	3,962	183	6,758
Foreign operations – foreign currency translation differences, net of tax		(182,296)	(203,572)	149,366	264,268
Equity-accounted investees – share of other comprehensive income (loss), net of tax	12	(4,562)	(3,417)	3,095	6,776
Other comprehensive income (loss) for the period, net of tax		(186,339)	(203,076)	152,625	277,767
Total comprehensive income for the period	₩	487,411	1,272,928	1,099,386	1,403,240

See accompanying notes to the condensed consolidated interim financial statements.

SK HYNIX, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Comprehensive Income, Continued
For the three and six-month periods ended June 30, 2014 and 2013

(In millions of won, except per share information)

	Note	2014		2013	
		Three-month period	Six-month period	Three-month period	Six-month period
Profit (loss) attributable to:					
Owners of the Parent Company		673,201	1,475,739	946,807	1,125,401
Non-controlling interests		549	265	(46)	72
Total comprehensive income attributable to:					
Owners of the Parent Company		486,833	1,272,620	1,099,329	1,402,952
Non-controlling interests		578	308	57	288
Earnings per share					
Basic earnings per share (in won)	30	940	2,063	1,363	1,620
Diluted earnings per share (in won)	30	940	2,063	1,342	1,606

See accompanying notes to the condensed consolidated interim financial statements.

SK HYNIX, INC. and Subsidiaries
Condensed Consolidated Statements of Changes in Equity
For the six-month periods ended June 30, 2014 and 2013

(In millions of won)

	Attributable to owners of the Parent Company							
	Capital stock	Capital surplus	Other equity	Accumulated other comprehensive income (loss)	Retained earnings	Total	Non-controlling interests	Total equity
Balance at January 1, 2013	₩ 3,488,419	3,053,874	-	(115,402)	3,313,265	9,740,156	(714)	9,739,442
Total comprehensive income	-	-	-	-	1,125,401	1,125,401	72	1,125,473
Profit for the period	-	-	-	-	-	-	-	-
Remeasurements of defined benefit liability, net of tax	-	-	-	-	(35)	(35)	-	(35)
Unrealized net changes in fair values of available-for-sale financial assets, net of tax	-	-	-	6,758	-	6,758	-	6,758
Other comprehensive income from joint venture and associate, net of tax	-	-	-	6,776	-	6,776	-	6,776
Foreign currency translation differences for foreign operations, net of tax	-	-	-	264,052	-	264,052	216	264,268
Total comprehensive income	-	-	-	277,586	1,125,366	1,402,952	288	1,403,240
Transactions with owners of the Parent Company	2,806	12,202	-	-	-	15,008	-	15,008
Exercise of conversion rights	2,806	12,202	-	-	-	15,008	-	15,008
Total transactions with owners of the Parent Company	₩ 3,491,225	3,066,076	-	162,184	4,438,631	11,158,116	(426)	11,157,690
Balance at June 30, 2013	-	-	-	-	-	-	-	-

See accompanying notes to the condensed consolidated interim financial statements.

SK HYNIX, INC. and Subsidiaries
Condensed Consolidated Statements of Changes in Equity, Continued
For the six-month periods ended June 30, 2014 and 2013

	Attributable to owners of the Parent Company							
	Capital stock	Capital surplus	Other equity	Accumulated other comprehensive income (loss)	Retained earnings	Total	Non-controlling interests	Total equity
Balance at January 1, 2014	₩ 3,568,645	3,406,083	-	(108,807)	6,201,322	13,067,243	(384)	13,066,859
Total comprehensive income								
Profit for the period	-	-	-	-	1,475,739	1,475,739	265	1,476,004
Remeasurements of defined benefit liability, net of tax	-	-	-	-	(49)	(49)	-	(49)
Unrealized net changes in fair values of available-for-sale financial assets, net of tax	-	-	-	-	-	-	-	-
Other comprehensive income from joint venture and associate, net of tax	-	-	-	3,962	-	3,962	-	3,962
Foreign currency translation differences for foreign operations, net of tax	-	-	-	(3,417)	-	(3,417)	-	(3,417)
Total comprehensive income	-	-	-	(203,615)	-	(203,615)	43	(203,572)
Transactions with owners of the Parent Company	-	-	-	(203,070)	1,475,690	1,272,620	308	1,272,928
Issue of ordinary shares related to acquisition of a subsidiary	6,793	47,277	-	-	-	54,070	-	54,070
Exercise of conversion rights	22,811	193,342	-	-	-	216,153	-	216,153
Acquisition of treasury shares	-	-	(24)	-	-	(24)	-	(24)
Total transactions with owners of the Parent Company	29,604	240,619	(24)	-	-	270,199	-	270,199
Balance at June 30, 2014	₩ 3,598,249	3,646,702	(24)	(311,877)	7,677,012	14,610,062	(76)	14,609,986

See accompanying notes to the condensed consolidated interim financial statements.

SK HYNIX, INC. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
For the six-month periods ended June 30, 2014 and 2013

(In millions of won)

	Note	2014	2013
Cash flows from operating activities			
Cash generated from operating activities	33 ₩	3,068,310	2,539,572
Interest received		22,053	27,068
Interest paid		(81,196)	(103,102)
Dividends received		15,959	16,450
Income tax paid		(5,267)	(11,119)
Net cash provided by operating activities		3,019,859	2,468,869
Cash flows from investing activities			
Decrease in short-term financial instruments		8,881,351	1,170,233
Increase in short-term financial instruments		(9,184,178)	(1,971,078)
Collection of loans and other receivables		813	400
Increase in loans and other receivables		(4,300)	(2,552)
Proceeds from disposal of available-for-sale financial assets		770	331
Acquisition of available-for-sale financial assets		(414)	(1,091)
Decrease in other financial assets		245,808	19,845
Increase in other financial assets		(29,617)	(29,670)
Cash inflows from derivative transactions		868	473
Cash outflows from derivative transactions		(2,842)	(5,653)
Proceeds from disposal of property, plant and equipment		74,607	10,954
Acquisition of property, plant and equipment		(2,711,828)	(1,265,973)
Proceeds from disposal of intangible assets		17	200
Acquisition of intangible assets		(137,628)	(129,958)
Receipt of government grants		502	-
Cash inflows from business combinations		4,638	-
Net cash used in investing activities	₩	(2,861,433)	(2,203,539)

See accompanying notes to the condensed consolidated interim financial statements.

SK HYNIX, INC. and Subsidiaries
Condensed Consolidated Statements of Cash Flows, Continued
For the six-month periods ended June 30, 2014 and 2013

(In millions of won)

	<u>2014</u>	<u>2013</u>
Cash flows from financing activities		
Proceeds from borrowings	₩ 1,889,955	2,032,139
Repayments of borrowings	(2,075,788)	(2,460,160)
Acquisition of treasury shares	(24)	-
Net cash used in financing activities	<u>(185,857)</u>	<u>(428,021)</u>
Effect of movements in exchange rates on cash and cash equivalents	<u>(13,193)</u>	<u>9,052</u>
Net decrease in cash and cash equivalents	<u>(40,624)</u>	<u>(153,639)</u>
Cash and cash equivalents at beginning of the period	631,867	658,387
Cash and cash equivalents at end of the period	₩ <u>591,243</u>	<u>504,748</u>

See accompanying notes to the condensed consolidated interim financial statements.

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
June 30, 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, Gyeonggi-do, South Korea, and the Group has manufacturing facilities in Icheon-si and Cheongju-si, South Korea, and Wuxi, China.

As of June 30, 2014, the shareholders of the Parent Company are as follows:

Shareholder	Number of shares	Percentage of ownership (%)
SK Telecom Co., Ltd.	146,100,000	20.40
Share Management Council ¹	8,622,667	1.20
Other investors ²	561,399,115	78.40
	<u>716,121,782</u>	<u>100.00</u>

¹ As of June 30, 2014, the number of shares held by each member of Share Management Council is as follows:

Shareholder	Number of shares	Percentage of ownership (%)
Korea Exchange Bank	7,092,500	0.99
National Agricultural Cooperative Federation	800,000	0.11
Shinhan Bank	725,000	0.10
Other financial institutions	5,167	0.00
	<u>8,622,667</u>	<u>1.20</u>

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

Accordingly, in substance, SK Telecom Co., Ltd. has the voting rights over the Share Management Council's shares as of June 30, 2014.

² National Pension Service and other individual investors are included.

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

1. Reporting Entity, Continued

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

Company	Location	Business	Ownership(%)	
			2014	2013
SK hyeng Inc. ¹	Korea	Domestic subsidiary	100.00	100.00
SK hystec Inc.	Korea	Domestic subsidiary	100.00	100.00
QRT Inc. ¹	Korea	Technical assessment	100.00	-
Siliconfile Technologies Inc. ²	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) ³	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) ⁴	U.K.	Holding company	100.00	100.00
SK hynix U.K. Ltd. (SKHYU)	U.K.	Overseas sales subsidiary	100.00	100.00
SK hynix Asia Pte. Ltd. (SKHYS)	Singapore	Overseas sales subsidiary	100.00	100.00
SK hynix Semiconductor India Pvt. Ltd. (SKHYIS) ⁵	India	Overseas sales subsidiary	100.00	100.00
SK hynix Semiconductor Hong Kong Ltd. (SKHYH)	Hong Kong	Overseas sales subsidiary	100.00	100.00
SK hynix Semiconductor (Shanghai) Co., Ltd. (SKHYCS)	China	Overseas sales subsidiary	100.00	100.00
SK hynix Japan Inc. (SKHYJ)	Japan	Overseas sales subsidiary	100.00	100.00
SK hynix Semiconductor Taiwan Inc. (SKHYT)	Taiwan	Overseas sales subsidiary	100.00	100.00
SK hynix Semiconductor (China) Ltd. (SKHYCL)	China	Overseas manufacturing subsidiary	100.00	100.00
SK hynix Semiconductor (Wuxi) Ltd. (SKHYMC)	China	Overseas manufacturing subsidiary	100.00	100.00
SK hynix (Wuxi) Semiconductor Sales Ltd. (SKHYCW)	China	Overseas sales subsidiary	100.00	100.00
SK hynix Italy S.r.l (SKHYIT)	Italy	Overseas R&D center	100.00	100.00
SK hynix memory solutions Inc. (SKHMS)	U.S.A.	Overseas R&D center	100.00	100.00
SK hynix Flash Solution Taiwan (SKHYFST)	Taiwan	Overseas R&D center	100.00	100.00
SK APTECH Ltd. (SKAPTECH) ⁶	Hong Kong	Holding company	100.00	100.00
SK hynix Semiconductor (Chongqing) Ltd. (SKHYCQL) ⁷	China	Overseas manufacturing subsidiary	100.00	100.00
Softseq Flash Solutions LLC.(SOFTEQ) ⁸	Belarus	Overseas R&D center	100.00	-

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

1. Reporting Entity, Continued

¹ QRT Inc. was established by spin-off from SK hyeng Inc.'s technical service division during the six-month period ended June 30, 2014.

² 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 six-month period ended June 30, 2014.

³ Subsidiary of SK hynix America Inc.(SKHYA)

⁴ As of June 30, 2014, SK hynix Europe Holding Ltd. is in the process of liquidation.

⁵ Subsidiary of SK hynix Asia Pte. Ltd.(SKHYS)

⁶ The Company invested ₩103,699 million in SK APTECH Ltd. during the six-month period ended June 30, 2014.

⁷ Subsidiary of SK APTECH Ltd.(SKAPTECH)

⁸ The Company acquired Softeq Flash Solutions LLC.(SOFTEQ) during the six-month period ended June 30, 2014.

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

	Company	Reason
Newly included	QRT Inc.	Established by spin-off from a subsidiary (SK hyeng)
	Siliconfile Technologies Inc.	Included in consolidation as subsidiaries due to acquisition of interests
	Softeq Flash Solutions LLC.(SOFTEQ)	

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

(In millions of won)

	2014			2013		
	Assets	Liabilities	Equity	Assets	Liabilities	Equity
SK hynix America Inc.(SKHYA)	₩ 999,128	934,027	65,101	964,682	911,513	53,169
SK hynix Asia Pte. Ltd.(SKHYS)	332,897	266,944	65,953	231,649	164,390	67,259
SK hynix Semiconductor Hong Kong Ltd.(SKHYH)	387,180	314,752	72,428	353,248	284,438	68,810
SK hynix Japan Inc.(SKHYJ)	294,295	246,291	48,004	302,971	250,962	52,009
SK hynix Semiconductor Taiwan Inc.(SKHYT)	334,122	316,180	17,942	240,489	197,975	42,514
SK hynix Semiconductor (China) Ltd.(SKHYCL)	3,420,398	1,187,817	2,232,581	3,652,044	1,212,007	2,440,037
SK hynix Deutschland GmbH(SKHYS)	90,439	56,876	33,563	98,150	63,706	34,444
SK hynix U.K. Ltd.(SKHYU)	72,567	60,614	11,953	78,020	66,080	11,940

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

1. Reporting Entity, Continued

(5) Major subsidiaries' summarized statements of comprehensive income for the six-month periods ended June 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)	₩ 2,579,155	14,481	14,481	2,377,927	9,311	9,311
SK hynix Asia Pte. Ltd.(SKHYS)	841,247	1,272	1,272	547,288	1,354	1,354
SK hynix Semiconductor Hong Kong Ltd.(SKHYH)	1,691,966	6,471	6,471	1,427,593	1,687	1,687
SK hynix Japan Inc.(SKHYJ)	365,065	(3,800)	(3,800)	362,306	9,887	9,887
SK hynix Semiconductor Taiwan Inc.(SKHYT)	966,748	3,013	3,013	977,846	(2,668)	(2,668)
SK hynix Semiconductor (China) Ltd.(SKHYCL)	910,096	(57,244)	(57,244)	1,092,719	143,289	143,289
SK hynix Deutschland GmbH(SKHYD)	293,494	1,532	1,532	286,596	2,354	2,354
SK hynix U.K. Ltd.(SKHYU)	239,236	492	492	242,959	916	916

(6) There are no significant non-controlling interests to the Group as of June 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.

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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 six-month periods ended June 30, 2014 and 2013, are as follows:

(In millions of won)

	2014		2013	
	Three-month period	Six-month period	Three-month period	Six-month period
Sale of goods	₩ 3,903,519	7,628,224	3,914,628	6,681,577
Sale of services	19,356	37,341	18,019	32,217
	₩ 3,922,875	7,665,565	3,932,647	6,713,794

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

(In millions of won)

	2014		2013	
	Three-month period	Six-month period	Three-month period	Six-month period
DRAM	₩ 3,077,365	6,069,482	2,848,836	4,838,268
NAND Flash	741,139	1,364,272	951,212	1,633,151
Other	104,371	231,811	132,599	242,375
	₩ 3,922,875	7,665,565	3,932,647	6,713,794

(3) The Group's revenue information by region based on the location of selling entities for the three and six-month periods ended June 30, 2014 and 2013, are as follows:

(In millions of won)

	2014		2013	
	Three-month period	Six-month period	Three-month period	Six-month period
Korea	₩ 343,363	641,492	243,547	475,888
China	993,668	1,733,671	929,815	1,440,436
Asia (other than China)	1,105,426	2,179,282	1,130,689	1,882,132
U.S.A	1,246,642	2,581,192	1,349,695	2,390,830
Europe	233,776	529,928	278,901	524,508
	₩ 3,922,875	7,665,565	3,932,647	6,713,794

(4) The Group's non-current assets (excluding financial assets, equity-accounted investees and deferred tax assets) information by region based on the location of subsidiaries as of June 30, 2014 and 2013, are as follows:

(In millions of won)

	2014	2013
Korea	₩ 11,562,707	10,424,568
China	3,020,699	2,912,948
Asia (other than China)	6,377	5,834
U.S.A	280,646	289,682
Europe	11,680	1,598
	₩ 14,882,109	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 six-month periods ended June 30, 2014 and 2013 amounts to ₩1,093,101 million and ₩1,167,610 million, respectively.

5. Categories of Financial Instruments

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

(In millions of won)

	2014				
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity financial assets	Loans and receivables	Total
Cash and cash equivalents	₩ -	-	-	591,243	591,243
Short-term financial instruments	842,901	-	-	1,646,271	2,489,172
Trade receivables	-	-	-	2,280,369	2,280,369
Other receivables	-	-	-	269,203	269,203
Other financial assets(*)	-	-	29,611	1,684	31,295
Available-for-sale financial assets	-	163,648	-	-	163,648
	<u>₩ 842,901</u>	<u>163,648</u>	<u>29,611</u>	<u>4,788,770</u>	<u>5,824,930</u>

(In millions of won)

	2013				
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity financial assets	Loans and receivables	Total
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
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 June 30, 2014 and December 31, 2013, are as follows:

(In millions of won)

	2014	2013
Current		
Held-to-maturity financial assets	₩ 29,611	245,808
Non-current		
Long-term financial instruments	1,684	1,745
Derivative assets	-	272
	<u>1,684</u>	<u>2,017</u>
	<u>₩ 31,295</u>	<u>247,825</u>

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5. Categories of Financial Instruments, Continued

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

(In millions of won)

	2014		
	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Total
Trade payables	₩ -	682,577	682,577
Other payables	-	956,437	956,437
Other non-trade payables(*)	-	771,368	771,368
Borrowings	-	4,150,695	4,150,695
Other financial liabilities	212,896	-	212,896
	₩ 212,896	6,561,077	6,773,973

(In millions of won)

	2013		
	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Total
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
	₩ 109,288	6,841,533	6,950,821

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

(In millions of won)

	2014	2013
Accrued expenses	₩ 622,817	677,120
Long-term other payables	146,285	166,641
Rent deposit payables	2,258	9,844
Long-term accrued expenses	8	616
	₩ 771,368	854,221

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 six-month period ended June 30, 2014.

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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 and recognized assets and liabilities in foreign currencies and net investments in foreign operations.

Monetary foreign currency assets and liabilities as of June 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	3,389	₩ 3,437,807	3,330	₩ 3,377,990
EUR	2	2,210	154	212,604
JPY	5,084	50,835	33,777	337,774

As of June 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	₩	5,982	(5,982)
EUR		(21,039)	21,039
JPY		(28,694)	28,694

(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 June 30, 2014, available-for-sale equity securities measured at fair value amount to ₩36,978 million.

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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 June 30, 2014, the Group is in a net borrowing position and is partially exposed to a risk of increase in interest rates. However, the Group adequately minimizes risks from changes in interest rate fluctuations by matching variable interest bearing short-term borrowings with variable interest-bearing financial deposits.

As of June 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 six-month period would have been ₩8,384 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 June 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 June 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 borrowings which decreased during the six-month period ended June 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 June 30, 2014 and December 31, 2013, are as follows:

(In millions of won)

	2014	2013
Total liabilities (A)	₩ 7,946,721	7,730,439
Total equity (B)	14,609,986	13,066,859
Cash and cash equivalents and short-term financial instruments (C)	3,080,415	2,786,399
Total borrowings (D)	4,150,695	4,550,215
Debt-to-equity ratio (A/B)	54%	59%
Net borrowing ratio (D-C)/B	7%	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 June 30, 2014 and December 31, 2013:

(In millions of won)

	Carrying amounts	2014			
		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Short-term financial instruments	₩ 842,901	-	842,901	-	842,901
Available-for-sale financial assets	36,978	36,978	-	-	36,978
	<u>879,879</u>	<u>36,978</u>	<u>842,901</u>	<u>-</u>	<u>879,879</u>
Financial assets not measured at fair value					
Cash and cash equivalents ¹	591,243	-	-	-	-
Short-term financial instruments ¹	1,646,271	-	-	-	-
Trade receivables ¹	2,280,369	-	-	-	-
Other receivables ¹	269,203	-	-	-	-
Other financial assets ¹	31,295	-	-	-	-
Available-for-sale financial assets ^{1,2}	126,670	-	-	-	-
	<u>4,945,051</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Financial liabilities measured at fair value					
Other financial liabilities	212,896	-	212,896	-	212,896
	<u>212,896</u>	<u>-</u>	<u>212,896</u>	<u>-</u>	<u>212,896</u>
Financial liabilities not measured at fair value					
Trade payables ¹	682,577	-	-	-	-
Other payables ¹	956,437	-	-	-	-
Other non-trade payables ¹	771,368	-	-	-	-
Borrowings	4,150,695	-	4,226,197	-	4,226,197
	<u>₩ 6,561,077</u>	<u>-</u>	<u>4,226,197</u>	<u>-</u>	<u>4,226,197</u>

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6. Financial Risk Management, Continued

(In millions of won)

	Carrying amounts	2013			
		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
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>
Financial assets not measured at fair value					
Cash and cash equivalents ¹	631,867	-	-	-	-
Short-term financial instruments ¹	1,108,558	-	-	-	-
Trade receivables ¹	1,941,675	-	-	-	-
Other receivables ¹	366,849	-	-	-	-
Other financial assets ¹	247,553	-	-	-	-
Available-for-sale financial assets ^{1,2}	126,804	-	-	-	-
	<u>4,423,306</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Financial liabilities measured at fair value					
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>
Financial liabilities not measured at fair value					
Trade payables ¹	648,793	-	-	-	-
Other payables ¹	788,304	-	-	-	-
Other non-trade payables ¹	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>

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

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

(b) 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 six-month period ended June 30, 2014.

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7. Restricted Financial Instruments

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

<i>(In millions of won)</i>		2014	2013	Description
Short-term financial instruments	₩	3	8	Restricted for government grants
		20,578	23,713	Pledged for borrowings
		5,000	5,023	Pledged for consumption tax
		46,000	34,600	Restricted for supporting small businesses
		40	-	Pledged for letter of credit
		439	-	Deposit for import duties
		<u>72,060</u>	<u>63,344</u>	
Other financial assets		308	308	Pledged for borrowings
		14	14	Bank overdraft guarantee deposit
		1,359	1,419	Deposit for import duties
		3	3	Others
		<u>1,684</u>	<u>1,744</u>	
₩	<u>73,744</u>	<u>65,088</u>		

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8. Trade and Other Receivables

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

(In millions of won)

	2014	2013
Current		
Other receivables	₩ 197,671	307,414
Accrued income	17,455	11,071
Short-term loans	3,036	2,665
Short-term guarantee deposits	4,207	2,609
	<u>222,369</u>	<u>323,759</u>
Non-current		
Long-term other receivables	20,369	21,152
Long-term loans	6,586	6,659
Guarantee deposits	19,580	14,409
Long-term deposits	299	870
	<u>46,834</u>	<u>43,090</u>
	<u>₩ 269,203</u>	<u>366,849</u>

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

(In millions of won)

	2014		
	Gross amount	Provision for impairment	Carrying amount
Trade receivables	₩ 2,284,415	(4,046)	2,280,369
Current loans and other receivables	224,471	(2,102)	222,369
Non-current loans and other receivables	59,360	(12,526)	46,834
	<u>₩ 2,568,246</u>	<u>(18,674)</u>	<u>2,549,572</u>

(In millions of won)

	2013		
	Gross amount	Provision for impairment	Carrying amount
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 and Other Receivables, Continued

(3) Details of provision for impairment
Movements in the provision for impairment of trade receivables for the six-month periods ended June 30, 2014 and 2013, are as follows:

(In millions of won)

	2014	2013
Beginning balance	₩ 3,446	3,257
Provision for receivables impairment	704	-
Unused amounts reversed	-	(105)
Foreign exchange difference	(104)	23
Ending balance	₩ 4,046	3,175

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

(In millions of won)

	2014	2013
Beginning balance	₩ 2,062	5,035
Provision for receivables impairment	66	-
Receivables written off during the period as uncollectible	(26)	-
Unused amounts reversed	-	(238)
Ending balance	₩ 2,102	4,797

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

(In millions of won)

	2014	2013
Beginning balance	₩ 12,510	12,839
Provision for receivables impairment	23	245
Foreign exchange difference	(7)	95
Ending balance	₩ 12,526	13,179

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9. Inventories

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

(In millions of won)

	2014		
	Acquisition cost	Inventory valuation allowance	Carrying amount
Finished goods	₩ 513,965	(52,049)	461,916
Work-in-process	683,465	(37,612)	645,853
Raw materials	144,414	(3,531)	140,883
Supplies	74,674	(54)	74,620
Goods in transit	42,885	-	42,885
	₩ <u>1,459,403</u>	<u>(93,246)</u>	<u>1,366,157</u>

(In millions of won)

	2013		
	Acquisition cost	Inventory valuation allowance	Carrying amount
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
	₩ <u>1,251,416</u>	<u>(73,116)</u>	<u>1,178,300</u>

10. Non-current assets held for sale

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

(In millions of won)

	2014	2013
Beginning balance	₩ 26,557	26,958
Disposal	-	(4)
Other	(1,030)	1,978
Ending balance	₩ <u>25,527</u>	<u>28,932</u>

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11. Other Current and Non-current Assets

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

(In millions of won)

		<u>2014</u>	<u>2013</u>
Current			
Advance payments	₩	11,437	7,405
Prepaid expenses		147,907	128,125
Others		5,970	5,854
		<u>165,314</u>	<u>141,384</u>
Non-current			
Long-term advance payments		-	21
Long-term prepaid expenses		371,266	346,774
Others		16,414	19,026
		<u>387,680</u>	<u>365,821</u>
	₩	<u>552,994</u>	<u>507,205</u>

12. Investments in Associates and Joint Ventures

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

(In millions of won)

Type	Investee	Ownership (%)	<u>2014</u>		<u>2013</u>
			Net asset value	Carrying amount	Carrying amount
Associate	Siliconfile Technologies Inc.(*)	-	₩ -	-	10,962
Joint venture	HITECH Semiconductor (Wuxi) Co.,Ltd. (HITECH)	45.00	80,531	80,531	96,135
			<u>₩ 80,531</u>	<u>80,531</u>	<u>107,097</u>

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

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12. Investments in Associates and Joint Ventures, Continued

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

(In millions of won)

		2014					
		Beginning balance	Acquisition (disposal)(*)	Share of profit (loss)	Other equity movement	Dividend	Ending balance
Siliconfile Technologies Inc.	₩	10,962	(10,319)	(579)	171	(235)	-
HITECH Semiconductor (Wuxi) Co.,Ltd. (HITECH)		96,135	-	3,650	(3,588)	(15,666)	80,531
	₩	<u>107,097</u>	<u>(10,319)</u>	<u>3,071</u>	<u>(3,417)</u>	<u>(15,901)</u>	<u>80,531</u>

(*) The remeasurement to fair value of the Group's existing 27.93% interest in Siliconfile Technologies Inc. resulted in a disposal gain of ₩11 million.

(In millions of won)

		2013					
		Beginning balance	Acquisition (disposal)	Share of profit	Other equity movement	Dividend	Ending balance
Siliconfile Technologies Inc.	₩	8,909	-	1,124	(105)	-	9,928
HITECH Semiconductor (Wuxi) Co.,Ltd. (HITECH)		95,191	-	6,579	6,881	(15,032)	93,619
	₩	<u>104,100</u>	<u>-</u>	<u>7,703</u>	<u>6,776</u>	<u>(15,032)</u>	<u>103,547</u>

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

(In millions of won)

		2014			
		Current assets	Non-current assets	Current liabilities	Non-current liabilities
HITECH Semiconductor (Wuxi) Co.,Ltd. (HITECH)		249,073	312,927	263,101	119,940

(In millions of won)

		2013			
		Current assets	Non-current assets	Current liabilities	Non-current liabilities
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

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12. Investments in Associates and Joint Ventures, Continued

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

(In millions of won)

	2014		2013	
	Revenue	Profit (loss) for the period	Revenue	Profit for the period
Siliconfile Technologies Inc.(*) ₩	40,339	(2,072)	63,550	4,027
HITECH Semiconductor (Wuxi) Co.,Ltd. (HITECH)	291,796	8,111	303,747	14,621

(*) 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.

13. Available-for-sale Financial Assets

Changes in the carrying amount of available-for-sale financial assets for the six-month periods ended June 30, 2014 and 2013, are as follows:

(In millions of won)

	2014	2013
Beginning balance ₩	158,770	44,297
Acquisition	414	1,091
Disposal	(548)	(126)
Change in fair value	5,012	8,708
Ending balance ₩	163,648	53,970

14. Property, Plant and Equipment

Changes in property and equipment for the six-month periods ended June 30, 2014 and 2013 are as follows:

(In millions of won)

	2014	2013
Beginning balance ₩	12,129,797	11,586,192
Acquisition through business combination	1,739	-
Acquisition	3,001,925	1,537,507
Disposal	(76,676)	(9,099)
Depreciation	(1,571,477)	(1,453,684)
Impairment	(27,271)	-
Transfer(*)	1,389	-
Foreign exchange difference and other	(196,686)	238,677
Ending balance ₩	13,262,740	11,899,593

(*) Transfer from investment property.

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

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14. Property, Plant and Equipment, Continued

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 ₩202,711 million as of June 30, 2014 (as of December 31, 2013: ₩242,187 million). The machinery and others are pledged as collateral for the finance lease liabilities.

15. Intangible Assets

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

<i>(In millions of won)</i>	2014	2013
Beginning balance	₩ 1,110,403	983,630
Acquisition through business combination	60,157	-
Acquisition	137,628	129,958
Disposal	(5,771)	(7,024)
Amortization	(85,882)	(75,636)
Foreign exchange difference and other	(11,448)	20,689
Ending balance	₩ 1,205,087	1,051,617

Among costs associated with development activities, ₩77,141 million that met capitalization criteria, were capitalized as development cost for the six-month period ended June 30, 2014 (2013: ₩99,648 million). In addition, costs associated with research activities and other development expenditures that did not meet the criteria and amounted to ₩650,662 million were recognized as expenses for the six-month period ended June 30, 2014 (2013: ₩351,827 million).

16. Investment Property

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

<i>(In millions of won)</i>	2014	2013
Beginning balance	₩ 28,609	29,888
Depreciation	(618)	(639)
Transfer(*)	(1,389)	-
Ending balance	₩ 26,602	29,249

(*) Transfer to property, plant and equipment.

The depreciation expense of ₩618 million was charged to cost of sales for the six-month period ended June 30, 2014 (2013: ₩639 million).

Rental income from investment property during the six-month period ended June 30, 2014 was ₩2,267 million (2013: ₩2,343 million).

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17. Borrowings

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

(In millions of won)

	2014	2013
Current		
Short-term borrowings	₩ 526,046	137,979
Current installments of debentures	199,884	-
Current installments of convertible bonds	353,687	-
Current installments of long-term borrowings	877,698	732,341
	<u>1,957,315</u>	<u>870,320</u>
Non-current		
Debentures	1,147,971	1,450,777
Convertible bonds	-	498,935
Long-term borrowings	1,045,409	1,730,183
	<u>2,193,380</u>	<u>3,679,895</u>
	<u>₩ 4,150,695</u>	<u>4,550,215</u>

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

(In millions of won)

	2014	2013
Beginning balance	₩ 4,550,215	6,471,976
Borrowings	1,889,955	2,032,139
Repayments	(2,072,727)	(2,460,160)
Exercise of conversion rights	(135,811)	(15,040)
Other(*)	(80,937)	224,051
Ending balance	<u>₩ 4,150,695</u>	<u>6,252,966</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 June 30, 2014 and December 31, 2013, are as follows:

(In millions of won)

	2014	2013
Current		
Advance receipts	2,688	2,616
Unearned income	₩ 388	2,403
Withholdings	29,599	21,180
Deposits received	580	531
Others	133	110
	<u>33,388</u>	<u>26,840</u>
Non-current		
Long-term advance receipts	-	155
Long-term withholdings	-	935
Other long-term employee benefits	53,323	51,280
	<u>53,323</u>	<u>52,370</u>
	<u>₩ 86,711</u>	<u>79,210</u>

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19. Provisions

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

(In millions of won)

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

(In millions of won)

		2013				
		Beginning balance	Increase	Utilization and reversal	Other(*)	Ending balance
Warranty	₩	2,949	-	(1,221)	-	1,728
Sales returns		5,305	8,438	-	-	13,743
Legal claims		322,361	4,340	(173,014)	(126,576)	27,111
	₩	<u>330,615</u>	<u>12,778</u>	<u>(174,235)</u>	<u>(126,576)</u>	<u>42,582</u>

(*) Transfer to other long-term payable 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 June 30, 2014 and December 31, 2013, are as follows:

(In millions of won)

	2014	2013
Present value of defined benefit obligations	₩ 715,040	656,080
Fair value of plan assets	(19,820)	(20,340)
	₩ 695,220	635,740

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

	2014	2013
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 six-month periods ended June 30, 2014 and 2013, are as follows:

(In millions of won)

	2014	2013
Beginning balance	₩ 656,080	592,171
Current service cost	52,687	49,059
Interest cost	17,740	14,040
Benefits paid	(15,792)	(19,808)
Transferred from associates	482	430
Others	3,843	(74)
Ending balance	₩ 715,040	635,818

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

(In millions of won)

	2014	2013
Beginning balance	₩ 20,340	17,075
Interest income	459	349
Benefits paid	(1,099)	(884)
Remeasurements	(49)	(35)
Others	169	-
Ending balance	₩ 19,820	16,505

(5) The amounts recognized in profit or loss for the three and six-month periods ended June 30, 2014 and 2013, are as follows:

(In millions of won)

	2014		2013	
	Three-month period	Six-month period	Three-month period	Six-month period
Current service cost	₩ 26,402	52,687	24,531	49,059
Net interest cost	8,654	17,281	6,845	13,691
	₩ 35,056	69,968	31,376	62,750

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20. Defined Benefit Liabilities, Continued

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

(In millions of won)

	2014	2013
Deposits	₩ 18,168	18,485
Other	1,652	1,855
	<u>₩ 19,820</u>	<u>20,340</u>

Actual return on plan assets for the six-month periods ended June 30, 2014 and 2013 amounted to ₩410 million and ₩314 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 issued by the Group. These convertible options were measured at fair value and changes therein were recognized in profit or loss.

(2) Details of derivative financial assets and liabilities as of June 30, 2014 and December 31, 2013, are as follows:

(In millions of won)

	2014	2013	
	Liabilities	Assets	Liabilities
Current			
Interest rates swap	₩ 179	-	2,194
Embedded derivative instruments	212,601	-	-
	<u>212,780</u>	<u>-</u>	<u>2,194</u>
Non-current			
Interest rates swap	116	272	245
Embedded derivative instruments	-	-	106,849
	<u>116</u>	<u>272</u>	<u>107,094</u>
	<u>₩ 212,896</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 six-month periods ended June 30, 2014 and 2013 are follows:

(In millions of won)

		Gain on valuation			
		2014		2013	
		Three-month period	Six-month period	Three-month period	Six-month period
Interest rates swap	₩	134	334	1,181	1,407
Embedded derivative instruments		-	-	-	-
	₩	134	334	1,181	1,407

(In millions of won)

		Loss on valuation			
		2014		2013	
		Three-month period	Six-month period	Three-month period	Six-month period
Foreign currency forward contract	₩	-	-	2,166	6,592
Interest rates swap		272	387	-	-
Embedded derivative instruments		201,860	186,233	5,229	27,108
	₩	202,132	186,620	7,395	33,700

(In millions of won)

		Gain on transaction			
		2014		2013	
		Three-month period	Six-month period	Three-month period	Six-month period
Foreign currency forward contract	₩	-	-	1	451
Interest rates swap		861	1,183	9	22
	₩	861	1,183	10	473

(In millions of won)

		Loss on transaction			
		2014		2013	
		Three-month period	Six-month period	Three-month period	Six-month period
Foreign currency forward contract	₩	-	-	3,818	4,963
Interest rates swap		1,004	1,241	320	690
	₩	1,004	1,241	4,138	5,653

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22. Share Capital, Capital Surplus and Other Equity

(1) Details of share capital, capital surplus and other equity as of June 30, 2014 and December 31, 2013, are as follows:

(In millions of won, thousands of shares)

	2014	2013
Authorized shares	9,000,000	9,000,000
Issued shares(*)	719,650	713,729
Share capital		
Common stock	₩ 3,598,249	3,568,645
Capital surplus		
Paid-in surplus	3,128,763	2,888,144
Consideration for conversion rights	42,928	42,928
Others	475,011	475,011
	₩ <u>3,646,702</u>	<u>3,406,083</u>
Other equity		
Acquisition cost of treasury shares	24	-
Number of treasury shares	1	-

(*) As of June 30, 2014, the number of shares owned by shareholders is 716,122 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 share capital and capital surplus during the six-month period ended June 30, 2014.

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23. Accumulated Other Comprehensive Loss

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

<i>(In millions of won)</i>	<u>2014</u>	<u>2013</u>
Available-for-sale financial assets		
– net change in unrealized fair value	₩ 11,786	7,824
Equity-accounted investees – share of other comprehensive loss	(11,755)	(8,338)
Foreign operations – foreign currency translation differences	(311,908)	(108,293)
	<u>₩ (311,877)</u>	<u>(108,807)</u>

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

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

<i>(In millions of won)</i>	<u>2013</u>		
	<u>Beginning</u>	<u>Increase</u>	<u>Ending</u>
Available-for-sale financial assets			
– net change in unrealized fair value	₩ 8,479	6,758	15,237
Equity-accounted investees – share of other comprehensive loss	(7,111)	6,776	(335)
Foreign operations – foreign currency translation differences	(116,770)	264,052	147,282
	<u>₩ (115,402)</u>	<u>277,586</u>	<u>162,184</u>

24. Retained Earnings

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

<i>(In millions of won)</i>	<u>2014</u>	<u>2013</u>
Legal reserve ¹	₩ 8,854	8,854
Discretionary reserve ²	235,506	235,506
Unappropriated retained earnings	7,432,652	5,956,962
	<u>₩ 7,677,012</u>	<u>6,201,322</u>

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24. Retained Earnings, Continued

¹ The Commercial Code of the Republic of Korea requires the Company to appropriate for each financial period, as a legal reserve, an amount equal to a minimum of 10% of cash dividends paid until such reserve equals 50% of its issued capital stock. The reserve is not available for cash dividends payment, but may be transferred to capital stock or used to reduce accumulated deficit.

² Discretionary reserve is a reserve for technology development.

25. Selling and Administrative Expenses

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

(In millions of won)

	2014		2013	
	Three-month period	Six-month period	Three-month period	Six-month period
Salaries	₩ 82,515	159,348	78,355	129,179
Defined benefit plan related expenses	5,548	10,970	4,772	9,351
Employee benefits	13,072	27,112	17,036	30,285
Commission expense	46,928	92,656	37,538	73,574
Depreciation	11,742	25,829	12,837	25,662
Amortization	36,131	85,064	30,396	75,152
Research and development	336,418	650,662	117,510	351,827
Freight and custody charge	7,028	16,699	9,035	17,251
Legal cost	1,813	4,280	2,283	7,183
Rental expense	2,536	5,625	3,732	7,625
Taxes and dues	4,576	8,042	6,335	9,455
Training expense	6,497	9,703	4,368	7,236
Sales promotional expenses	9,032	16,226	10,010	17,109
Utility expense	1,012	3,375	2,544	5,635
Supplies	10,855	18,104	9,995	15,625
Repair expense	1,177	5,758	3,239	4,453
Other	16,083	28,512	18,179	27,529
	₩ <u>592,963</u>	<u>1,167,965</u>	<u>368,164</u>	<u>814,131</u>

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26. Expenses by Nature

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

(In millions of won)

	2014		2013	
	Three-month period	Six-month period	Three-month period	Six-month period
Changes in finished goods and work-in-process	₩ (66,479)	(153,495)	133,625	27,921
Raw materials and consumables	620,455	1,193,686	620,672	1,184,148
Employee benefit expenses	589,421	1,105,517	481,049	869,905
Depreciation and amortization	832,037	1,655,466	756,900	1,528,808
Royalty expense	41,932	83,872	34,150	72,668
Commission expense	182,546	330,293	117,397	223,212
Utilities expense	138,712	293,104	123,337	280,607
Repair expense	230,844	443,618	260,862	491,135
Outsourcing expense	249,197	484,281	265,120	501,004
Other	20,343	88,090	25,932	103,832
	₩ <u>2,839,008</u>	<u>5,524,432</u>	<u>2,819,044</u>	<u>5,283,240</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 six-month periods ended June 30, 2014 and 2013, are as follows:

(In millions of won)

	2014		2013	
	Three-month period	Six-month period	Three-month period	Six-month period
Finance income				
Interest income	₩ 11,724	27,996	13,010	25,538
Dividend income	55	59	55	1,417
Gain on disposal of available-for-sale financial assets	10,224	10,444	119	205
Foreign exchange differences	146,431	239,419	142,901	270,794
Gain from derivative instruments	995	1,517	1,191	1,880
Gains on valuation of financial assets at fair value through profit or loss	-	2,899	-	-
	<u>169,429</u>	<u>282,334</u>	<u>157,276</u>	<u>299,834</u>
Finance expense				
Interest expenses	49,563	102,903	69,014	136,894
Foreign exchange differences	124,846	227,612	172,068	334,147
Loss on redemption of bonds	2,924	2,924	-	-
Loss from derivative instruments	203,136	187,861	11,533	39,353
Loss on valuation of financial assets at fair value through profit or loss	3,183	-	-	-
	<u>383,652</u>	<u>521,300</u>	<u>252,615</u>	<u>510,394</u>
Net finance expense	₩ <u>214,223</u>	<u>238,966</u>	<u>95,339</u>	<u>210,560</u>

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28. Other Income and Expenses

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

(In millions of won)

	2014		2013	
	Three-month period	Six-month period	Three-month period	Six-month period
Gain on disposal of property, plant and equipment	₩ 1,071	1,527	1,208	7,806
Gain on disposal of intangible assets	-	-	-	191
Other	5,824	12,253	5,000	15,773
	₩ <u>6,895</u>	<u>13,780</u>	<u>6,208</u>	<u>23,770</u>

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

(In millions of won)

	2014		2013	
	Three-month period	Six-month period	Three-month period	Six-month period
Loss on disposal of property, plant and equipment	₩ 1,517	3,598	390	5,950
Loss on disposal of intangible assets	2,237	5,755	5,340	7,015
Loss on disposal of trade receivables	592	1,374	757	1,429
Donation	371	714	278	877
Loss on impairment of property, plant and equipment	-	25,397	-	-
Amortization of idle assets	1,459	2,516	735	1,153
Other	25,694	62,823	8,260	14,025
	₩ <u>31,870</u>	<u>102,177</u>	<u>15,760</u>	<u>30,449</u>

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 is 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 six-month periods.

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

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

	2014		2013	
	Three-month period	Six-month period	Three-month period	Six-month period
Profit attributable to ordinary shareholders	₩ 673,201	1,475,739	946,807	1,125,401
Weighted average number of ordinary shares outstanding(*)	715,808,023	715,288,520	694,716,983	694,716,983
Basic earnings per share	₩ <u>940</u>	<u>2,063</u>	<u>1,363</u>	<u>1,620</u>

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

(In shares)

	2014		2013	
	Three-month period	Six-month period	Three-month period	Six-month period
Outstanding ordinary shares	₩ 710,200,891	710,200,891	694,165,294	694,155,767
Exercise of conversion rights	4,562,354	4,562,354	551,689	561,216
Issue of ordinary shares related to acquisition of a subsidiary	1,045,028	525,401	-	-
Acquisition of treasury shares	(250)	(126)	-	-
Weighted average number of common shares outstanding	₩ <u>715,808,023</u>	<u>715,288,520</u>	<u>694,716,983</u>	<u>694,716,983</u>

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30. Earnings per Share, Continued

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

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

	2014		2013	
	Three-month period	Six-month period	Three-month period	Six-month period
Profit attributable to ordinary shareholders	₩ 673,201	1,475,739	946,807	1,125,401
Convertible bond related benefits ¹	-	-	9,810	19,506
Adjusted profit attributable to ordinary shareholders	673,201	1,475,739	956,617	1,144,907
Adjusted weighted average number of ordinary shares outstanding ²	715,808,023	715,288,520	713,038,570	713,038,570
Diluted earnings per share	₩ <u>940</u>	<u>2,063</u>	<u>1,342</u>	<u>1,606</u>

¹ The convertible bond was excluded from diluted earnings per share calculation as its effect was anti-dilutive during the three and six-month periods ended June 30, 2014. Accordingly, diluted earnings per share for the six-month period ended June 30, 2014 are the same as basic earnings per share.

² Adjusted weighted average number of ordinary shares outstanding is calculated as follows:

(In shares)

	2014		2013	
	Three-month period	Six-month period	Three-month period	Six-month period
Weighted average number of ordinary shares outstanding	₩ 715,808,023	715,288,520	694,716,983	694,716,983
Effect of convertible bond	-	-	18,321,587	18,321,587
Adjusted weighted average number of ordinary shares outstanding	₩ <u>715,808,023</u>	<u>715,288,520</u>	<u>713,038,570</u>	<u>713,038,570</u>

As of June 30, 2014 and 2013, the number of potentially dilutive ordinary shares by exercise of conversion rights embedded in convertible bonds was 11,920,172 and 16,713,671 shares, respectively, which was excluded from adjusted weighted average number of ordinary shares outstanding as their effect would have been anti-dilutive.

SK HYNIX, INC. and Subsidiaries
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31. Related Party Transactions

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

Type	Name of related parties
Subsidiaries	SKHYA and other 23 entities
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.(HITECH)
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-month and six-month periods June 30, 2014 and 2013, are as follows:

(In millions of won)

		For three-month period ended June 30, 2014		
Company		Operating revenue and others	Operating expense and others	Asset acquisition
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.(HITECH)	₩ 17,287	149,082	-
Other related parties	SK Telecom Co., Ltd.	-	1,216	249
	SK Holdings Co., Ltd.(*)	-	9,205	-
	SK Engineering & Construction Co., Ltd.	91	13,479	148,203
	SK Energy Co., Ltd.	1,248	10,729	-
	SK Networks Co., Ltd.	-	412	-
	SK E&S Co., Ltd.	-	741	-
	SKC solmics Co., Ltd.	-	7,150	213
	Chungcheong energy service Co., Ltd.	-	7,047	-
	HAPPYNARAE Co., Ltd.	4	14,538	2,962
Others	107	3,879	823	
		₩ <u>18,737</u>	<u>217,478</u>	<u>152,450</u>

SK HYNIX, INC. and Subsidiaries
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31. Related Party Transactions, Continued

(In millions of won)

		For six-month period ended June 30, 2014			
	Company		Operating revenue and others	Operating expense and others	Asset acquisition
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.(HITECH)	₩	30,136	294,527	-
Other related parties	SK Telecom Co., Ltd.		879	2,834	557
	SK Holdings Co., Ltd.(*)		-	14,426	-
	SK Engineering & Construction Co., Ltd.		353	21,279	272,444
	SK Energy Co., Ltd.		2,610	29,782	-
	SK Networks Co., Ltd.		-	971	2,772
	SK E&S Co., Ltd.		-	1,688	-
	SKC solmics Co., Ltd.		-	13,757	539
	Chungcheong energy service Co., Ltd.		-	18,547	-
	HAPPYNARAE Co., Ltd.		42	28,677	4,982
	Others		180	8,227	1,262
		₩	<u>34,200</u>	<u>434,715</u>	<u>282,556</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 six-month period ended June 30, 2014, royalty paid for the use of the SK brand amounted to ₩14,395 million (2013: ₩7,780 million).

(In millions of won)

		For three-month period ended June 30, 2013			
	Company		Operating revenue and others	Operating expense and others	Asset acquisition
Associate	Siliconfile Technologies Inc.	₩	27,635	408	-
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.(HITECH)		18,185	157,012	-
Other related parties	SK Telecom Co., Ltd.		-	587	-
	SK Holdings Co., Ltd.(*)		-	5,110	-
	SK C&C Co., Ltd.		39	3,460	11,910
	SK Engineering & Construction Co., Ltd.		16	-	61,354
	SK Energy Co., Ltd.		1,544	13,665	-
	SK Networks Co., Ltd.		-	174	-
	SK E&S Co., Ltd.		-	695	-
	SKC solmics Co., Ltd.		-	6,821	41
	Chungcheong energy service Co., Ltd.		-	7,189	-
	HAPPYNARAE Co., Ltd.		5	15,606	1,482
Others		56	2,091	-	
		₩	<u>47,480</u>	<u>212,818</u>	<u>74,787</u>

SK HYNIX, INC. and Subsidiaries
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31. Related Party Transactions, Continued

(In millions of won)

		For six-month period ended June 30, 2013				
	Company		Operating revenue and others	Operating expense and others	Asset acquisition	
Associate	Siliconfile Technologies Inc.	₩	48,120	733	-	
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.(HITECH)		33,187	309,517	-	
Other related parties	SK Telecom Co., Ltd.		17	1,469	-	
	SK Holdings Co., Ltd.(*)		-	7,880	-	
	SK C&C Co., Ltd.		76	6,948	13,703	
	SK Engineering & Construction Co., Ltd.		16	-	64,374	
	SK Energy Co., Ltd.		10,650	13,665	-	
	SK Networks Co., Ltd.		-	329	-	
	SK E&S Co., Ltd.		-	19,346	-	
	SKC solmics Co., Ltd.		-	12,552	57	
	Chungcheong energy service Co., Ltd.		-	18,916	-	
	HAPPYNARAE Co., Ltd.		33	28,442	1,938	
	Others		98	2,915	-	
			₩	<u>92,197</u>	<u>422,712</u>	<u>80,072</u>

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

(In millions of won)

		2014			
	Company		Trade receivables and others	Other payables and others	Borrowings(*)
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.(HITECH)		9,970	96,251	58,914
Other related parties	SK Telecom Co., Ltd.		-	741	-
	SK Holdings Co., Ltd.		-	2,242	-
	SK Engineering & Construction Co., Ltd.		44	276,633	-
	SK Energy Co., Ltd.		444	1,787	-
	SK Networks Co., Ltd.		-	105	-
	SKC solmics Co., Ltd.		-	4,444	-
	Chungcheong energy service Co., Ltd.		-	1,090	-
	HAPPYNARAE Co., Ltd.		2	11,579	-
	Others		42	3,195	-
		₩	<u>10,502</u>	<u>398,067</u>	<u>58,914</u>

(*) The Parent Company repaid ₩42,179 million of mortgage loans to HITECH Semiconductor (Wuxi) Co., Ltd. during the six-month period ended June 30, 2014.

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31. Related Party Transactions, Continued

(In millions of won)

		2013		
		Trade	Other	
		receivables	payables and	Borrowings
		and others	others	
	Company			
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

(4) Key management compensation

Key management includes directors, members of the board of directors, chief financial officer, subsidiary's executives and internal auditors. The compensation paid to key management for employee services for the three and six-month periods ended June 30, 2014 and 2013, are as follows:

(In millions of won)

Details	2014		2013	
	Three-month period	Six-month period	Three-month period	Six-month period
Salaries	₩ 14,640	36,840	6,431	12,267
Defined benefit plan related expenses	1,872	3,271	1,815	2,615
Others	4	9	2	3
	₩ 16,516	40,120	8,248	14,885

SK HYNIX, INC. and Subsidiaries
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32. Commitments and Contingencies

(1) Significant pending litigations and claims of the Group as of June 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 shall be submitted by November 5, 2014 and 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 and SanDisk's petition was delivered to the Parent Company in July 2014. As of June 30, 2014, the SanDisk lawsuit was at an early stage and Santa Clara Superior Court suspended the litigation process until August 1, 2014 due to the complexity of the cases.

As of June 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) 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 June 30, 2014, are as follows:

<i>(In millions of won)</i>	Book value	Pledged amount	Remark
Land	₩ 25,202		Syndicated loan, collateralized borrowings, revolving credit facility and financial guarantee contracts of Cheongju manufacturing facilities
Buildings	123,493	1,110,016	
Machinery	854,677		
	₩ <u>1,003,372</u>	<u>1,110,016</u>	

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

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32. Commitments and Contingencies, Continued

(6) Financing agreements

Details of credit lines with financial institutions as of June 30, 2014, are as follows:

(In millions of won and millions of foreign currencies)

	Financial Institution	Commitment	Currency	Amount
The Parent Company	Korea Exchange	Import finance including usance	USD	445
	Bank and others	Export finance including bills bought	USD	370
		Comprehensive limit contract for import and export	USD	1,040
		Export trade receivables discount agreement(*)	USD	90
		Trade receivables discount agreement	KRW	380,000
SK Hynix Semiconductor (China) Ltd. (SKHYCL)	Agricultural Bank of China and others	Import finance including usance	RMB	1,300
			EUR	125
SK Hynix America Inc. (SKHYA) and other sales entities	Citibank and others	Accounts receivable factoring contracts which have no right to recourse	USD	838
			USD	1,469
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 ₩513,030 million as of June 30, 2014 (as of December 31, 2013: ₩401,210 million). The Group is obliged to redeem discounted receivables to financial institutions in case of the default of the counterparties and accordingly, accounted for the above transactions as collateralized borrowings.

(7) Details of guarantees provided to others as of June 30, 2014, are as follows:

(In millions of won)

	Amount	Remark
Employees	₩ 28	Guarantees for employees' borrowings relating to employee stock ownership

(8) Capital commitments

As of June 30, 2014, the Group has ₩387,534 million (as of December 31, 2013: ₩385,106 million) of commitments in relation to the capital expenditures on fixed assets.

SK HYNIX, INC. and Subsidiaries
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33. Cash Generated from Operating Activities

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

(In millions of won)

	2014	2013
Profit for the period	₩ 1,476,004	1,125,473
Adjustment		
Income tax expense	351,476	95,545
Defined benefit plan related expenses	69,968	62,750
Depreciation	1,571,477	1,453,684
Depreciation of investment property	618	639
Amortization	85,882	75,636
Loss on foreign currency translation	49,287	184,342
Loss on disposal of property, plant and equipment	3,598	5,950
Interest expense	102,903	136,894
Gain on foreign currency translation	(86,339)	(72,575)
Interest income	(27,996)	(25,538)
Loss on derivative instruments, net	186,344	37,473
Gain on equity method investments, net	(3,071)	(7,703)
Loss on disposal of intangible assets	5,755	7,015
Loss on impairment of property, plant and equipment	25,397	-
Gain on disposal of equity method investments	(10,639)	-
Gain on disposal of property, plant and equipment	(1,527)	(7,806)
Gain on disposal of intangible assets	-	(191)
Gains on valuation of financial assets at fair value through profit or loss	(2,899)	-
Gain on disposal of available-for-sale financial assets	(10,444)	(205)
Others, net	8,352	525
Changes in operating assets and liabilities		
Increase in trade receivables	(411,411)	(640,827)
Decrease (increase) in other receivables	50,929	(33,806)
Decrease (increase) in inventories	(204,001)	90,195
Increase in trade payables	132,728	63,724
Increase (decrease) in other payables	(158,456)	11,224
Increase (decrease) in other non-trade payables	(42,850)	100,030
Decrease in provisions	(27,618)	(144,827)
Payment of defined benefit liabilities	(14,693)	(18,924)
Others, net	(50,464)	40,875
Cash generated from operating activities	₩ <u>3,068,310</u>	<u>2,539,572</u>

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

(In millions of won)

	2014	2013
Other payables related to acquisition of property, plant and equipment	₩ 286,484	266,232
Fair value of issued ordinary shares related to acquisition of a subsidiary	54,070	-

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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:

<i>(In millions of won)</i>	Amount
Consideration	₩ <u>75,028</u>
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	<u>7,083</u>
Fair value of net identifiable assets	₩ <u>42,432</u>
Goodwill	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 ₩12,422 million. Siliconfile Technologies Inc. also contributed a net loss of ₩2,515 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.