

SK hynix Inc. and Subsidiaries

Interim Consolidated Financial Statements

September 30, 2013 and 2012

SK hynix Inc. and Subsidiaries
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September 30, 2013 and 2012

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Report on Review of Interim Financial Statements

To the Shareholders and Board of Directors of
SK hynix Inc.

Reviewed Financial Statements

We have reviewed the accompanying interim consolidated financial statements of SK hynix Inc. and its subsidiaries. These financial statements consist of consolidated statement of financial position of SK hynix Inc. and its subsidiaries (collectively the Group) as of September 30, 2013, and the related consolidated statements of comprehensive income for the three-month and nine-month periods ended September 30, 2013 and 2012, and statements of changes in equity and cash flows for the nine-month periods ended September 30, 2013 and 2012, and a summary of significant accounting policies and other explanatory notes, expressed in Korean won.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the International Financial Reporting Standards as adopted by the Republic of Korea ("Korean IFRS") 34, *Interim Financial Reporting*, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

We conducted our reviews in accordance with the quarterly and semi-annual review standards established by the Securities and Futures Commission of the Republic of Korea. A review of interim financial information 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 the accompanying interim consolidated financial statements do not present fairly, in all material respects, in accordance with the Korean IFRS 34, *Interim Financial Reporting*.

Other Matters

We have audited the consolidated statement of financial position of the Group as of December 31, 2012, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended and expressed an unqualified opinion on those financial statements in our audit report dated February 20, 2013. These financial statements are not included in this review report. The consolidated statement of financial position as of December 31, 2012, presented herein for comparative purpose, is consistent, in all material respects, with the above audited consolidated statement of financial position as of December 31, 2012.

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

Seoul, Korea
November 7, 2013

<p>This report is effective as of November 7, 2013, 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 interim consolidated financial statements and notes thereto. Accordingly, the readers of the review report should understand that there is a possibility that the above review report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.</p>

SK hynix Inc. and Subsidiaries
Interim Consolidated Statements of Financial Position
September 30, 2013 and December 31, 2012

<i>(in millions of Korean won)</i>	Notes	September 30, 2013	December 31, 2012
Assets			
Current assets			
Cash and cash equivalents	4, 6	₩ 600,784	₩ 658,387
Short-term financial instruments	4, 6, 9	2,491,256	1,126,229
Trade receivables	6, 10	2,188,907	1,719,521
Loans and other receivables	4, 6, 10	163,874	125,055
Inventories	11	1,153,245	1,509,331
Assets classified as held for sale	18	27,068	26,958
Current tax assets		18,695	12,719
Other financial assets	4, 6, 34	878	-
Other current assets	12	157,369	135,373
		<u>6,802,076</u>	<u>5,313,573</u>
Non-current assets			
Investments in jointly controlled entity and associate	14	103,022	104,100
Available-for-sale financial assets	4, 6, 13	49,581	44,297
Property, plant and equipment	15	11,950,509	11,586,192
Intangible assets	17	1,055,582	983,630
Investment property	16	28,929	29,888
Loans and other receivables	4, 6, 10	41,720	19,127
Other financial assets	4, 6, 9, 34	1,977	525
Deferred income tax assets		227,747	378,366
Other non-current assets	12	276,147	188,995
		<u>13,735,214</u>	<u>13,335,120</u>
Total assets		<u>₩ 20,537,290</u>	<u>₩ 18,648,693</u>
Liabilities			
Current liabilities			
Trade payables	6	₩ 691,013	₩ 592,738
Other payables	4, 6	620,416	381,260
Other non-trade payables	4, 6, 19	541,880	361,076
Provisions	21	97,067	330,615
Other financial liabilities	4, 6, 22, 34	2,625	17,020
Borrowings	4, 6, 8, 20	1,472,522	2,719,197
Other current liabilities	23	62,726	25,906
Current tax liabilities		7,426	13,368
		<u>3,495,675</u>	<u>4,441,180</u>
Non-current liabilities			
Borrowings	4, 6, 20	3,806,805	3,752,779
Other non-trade payables	4, 6, 19	186,300	97,533
Defined benefit liabilities	24	646,270	575,096
Other financial liabilities	4, 6, 22, 34	44,689	1,615
Other non-current liabilities	23	43,847	41,048
		<u>4,727,911</u>	<u>4,468,071</u>
Total liabilities		<u>8,223,586</u>	<u>8,909,251</u>
Equity attributable to owners of the Parent Company			
Capital stock	25	3,568,645	3,488,419
Capital surplus	25	3,406,148	3,053,874
Accumulated other comprehensive income (loss)		(57,240)	(115,402)
Retained earnings		5,396,824	3,313,265
		<u>12,314,377</u>	<u>9,740,156</u>
Non-controlling interest		<u>(673)</u>	<u>(714)</u>
Total equity		<u>12,313,704</u>	<u>9,739,442</u>
Total liabilities and equity		<u>₩ 20,537,290</u>	<u>₩ 18,648,693</u>

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

SK hynix Inc. and Subsidiaries
Interim Consolidated Statements of Comprehensive Income
Three-Month and Nine-Month Periods Ended September 30, 2013 and 2012

<i>(in millions of Korean won, except per share amounts)</i>	Notes	2013		2012	
		Three Months	Nine Months	Three Months	Nine Months
Net sales	5	₩ 4,083,621	₩ 10,797,415	₩ 2,423,482	₩ 7,443,823
Cost of sales	26	(2,379,274)	(6,848,384)	(2,014,255)	(6,347,051)
Gross profit		1,704,347	3,949,031	409,227	1,096,772
Selling and administrative expenses	26,27	(539,866)	(1,353,997)	(433,249)	(1,379,093)
Operating income (loss)	5	1,164,481	2,595,034	(24,022)	(282,321)
Financial income	28	340,882	423,947	196,004	454,615
Financial expenses	28	(279,218)	(572,844)	(177,223)	(509,897)
Income from jointly controlled entity and associate	14	5,665	13,369	4,077	11,036
Other non-operating income		6,995	30,765	15,534	52,138
Other non-operating expenses	29	(219,058)	(249,506)	(9,186)	(35,290)
Profit (loss) before income tax		1,019,747	2,240,765	5,184	(309,719)
Income tax expense	30	61,511	157,055	3,143	12,770
Profit (loss) for the period		₩ 958,236	₩ 2,083,710	₩ 2,041	₩ (322,489)
Other comprehensive income (loss) after tax					
Line item will not be reclassified to profit or loss					
The remeasurements of the net defined benefit liability	24	(17)	(51)	(254)	(268)
Line items will be reclassified subsequently to profit or loss when specific conditions are met					
Available-for-sale financial assets	13	(4,074)	2,684	(449)	2,962
Currency translation differences		(209,365)	54,903	(71,435)	(96,853)
Other comprehensive income from jointly controlled entity and associate	14	(6,190)	586	(2,882)	(220)
Total comprehensive income (loss) for the period		₩ 738,590	₩ 2,141,832	₩ (72,979)	₩ (416,868)
Income (loss) for the period attributable to:					
Equity holders of the Parent Company		₩ 958,278	₩ 2,083,680	₩ 1,885	₩ (322,392)
Non-controlling interest		(42)	30	156	(97)
Total comprehensive income (loss) for the period attributable to:					
Equity holders of the Parent Company		₩ 738,837	₩ 2,141,791	₩ (73,046)	₩ (416,673)
Non-controlling interest		(247)	41	67	(195)
Earning (loss) per share attributable to the equity holders of the Parent Company for the period	31				
Basic earnings (loss) per share		₩ 1,349	₩ 2,934	₩ 3	₩ (476)
Diluted earnings (loss) per share		1,289	2,934	(12)	(476)

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

SK hynix Inc. and Subsidiaries
Interim Consolidated Statements of Changes in Equity
Nine-Month Periods Ended September 30, 2013 and 2012

	Notes	Attributable to equity holders of the Parent Company							Non-controlling Interest	Total Equity
		Capital stock	Capital Surplus	Accumulated Other Comprehensive Income (loss)	Other Components of Equity	Retained Earnings	Total			
<i>(in millions of Korean won)</i>										
Balance at January 1, 2012		₩ 2,978,498	₩ 1,229,052	₩ 107,107	₩ 5,762	₩ 3,555,323	₩ 7,875,742	₩ (471)	₩ 7,875,271	
Comprehensive income										
Loss for the period		-	-	-	-	(322,392)	(322,392)	(97)	(322,489)	
Gain on the valuation of available-for-sale financial assets	13	-	-	2,962	-	-	2,962	-	2,962	
Currency translation differences		-	-	(96,763)	-	-	(96,763)	(90)	(96,853)	
Other comprehensive income from jointly controlled entity and associate	14	-	-	(220)	-	-	(220)	-	(220)	
The remeasurements of the net defined benefit liability	24	-	-	-	-	(260)	(260)	(8)	(268)	
Total comprehensive loss		-	-	(94,021)	-	(322,652)	(416,673)	(195)	(416,868)	
Transactions with equity holders of the Parent company										
Issuance of common stock	25	509,250	1,816,726	-	-	-	2,325,976	-	2,325,976	
Exercise of conversion rights	25	36	147	-	-	-	183	-	183	
Exercise of stock options	25	468	3,322	-	(1,662)	-	2,128	-	2,128	
Others		-	(74)	-	-	(69)	(143)	(105)	(248)	
Total transactions with equity holders of the Parent Company		509,754	1,820,121	-	(1,662)	(69)	2,328,144	(105)	2,328,039	
Balance at September 30, 2012		₩ 3,488,252	₩ 3,049,173	₩ 13,086	₩ 4,100	₩ 3,232,602	₩ 9,787,213	₩ (771)	₩ 9,786,442	
Balance at January 1, 2013		₩ 3,488,419	₩ 3,053,874	₩ (115,402)	₩ -	₩ 3,313,265	₩ 9,740,156	₩ (714)	₩ 9,739,442	
Comprehensive income										
Profit for the period		-	-	-	-	2,083,680	2,083,680	30	2,083,710	
Gain on the valuation of available-for-sale financial assets	13	-	-	2,684	-	-	2,684	-	2,684	
Currency translation differences		-	-	54,892	-	-	54,892	11	54,903	
Other comprehensive income from jointly controlled entity and associate	14	-	-	586	-	-	586	-	586	
The remeasurements of the net defined benefit liability	24	-	-	-	-	(51)	(51)	-	(51)	
Total comprehensive income		-	-	58,162	-	2,083,629	2,141,791	41	2,141,832	
Transactions with equity holders of the Parent Company										
Exercise of conversion rights	25	80,226	352,208	-	-	-	432,434	-	432,434	
Others		-	66	-	-	(70)	(4)	-	(4)	
Total transactions with equity holders of the Parent Company		80,226	352,274	-	-	(70)	432,430	-	432,430	
Balance at September 30, 2013		₩ 3,568,645	₩ 3,406,148	₩ (57,240)	₩ -	₩ 5,396,824	₩ 12,314,377	₩ (673)	₩ 12,313,704	

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

SK hynix Inc. and Subsidiaries
Interim Consolidated Statements of Cash Flows
Nine-Month Periods Ended September 30, 2013 and 2012

(in millions of Korean won)

	Notes	2013	2012
Cash flows from operating activities			
Cash generated from operations	35 W	4,765,405 W	1,761,722
Interest received		39,111	64,086
Interest paid		(152,043)	(219,075)
Dividends received		17,414	
Income tax paid		(17,109)	(20,373)
Net cash generated from operating activities		4,652,778	1,598,458
Cash flows from investing activities			
Decrease in short-term financial assets		2,114,846	1,725,112
Increase in short-term financial assets		(3,479,392)	(2,346,962)
Government grants received		-	153
Decrease in loans and other receivables		1,414	4,485
Increase in loans and other receivables		(4,193)	(7,308)
Proceeds from derivatives		2,663	2,363
Payments from derivatives		(6,319)	(44,175)
Proceeds from disposal of available-for-sale financial assets		331	9,422
Acquisition of available-for-sale financial assets		(2,032)	(1,621)
Proceeds from disposal of property, plant and equipment		13,640	35,006
Acquisition of property, plant and equipment		(2,370,781)	(3,319,569)
Proceeds from disposal of Intangible assets		200	4
Acquisition of intangible assets		(189,507)	(108,911)
Increase in other financial assets		29,682	-
Proceeds from disposal of other financial assets		(29,670)	-
Proceeds from disposal of assets classified as held for sale		-	23
Acquisition of investments in subsidiaries		-	(274,732)
Net cash used in investing activities		(3,919,118)	(4,326,710)
Cash flows from financing activities			
Proceeds from borrowings		2,801,959	5,327,800
Repayments of borrowings		(3,588,449)	(5,562,258)
Proceeds from issuance of common stock	25	-	2,328,102
Changes in ownership interests in subsidiaries without loss of control		-	(181)
Net cash provided by (used in) financing activities		(786,490)	2,093,463
Effect of foreign exchange rates on cash and cash equivalents		(4,773)	(3,344)
Net decrease in cash and cash equivalents		(57,603)	(638,133)
Cash and cash equivalents at the beginning of period		658,387	1,243,788
Cash and cash equivalents at the end of period	W	600,784 W	605,655

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

SK hynix Inc. and Subsidiaries
Notes to the Interim Consolidated Financial Statements
September 30, 2013 and 2012, and December 31, 2012

1. General Information

General information about SK hynix Inc. (the “Parent 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 are listed on the Korea Exchange since 1996. The Parent Company’s headquarters are located in Icheon, South Korea, and the Group has manufacturing facilities in Icheon and Cheongju, South Korea, and Wuxi, China.

As of September 30, 2013, the shareholders of the Parent Company and their shareholdings are as follows:

Shareholder	Number of shares	Percentage of ownership (%)
SK Telecom Co., Ltd.	146,100,000	20.57
Share Management Council ¹	19,652,623	2.77
Other investors ²	544,448,268	76.66
	710,200,891	100.00

¹ As of September 30, 2013, the number of shares held by each member of the Share Management Council is as follows:

Shareholder	Number of shares	Percentage of ownership (%)
Korea Exchange Bank	10,092,500	1.42
Korea Finance Corporation	5,499,705	0.78
Shinhan Bank	2,411,500	0.34
Other financial institutions	1,648,918	0.23
	19,652,623	2.77

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 the shares following SK Telecom Co., Ltd.’s decision in designating officers of the Parent 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, 2013.

In addition, according to the share purchase agreement, SK Telecom Co., Ltd. or a third party designated by SK Telecom Co., Ltd. has purchase offering right when the Share Management Council sells all or a part of its shares. The exercise period of the purchase offering right would be automatically renewed until the shareholding of the Share Management Council drops below 10 million shares.

² National Pension Service and individual investors.

SK hynix Inc. and Subsidiaries
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As of September 30, 2013, the Group's consolidated subsidiaries are as follows:

Names of subsidiaries	Number of Shares	Ownership (%)	Locations	Remarks
SK Hyeng Co., Ltd.	674,327	100	Korea	Domestic subsidiary
SK Hystec Co., Ltd.	277,203	100	Korea	Domestic subsidiary
SK hynix America Inc.(SKHYA)	6,285,587	97.7	U.S.A.	Overseas sales entity
Hynix Semiconductor Manufacturing America Inc.(HSMA)	200,000,100	100	U.S.A.	Liquidated entity
SK hynix Deutschland GmbH(SKHYD)	Certificate	100	Germany	Overseas sales entity
SK hynix Europe Holding Ltd.(SKHYE)	335,640,000	100	U.K.	Holding company
SK hynix U.K. Ltd.(SKHYU)	186,240,200	100	U.K.	Overseas sales entity
SK hynix Asia Pte. Ltd.(SKHYS)	196,303,500	100	Singapore	Overseas sales entity
SK hynix Semiconductor India Pvt. Ltd.(SKHYIS)	27,000	100	India	Overseas sales entity
SK hynix Semiconductor HongKong Ltd.(SKHYH)	170,693,661	100	HongKong	Overseas sales entity
SK hynix Semiconductor (Shanghai) Co., Ltd.(SKHYCS)	Certificate	100	China	Overseas sales entity
SK hynix Japan Inc.(SKHYJ)	20,000	100	Japan	Overseas sales entity
SK hynix Semiconductor Taiwan Inc.(SKHYT)	35,725,000	100	Taiwan	Overseas sales entity
SK hynix Semiconductor (China) Ltd.(SKHYCL)	Certificate	100	China	Manufacturing entity
SK hynix Semiconductor (Wuxi) Ltd.(SKHYMC)	Certificate	100	China	Manufacturing entity
SK hynix (Wuxi) Semiconductor Sales Ltd.(SKHYCW)	Certificate	100	China	Overseas sales entity
SK hynix Italy S.r.l.(SKHYIT)	Certificate	100	Italy	Overseas R&D center
SK hynix memory solutions Inc.(SKHMS)(formerly LAMD)	100	100	U.S.A.	Overseas R&D center
SK hynix Flash Solution Taiwan(SKHYFST)	Certificate	100	Taiwan	Overseas R&D center
SK APTECH Ltd.(SKAPTECH)	Certificate	100	HongKong	Holding company
SK hynix Semiconductor (Chongqing) Ltd.(SKHYCQL)	Certificate	100	China	Manufacturing entity

Subsidiaries newly included in the consolidation and excluded from the consolidation during this period, are as follows:

	Names of subsidiaries	Remarks
Newly included	SK hynix Flash Solution Taiwan(SKHYFST) SK APTECH Ltd.(SKAPTECH) SK hynix Semiconductor (Chongqing) Ltd.(SKHYCQL)	Included in consolidation scope as subsidiaries due to acquisition of interests
Excluded	Ami Power Co., Ltd.	Excluded from consolidation scope due to liquidation

SK hynix Inc. and Subsidiaries
Notes to the Interim Consolidated Financial Statements
September 30, 2013 and 2012, and December 31, 2012

Major subsidiaries' summarized statements of financial position as of September 30, 2013 and December 31, 2012, are as follows:

<i>(in millions of Korean won)</i>	September 30, 2013			December 31, 2012		
	Assets	Liabilities	Equity	Assets	Liabilities	Equity
SK hynix America Inc.(SKHYA)	1,125,830	1,086,694	39,136	867,351	836,418	30,933
SK hynix Asia Pte.Ltd.(SKHYS)	186,107	117,357	68,750	146,471	80,538	65,933
SK hynix Semiconductor HongKong Ltd.(SKHYH)	355,056	297,641	57,415	326,673	275,851	50,822
SK hynix Japan Inc.(SKHYJ)	285,234	230,196	55,038	194,730	141,766	52,964
SK hynix Semiconductor Taiwan Inc.(SKHYT)	290,327	251,472	38,855	276,666	238,930	37,736
SK hynix Semiconductor (China) Ltd.(SKHYCL)	3,214,879	811,566	2,403,313	3,234,346	848,071	2,386,275
SK hynix Deutschland GmbH(SKHYD)	120,126	87,304	32,822	82,039	50,918	31,121
SK hynix U.K. Ltd.(SKHYU)	91,068	79,895	11,173	81,677	71,264	10,413

Major subsidiaries' summarized statements of comprehensive income for the nine-month periods ended September 30, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	2013		
	Sales	Profit (loss)	Total Comprehensive income(loss)
SK hynix America Inc.(SKHYA)	3,908,018	8,302	8,302
SK hynix Asia Pte. Ltd.(SKHYS)	864,507	2,612	2,612
SK hynix Semiconductor HongKong Ltd.(SKHYH)	2,339,930	6,591	6,591
SK hynix Japan Inc.(SKHYJ)	609,576	8,751	8,751
SK hynix Semiconductor Taiwan Inc.(SKHYT)	1,426,308	1,646	1,646
SK hynix Semiconductor (China) Ltd.(SKHYCL)	1,498,906	(37,447)	(37,447)
SK hynix Deutschland GmbH(SKHYD)	449,063	935	935
SK hynix U.K. Ltd.(SKHYU)	384,744	737	737
<i>(in millions of Korean won)</i>	2012		
	Sales	Profit (loss)	Total Comprehensive income(loss)
SK hynix America Inc.(SKHYA)	2,731,312	1,187	1,187
SK hynix Asia Pte.Ltd.(SKHYS)	510,241	1,237	1,237
SK hynix Semiconductor HongKong Ltd.(SKHYH)	1,338,411	(989)	(989)
SK hynix Japan Inc.(SKHYJ)	569,521	5,834	5,834
SK hynix Semiconductor Taiwan Inc.(SKHYT)	1,107,685	236	236
SK hynix Semiconductor (China) Ltd.(SKHYCL)	1,841,829	186,669	186,669
SK hynix Deutschland GmbH(SKHYD)	329,839	1,911	1,911
SK hynix U.K. Ltd.(SKHYU)	296,599	1,308	1,308

SK hynix Inc. and Subsidiaries
Notes to the Interim Consolidated Financial Statements
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2. Significant Accounting Policies

2.1 Basis of Preparation

The interim consolidated financial statements for the nine-month period ended September 30, 2013, have been prepared in accordance with Korean IFRS 1034, *Interim Financial Reporting*. These interim consolidated financial statements have been prepared in accordance with the Korean IFRS standards and interpretations issued and effective or issued and early adopted at the reporting date as of September 30, 2013. The accompanying interim consolidated financial statements have been condensed, restructured and translated into English from the Korean language financial statements.

New standards, amendments and interpretations issued and effective for the financial year beginning January 1, 2013, and adopted by the Group are as follows:

- Amendment to Korean IFRS 1001, *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income*

According to the amendment to Korean IFRS 1001, *Presentation of Financial Statements*, the amendment requires the entities to group items presented in other comprehensive income based on whether they are potentially reclassified to profit or loss subsequently. The Group applies the amendment retroactively. There is no material impact on its total comprehensive income due to the retrospective application of changes in these accounting policies.

- Amendments to Korean IFRS 1019, *Employee Benefits*

According to the amendments to Korean IFRS 1019, *Employee Benefits*, all actuarial gains and losses incurred are immediately recognized in other comprehensive income. All past service costs incurred from changes in pension plan are immediately recognized, and expected returns on interest costs and plan assets that used to be separately calculated are now changed to calculating net interest expense (income) by applying discount rate used in measuring defined benefit obligation in net defined benefit liabilities (assets) and the amendment does not have a material impact to the Group.

- Enactment of Korean IFRS 1110, *Consolidated Financial Statements*

Korean IFRS 1110, *Consolidated Financial Statements*, introduces a single control concept and provides a specific guidance for the control. The adoption of this Standard does not have an impact on the consolidation scope in the consolidated financial statements.

- Enactment of Korean IFRS 1111, *Joint Arrangements*

Korean IFRS 1111, *Joint Arrangements*, reflects the essence of joint arrangements and focuses on the rights and obligations of the parties to the joint arrangements rather than on the legal forms of the arrangements. Joint arrangements are classified into joint operations or joint ventures. The adoption of this standard does not have a material impact on its interim consolidated financial statements.

SK hynix Inc. and Subsidiaries
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- Enactment of Korean IFRS 1112, *Disclosures of Interests in Other Entities*

Korean IFRS 1112, *Disclosure of Interests in Other Entities*, provides disclosure requirements for all types of equity investments in other entities including subsidiaries, associates, joint ventures and unconsolidated structured entities.

- Enactment of Korean IFRS 1113, *Fair Value Measurement*

Korean IFRS 1113, *Fair Value Measurement*, provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements. This enactment prospectively applied for annual periods beginning on or after January 1, 2013, and the enactment does not have a material impact on its financial statements.

2.2 Accounting Policy

The principal accounting policies applied in the preparation of these interim consolidated financial statements are consistent with the policies applied in the preparation of prior year consolidated financial statements, except changes due to the application of amendments and enactments of standards described in Note 2.1 and the ones described below.

Income tax expense for the interim period is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate is applied to the pre-tax income.

3. Critical Accounting Estimates and Judgments

The Group makes estimates and assumptions concerning the future. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results.

The estimates and assumptions applied in the preparation of these interim consolidated financial statements are consistent with the estimates and assumptions applied in the preparation of prior year consolidated financial statements except for the estimates in determining income tax expense for the interim period.

4. Fair Value

There are no significant changes in the business or economic circumstances that affect the fair value of the Group's financial assets and financial liabilities for the nine-month period ended September 30, 2013.

4.1 Fair Value of Financial Instruments

The following table presents the Group's book and fair values of financial instruments by categories as of September 30, 2013 and December 31, 2012:

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<i>(in millions of Korean won)</i>	September 30, 2013		December 31, 2012	
	Book value	Fair value	Book value	Fair value
Financial assets¹				
Cash and cash equivalents	600,784	600,784	658,387	658,387
Short-term financial instruments	2,491,256	2,491,256	1,126,229	1,126,229
Loans and other receivable	205,594	205,594	144,182	144,182
Other financial assets	2,855	2,855	525	525
Available-for-sale financial assets ²	36,309	36,309	32,932	32,932
Total	3,336,798	3,336,798	1,962,255	1,962,255
Financial liabilities¹				
Other payables	620,416	620,416	381,260	381,260
Other non-trade payables	728,180	728,180	458,609	458,609
Borrowings	5,279,327	5,482,736	6,471,976	6,563,692
Other financial liabilities	47,314	47,314	18,635	18,635
Total	6,675,237	6,878,646	7,330,480	7,422,196

¹ Disclosures of fair value are not required when the carrying amount of short-term trade receivables and payables were reasonable approximations of fair value.

² Disclosures of fair value are not required when an investment in equity instruments that does not have a quoted price in an active market that is measured at cost in accordance with IAS 39 because its fair value cannot otherwise be measured reliably.

4.2 Financial Instruments Measured at Cost

The following table presents available-for-sale financial assets that are valued at historical cost as of September 30, 2013 and December 31, 2012:

<i>(in millions of Korean won)</i>	September 30, 2013	December 31, 2012
JNT Frontier Private Equity Unit	1,307	1,400
SV M&A No.1 Equity Unit	1,196	1,196
Seoul Investment Initial & Green	1,868	1,900
TS 2011-4 Technology Transfer & Business Buildup Fund	1,600	800
IMM investment	786	499
L&S Investment	706	565
Daishin Aju IB Investment Co., Ltd.	1,304	500
Intellectual Discovery, Ltd.	4,000	4,000
Equity investment in a construction guarantee association	396	396
Others	109	109
	13,272	11,365

The equity instruments above are measured at cost as the variability of estimated cash flows is significant, and the probabilities of the various estimates cannot be reasonably assessed.

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4.3 Fair Value Hierarchy

Financial instruments measured at fair value or for which the fair value are disclosed are categorized within the fair value hierarchy, and the defined levels are as follows:

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

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

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

The following table presents the Group's assets and liabilities that are measured at fair value as of September 30, 2013 and December 31, 2012:

<i>(in millions of Korean won)</i>	September 30, 2013			
	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit or loss				
Trading derivatives	-	1,121	-	1,121
Available-for-sale financial assets				
Equity securities (at fair value)	36,309	-	-	36,309
	36,309	1,121	-	37,430
Liabilities				
Financial liabilities at fair value through profit or loss				
Trading derivatives	-	47,314	-	47,314
	-	47,314	-	47,314
	December 31, 2012			
<i>(in millions of Korean won)</i>	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit or loss				
Trading derivatives	-	198	-	198
Available-for-sale financial assets				
Equity securities (at fair value)	32,932	-	-	32,932
	32,932	198	-	33,130
Liabilities				
Financial liabilities at fair value through profit or loss				
Trading derivatives	-	18,635	-	18,635
	-	18,635	-	18,635

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4.4 Valuation Techniques

The following table presents the valuation techniques of recurring and non-recurring fair value measurements and quoted prices classified as level 2.

<i>(in millions of Korean won)</i>	<u>Fair value</u>	<u>Level</u>	<u>Valuation technique</u>
Derivative assets :			
Foreign currency forward contract	879	2	Present value technique
Interest rates swap	242	2	Present value technique
Derivative liabilities :			
Interest rates swap	2,946	2	Present value technique
Conversion option	44,368	2	Option pricing model

5. Segment Information

The reportable operating segments of the Group derive their revenue primarily from the manufacturing and sales of semiconductors.

The segment information for revenue and operating profit(loss) for the three-month and nine-month periods ended September 30, 2013 and 2012, is as follows:

<i>(in millions of Korean won)</i>	2013					
	Three months			Nine months		
	<u>Semi-conductor</u>	<u>Other</u>	<u>Total</u>	<u>Semi-conductor</u>	<u>Other</u>	<u>Total</u>
Total segment revenue	4,071,500	72,824	4,144,324	10,763,649	212,277	10,975,926
Inter-segment revenue	-	(60,703)	(60,703)	-	(178,511)	(178,511)
Revenue from						
external customers	4,071,500	12,121	4,083,621	10,763,649	33,766	10,797,415
Operating Profit	1,164,186	295	1,164,481	2,588,158	6,876	2,595,034
<i>(in millions of Korean won)</i>	2012					
	Three months			Nine months		
	<u>Semi-conductor</u>	<u>Other</u>	<u>Total</u>	<u>Semi-conductor</u>	<u>Other</u>	<u>Total</u>
Total segment revenue	2,412,300	62,327	2,474,737	7,411,906	202,725	7,614,631
Inter-segment revenue	-	(51,255)	(51,255)	-	(170,808)	(170,808)
Revenue from						
external customers	2,412,300	11,182	2,423,482	7,411,906	31,917	7,443,823
Operating Profit(Loss)	(28,603)	4,581	(24,022)	(287,923)	5,602	(282,321)

The Group's semiconductor products are classified into two types of products, DRAM and NAND Flash. During the nine-month period ended September 30, 2013, the share of each type of products among the total revenue is approximately 71.9% and 24.4% (2012: 71.5% and 24.5%), respectively.

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The Group's revenue information by geographical segments (location of subsidiaries) for the three-month and nine-month periods ended September 30, 2013 and 2012, is as follows:

<i>(in millions of Korean won)</i>	2013		2012	
	Three months	Nine months	Three months	Nine months
Domestic	328,770	804,658	228,375	585,100
China	916,748	2,357,184	480,031	1,345,757
Asia	1,005,849	2,887,981	612,888	2,175,706
United States	1,531,106	3,921,936	919,233	2,715,954
Europe	301,148	825,656	182,955	621,306
	4,083,621	10,797,415	2,423,482	7,443,823

The Group's non-current assets (excluding financial assets, loans and other receivables, investments in jointly controlled entities and associates and deferred income tax assets) information by geographical segments as of September 30, 2013 and December 31, 2012, are as follows:

<i>(in millions of Korean won)</i>	September 30, 2013	December 31, 2012
Domestic	10,353,436	9,853,629
China	2,656,003	2,638,507
Asia	5,029	1,614
United States	295,022	293,181
Europe	1,677	1,775
	13,311,167	12,788,706

Details of the Group's revenue for the three-month and nine-month periods ended September 30, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	2013		2012	
	Three months	Nine months	Three months	Nine months
Sales of goods	4,056,928	10,738,505	2,415,788	7,420,058
Sales of services	26,693	58,910	7,694	22,188
Royalty income	-	-	-	1,577
	4,083,621	10,797,415	2,423,482	7,443,823

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6. Financial Instruments by Categories

Details of financial assets by category as of September 30, 2013, and December 31, 2012, are as follows:

		September 30, 2013				
		Assets at fair value through the profit and loss	Available-for- sale financial assets	Held-to- maturity financial assets	Loans and receivables	Total
<i>(in millions of Korean won)</i>						
Cash and cash equivalents	-	-	-	-	600,784	600,784
Short-term financial instruments	-	-	-	-	2,491,256	2,491,256
Trade receivables	-	-	-	-	2,188,907	2,188,907
Other receivables	-	-	-	-	205,594	205,594
Other financial assets	1,121	-	-	-	1,734	2,855
Available-for-sale financial assets	-	-	49,581	-	-	49,581
		1,121	49,581	-	5,488,275	5,538,977
		December 31, 2012				
		Assets at fair value through the profit and loss	Available-for- sale financial assets	Held-to- maturity financial assets	Loans and receivables	Total
<i>(in millions of Korean won)</i>						
Cash and cash equivalents	-	-	-	-	658,387	658,387
Short-term financial instruments	-	-	-	-	1,126,229	1,126,229
Trade receivables	-	-	-	-	1,719,521	1,719,521
Other receivables	-	-	-	-	144,182	144,182
Other financial assets	198	-	-	-	327	525
Available-for-sale financial assets	-	-	44,297	-	-	44,297
		198	44,297	-	3,648,646	3,693,141

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Details of financial liabilities by category as of September 30, 2013 and December 31, 2012, are as follows:

September 30, 2013				
<i>(in millions of Korean won)</i>	Liabilities at fair value through the profit and loss	Liabilities measured at amortized cost	Other	Total
Trade payables	-	691,013	-	691,013
Other payables	-	620,416	-	620,416
Other non-trade payables	-	728,180	-	728,180
Borrowings	-	5,096,153	183,174	5,279,327
Other financial liabilities	47,314	-	-	47,314
	47,314	7,135,762	183,174	7,366,250

December 31, 2012				
<i>(in millions of Korean won)</i>	Liabilities at fair value through the profit and loss	Liabilities measured at amortized cost	Other	Total
Trade payables	-	592,738	-	592,738
Other payables	-	381,260	-	381,260
Other non-trade payables	-	458,609	-	458,609
Borrowings	-	6,130,542	341,434	6,471,976
Other financial liabilities	18,635	-	-	18,635
	18,635	7,563,149	341,434	7,923,218

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7. Credit Risk of Financial Instruments

The aging analyses of trade receivables, and loans and other receivables as of September 30, 2013 and December 31, 2012, are as follows:

		September 30, 2013						
		Overdue						
		Less than 3 months	Over 3 months and less than 6 months	Over 6 months				
<i>(in millions of Korean won)</i>	Not Past due				Impaired	Total		
Trade receivables	2,179,331	12,749	77	50	1,009	2,193,216		
Current loans and other receivables	163,976	-	-	-	2,277	166,253		
Non-current loans and other receivables	42,052	-	-	-	12,685	54,737		
	2,385,359	12,749	77	50	15,971	2,414,206		

		December 31, 2012						
		Overdue						
		Less than 3 months	Over 3 months and less than 6 months	Over 6 months				
<i>(in millions of Korean won)</i>	Not Past due				Impaired	Total		
Trade receivables	1,720,446	980	186	79	1,087	1,722,778		
Current loans and other receivables	125,342	1	-	-	4,747	130,090		
Non-current loans and other receivables	19,202	-	-	-	12,764	31,966		
	1,864,990	981	186	79	18,598	1,884,834		

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

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

As of September 30, 2013, maximum exposure of credit risk relating guarantees provided by the Group is ₩ 28 million (December 31, 2012: ₩ 31 million) which will be paid upon request of the warrantee as mentioned in Note 33.

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8. Derecognition of Financial Assets

The Group has entered into trade receivables discounting agreements with several financial institutions. Outstanding trade receivables discounted but not yet matured amount to ₩ 183,174 million as of September 30, 2013 (December 31, 2012: ₩ 341,434 million). The Group is obliged to redeem upon default of the counterparties and accordingly, accounted for the above transactions as collateralized borrowings.

9. Restricted Financial Instruments

As of September 30, 2013, short-term financial instruments amounted to ₩ 64,507 million (December 31, 2012: ₩ 76,223 million) and other financial assets amounted to ₩ 325 million (December 31, 2012: ₩ 326 million) are pledged as collateral for certain borrowings, supporting small business and other purposes.

10. Trade and Other Receivables

Details of current and non-current loans and other receivables as of September 30, 2013 and December 31, 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>September 30, 2013</u>	<u>December 31, 2012</u>
Current		
Other receivables	142,279	111,986
Accrued income	16,305	8,569
Short-term loans	2,639	1,823
Short-term guarantee deposits	387	320
Deposits	2,264	2,357
	<u>163,874</u>	<u>125,055</u>
Non-current		
Long-term other receivables	21,559	80
Long-term loans	6,506	6,630
Guarantee deposits	12,779	11,540
Other Long-term deposits	876	877
	<u>41,720</u>	<u>19,127</u>
	<u>205,594</u>	<u>144,182</u>

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Trade receivables and loans and other receivables, net of provision for impairment, as of September 30, 2013 and December 31, 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>September 30, 2013</u>	<u>December 31, 2012</u>
Trade receivables	2,193,216	1,722,778
Less : provision for impairment	(4,309)	(3,257)
Trade receivables - net	<u>2,188,907</u>	<u>1,719,521</u>
Current loans and other receivables	166,253	130,090
Less : provision for impairment	(2,379)	(5,035)
Current loans and other receivables - net	<u>163,874</u>	<u>125,055</u>
Non-current loans and other receivables	54,737	31,966
Less : provision for impairment	(13,017)	(12,839)
Non-current loans and other receivables - net	<u>41,720</u>	<u>19,127</u>
	<u>2,394,501</u>	<u>1,863,703</u>

Movements in the provision for impairment of trade receivables for the nine-month periods ended September 30, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
At January 1	3,257	3,855
Provision for receivables impairment	1,026	673
Unused amounts reversed	-	(8)
Effect of foreign exchange rates	26	(310)
At September 30	<u>4,309</u>	<u>4,210</u>

Movements in the provision for impairment of current loans and other receivables for the nine-month periods ended September 30, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
At January 1	5,035	4,925
Provision for receivables impairment	-	168
Unused amounts reversed	(2,656)	(272)
Effect of foreign exchange rates	-	225
At September 30	<u>2,379</u>	<u>5,046</u>

Movements in the provision for impairment of non-current loans and other receivables for the nine-month periods ended September 30, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
At January 1	12,839	12,984
Provision for receivables impairment	243	80
Unused amounts reversed	-	(239)
Effect of foreign exchange rates	(65)	21
At September 30	<u>13,017</u>	<u>12,846</u>

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11. Inventories

Details of inventories as of September 30, 2013 and December 31, 2012, are as follows:

<i>(in millions of Korean won)</i>	September 30, 2013	December 31, 2012
Finished goods	476,832	645,889
Less : valuation allowance	(35,870)	(82,638)
Finished goods - net	440,962	563,251
Work in progress	553,712	721,707
Less : valuation allowance	(56,056)	(38,355)
Work in progress - net	497,656	683,352
Raw materials	133,340	179,689
Less : valuation allowance	(529)	(3,704)
Raw materials - net	132,811	175,985
Supplies	49,683	42,227
Less : valuation allowance	(64)	(61)
Supplies - net	49,619	42,166
Goods in transit	32,197	44,709
Less : valuation allowance	-	(132)
Goods in transit - net	32,197	44,577
	1,153,245	1,509,331

12. Other Current and Non-current Assets

Details of other current and non-current assets as of September 30, 2013 and December 31, 2012, are as follows:

<i>(in millions of Korean won)</i>	September 30, 2013	December 31, 2012
Current Assets		
Advance payments	4,021	4,255
Prepaid expenses	147,771	123,197
Others	5,577	7,921
	157,369	135,373
Non-current Assets		
Long-term advance payments	32	62
Long-term prepaid expenses	256,597	167,356
Others	19,518	21,577
	276,147	188,995
	433,516	324,368

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13. Available-for-sale Financial Assets

Changes in the book value of available-for-sale financial assets for the nine-month periods ended September 30, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	2013	2012
At January 1	44,297	47,492
Acquisition	2,032	1,621
Disposal	(126)	(3,547)
Other comprehensive income transferred to equity ¹	3,378	4,878
At September 30	49,581	50,444

¹ Net of income tax effect of ₩ 694 million (2012: ₩ 1,916 million).

14. Investments in Jointly Controlled Entity and Associate

Details of investments in jointly controlled entity and associate as of September 30, 2013 and December 31, 2012, are as follows:

<i>(in millions of Korean won)</i>		September 30, 2013				December 31, 2012	
Type	Investee	Number of Stock	Owner-ship (%)	Acquisition cost	Net asset value	Book value	Book value
Associate	Siliconfile Technologies Inc. ¹	2,358,832	27.93	22,835	9,562	10,528	8,909
Jointly controlled entity	HITECH Semiconductor (Wuxi) Co., Ltd.(HITECH)	Certificate	45.00	90,149	92,494	92,494	95,191
				112,984	102,056	103,022	104,100

¹ As of September 30, 2013, the fair value on the active market amounts to ₩ 16,677 million (December 31, 2012: ₩ 16,677 million).

Changes in investments in jointly controlled entity and associate for the nine-month periods ended September 30, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	2013		
	Siliconfile Technologies Inc.	HITECH	Total
At January 1	8,909	95,191	104,100
Dividend	-	(15,033)	(15,033)
Share of profit	1,719	11,650	13,369
Other ¹	(99)	685	586
At September 30	10,529	92,493	103,022

¹ Share in the other comprehensive income of jointly controlled entity and associate.

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	2012		
	Siliconfile Technologies Inc.	HITECH	Total
<i>(in millions of Korean won)</i>			
At January 1	8,138	95,475	103,613
Dividend	-	(11,882)	(11,882)
Share of profit	789	10,247	11,036
Other ¹	(75)	(145)	(220)
At September 30	8,852	93,695	102,547

¹ Share in the other comprehensive income of the jointly controlled entity and associate.

The summary of the investees' assets and liabilities as of September 30, 2013 and December 31, 2012, is as follows:

		September 30, 2013			
		Current Assets	Non-Current Assets	Current liabilities	Non-current liabilities
<i>(in millions of Korean won)</i>	Locations				
Siliconfile Technologies Inc.	Korea	44,042	19,644	26,034	3,414
HITECH Semiconductor(Wuxi) Co., Ltd.(HITECH)	China	199,983	381,774	191,607	184,608
		244,025	401,418	217,641	188,022

		December 31, 2012			
		Current Assets	Non-Current Assets	Current liabilities	Non-current liabilities
<i>(in millions of Korean won)</i>	Locations				
Siliconfile Technologies Inc.	Korea	49,481	12,933	31,567	2,407
HITECH Semiconductor(Wuxi) Co., Ltd.(HITECH)	China	180,509	397,564	129,219	237,317
		229,990	410,497	160,786	239,724

The summary of sales and net income of the investees for the nine-month periods ended September 30, 2013 and 2012, is as follows:

	2013		2012	
	Sales	Net Income	Sales	Net Income
<i>(in millions of Korean won)</i>				
Siliconfile Technologies Inc.	100,902	6,153	80,769	2,863
HITECH Semiconductor (Wuxi) Co., Ltd.(HITECH)	455,225	25,890	448,969	25,359
	556,127	32,043	529,738	28,222

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15. Property, Plant and Equipment

Details of changes in property, plant and equipment for the nine-month periods ended September 30, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	2013	2012
At January 1	11,586,192	10,899,308
Acquisition	2,573,362	3,631,067
Acquisition of subsidiaries	-	2,906
Disposal	(11,559)	(33,295)
Depreciation charge	(2,184,078)	(2,305,158)
Impairment	(73,837)	-
Foreign exchange differences and others	60,429	(82,793)
At September 30	11,950,509	12,112,035

Certain property, plant and equipment are pledged as collateral for certain borrowings of the Group as of September 30, 2013 (Note 33).

Finance lease

As of September 30, 2013, the Group leases certain buildings, machinery and others from GE Capital under finance lease agreements.

The book value of the machinery and others subject to finance lease agreement amounted to ₩ 281,034 million (December 31, 2012: ₩ 355,365 million) as of September 30, 2013. The plant and equipment are pledged as collateral for the finance lease liabilities.

Operating lease

The Group leases certain machinery and others from GE Capital, Macquarie Capital and iTEST Co., Ltd. under operating lease agreements.

16. Investment Property

Details of changes in investment property for the nine-month periods ended September 30, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	2013	2012
At January 1	29,888	31,168
Acquisition	-	-
Disposal	-	-
Depreciation charge	(959)	(960)
At September 30	28,929	30,208

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17. Intangible Assets

Details of changes in intangible assets for the nine-month periods ended September 30, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
At January 1	983,630	707,648
Acquisition	189,507	108,911
Acquisition of subsidiaries	-	284,798
Disposal	(12,302)	(4,852)
Amortization charge	(105,989)	(93,710)
Foreign exchange differences and others	736	(3,626)
At September 30	<u>1,055,582</u>	<u>999,169</u>

Among costs associated with development activities, ₩ 149,749 million (2012: ₩ 92,040 million), that was directly attributable and met capitalization criteria, was capitalized as development cost for the nine-month period ended September 30, 2013. However, research and other development expenditures that did not meet the criteria amounted to ₩ 669,962 million (2012: ₩ 751,829 million) were recognized as an expense as incurred in the statement of comprehensive income for the nine-month period ended September 30, 2013.

18. Assets classified as held for sale

Details of changes in assets classified as held for sale for the nine-month periods ended September 30, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
At January 1	26,958	29,033
Disposal	(4)	(5)
Other	114	(874)
At September 30	<u>27,068</u>	<u>28,154</u>

19. Other Non-trade Payables

Details of other non-trade payables as of September 30, 2013, and December 31, 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>September 30, 2013</u>	<u>December 31, 2012</u>
Current		
Accrued expenses	541,880	361,076
Non-current		
Long-term other payables	174,404	75,492
Rent deposit payables	10,641	18,510
Long-term accrued expenses	1,255	3,531
	<u>186,300</u>	<u>97,533</u>
	<u>728,180</u>	<u>458,609</u>

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20. Borrowings

Details of borrowings as of September 30, 2013 and December 31, 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>September 30, 2013</u>	<u>December 31, 2012</u>
Current		
Short-term borrowings	736,086	1,020,609
Current maturities of debentures	-	299,697
Current maturities of convertible bonds	-	980,316
Current maturities of long-term borrowings	736,436	418,575
	<u>1,472,522</u>	<u>2,719,197</u>
Non-current		
Long-term borrowings	1,850,948	2,301,807
Debentures	1,452,465	1,450,972
Convertible bonds	503,392	-
	<u>3,806,805</u>	<u>3,752,779</u>
	<u>5,279,327</u>	<u>6,471,976</u>

Details of changes in borrowings for the nine-month periods ended September 30, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
At January 1	6,471,976	6,776,465
Borrowings	2,801,959	5,544,482
Repayment	(3,588,449)	(5,554,901)
Conversion of convertible instruments	(432,878)	(187)
Others ¹	26,719	46,006
At September 30	<u>5,279,327</u>	<u>6,719,853</u>

¹ Effects of changes in foreign exchange rates and unwinding of discount.

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21. Provisions

Details of changes in provisions for the nine-month periods ended September 30, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	2013			
	Sales returns	Legal claims	Warranty	Total
At January 1	5,305	322,361	2,949	330,615
Addition	11,183	57,680	-	68,863
Reversal and utilization	-	(173,014)	(1,060)	(174,074)
Other ¹	-	(128,337)	-	(128,337)
At September 30	16,488	78,690	1,889	97,067

<i>(in millions of Korean won)</i>	2012			
	Sales returns	Legal claims	Warranty	Total
At January 1	3,807	349,660	-	353,467
Addition	384	82,398	2,617	85,399
Reversal and utilization	-	(45,520)	-	(45,520)
Other ¹	-	(11,228)	-	(11,228)
At September 30	4,191	375,310	2,617	382,118

¹ Effects of changes in foreign exchange rates and transfers to/from other accounts.

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 are recorded as provisions for sales returns.

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 (Note 33).

Provisions for warranty

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

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22. Other Financial Liabilities

Details of other financial liabilities as of September 30, 2013 and December 31, 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>September 30, 2013</u>	<u>December 31, 2012</u>
Current		
Derivative liabilities (Note 34)	2,625	17,020
Non-current		
Derivative liabilities (Note 34)	44,689	1,615
	<u>47,314</u>	<u>18,635</u>

23. Other Current and Non-current Liabilities

Details of other current and non-current liabilities as of September 30, 2013 and December 31, 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>September 30, 2013</u>	<u>December 31, 2012</u>
Current		
Unearned income	2,582	1,431
Withholdings	53,586	19,915
Deposits received	525	841
Advance receipts	5,970	3,684
Other	63	35
	<u>62,726</u>	<u>25,906</u>
Non-current		
Long-term withholdings	854	666
Other long-term employee benefit liabilities	42,993	40,335
Other	-	47
	<u>43,847</u>	<u>41,048</u>
	<u>106,573</u>	<u>66,954</u>

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24. Defined Benefit Liabilities

Defined benefit liabilities as of September 30, 2013 and December 31, 2012, are determined as follows:

<i>(in millions of Korean won)</i>	<u>September 30, 2013</u>	<u>December 31, 2012</u>
Present value of obligations	662,520	592,171
Fair value of plan assets ¹	(16,250)	(17,075)
	<u>646,270</u>	<u>575,096</u>

¹ Includes contributions to the National Pension Fund in accordance with the National Pension Law amounting to ₩ 1,865 million (December 31, 2012: ₩ 1,952 million).

The amounts recognized in the statements of comprehensive income for the three-month and nine-month periods ended September 30, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>		<u>2012</u>	
	<u>Three months</u>	<u>Nine months</u>	<u>Three months</u>	<u>Nine months</u>
Current service cost	24,530	73,589	20,250	60,763
Interest expense	7,020	21,060	6,789	20,365
Interest income	(174)	(523)	(115)	(343)
	<u>31,376</u>	<u>94,126</u>	<u>26,924</u>	<u>80,785</u>

The line items in which severance benefits are included for the three-month and nine-month periods ended September 30, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>		<u>2012</u>	
	<u>Three months</u>	<u>Nine months</u>	<u>Three months</u>	<u>Nine months</u>
Cost of sales (manufacturing costs)	18,477	55,654	15,993	47,746
Selling and administrative expenses	12,899	38,472	10,931	33,039
	<u>31,376</u>	<u>94,126</u>	<u>26,924</u>	<u>80,785</u>

Changes in the carrying amount of defined benefit obligations for the nine-month periods ended September 30, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
At January 1	592,171	471,290
Current service cost	73,589	60,763
Interest expense	21,060	20,365
Benefits paid	(24,548)	(67,137)
Transferred from a related party	418	403
The remeasurements	-	240
Other	(170)	535
At September 30	<u>662,520</u>	<u>486,459</u>

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The movements in the fair value of plan assets for the nine-month periods ended September 30, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	2013	2012
At January 1	17,075	12,591
Interest income on plan assets	523	343
Benefits paid	(1,318)	(1,756)
The remeasurements	(51)	(28)
Other	21	-
At September 30	16,250	11,150

25. Share Capital and Capital Surplus

Details of share capital and capital surplus as of September 30, 2013, are as follows:

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

Authorized shares	Outstanding shares¹	Par value (per share)	Paid in capital
9,000,000	713,729	₩ 5,000	₩ 3,568,645 million

¹ As of September 30, 2013, the actual number of shares which the shareholders own is 710,201 thousand shares. The difference of 3,528 thousand shares is the result of stock retirement.

Changes in share capital and capital surplus for the nine-month periods ended September 30, 2013 and 2012, are as follows:

<i>(in millions of Korean won and in thousands of shares)</i>	Total owned shares	Paid in Capital	Capital Surplus			Total
		Share capital	Share premium	Conversion right consideration	Other	
At January 1, 2012	592,172	2,978,498	685,177	72,350	471,525	4,207,550
Issuance of common stock	101,850	509,250	1,816,726	-	-	2,325,976
Exercise of conversion rights	7	36	161	(14)	-	183
Exercise of stock options	93	468	3,322	-	-	3,790
Others	-	-	-	-	(74)	(74)
At September 30, 2012	694,122	3,488,252	2,505,386	72,336	471,451	6,537,425
At January 1, 2013	694,156	3,488,419	2,506,532	72,331	475,011	6,542,293
Exercise of conversion rights	16,045	80,226	381,612	(29,404)	-	432,434
Others	-	-	-	-	66	66
At September 30, 2013	710,201	3,568,645	2,888,144	42,927	475,077	6,974,793

In accordance with the Articles of Incorporation, shares can be retired and be distributed as dividends to the shareholders, and the total of number of shares retired as of September 30, 2013, is 3,528 thousand shares.

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26. Expenses by Nature

Expenses that are recorded as cost of sales, selling, administration and ordinary development expenses in the statements of comprehensive income for the three-month and nine-month periods ended September 30, 2013 and 2012, consist of:

<i>(in millions of Korean won)</i>	2013		2012	
	Three months	Nine months	Three months	Nine months
Changes in inventories	280,064	307,985	(192,215)	(317,911)
Raw materials and consumables used	606,487	1,790,635	712,419	2,065,488
Employee benefit expenses	409,424	1,279,329	338,531	1,153,011
Depreciation and amortization	759,930	2,288,738	790,791	2,399,828
Royalty expense	81,383	154,051	29,631	154,250
Commission expense	110,153	333,365	93,916	277,671
Utilities expense	127,499	408,105	129,344	361,973
Repair expense	251,854	742,990	243,258	673,617
Outsourcing expense	255,209	756,213	252,308	754,136
Other	37,137	140,970	49,521	204,081
	2,919,140	8,202,381	2,447,504	7,726,144

27. Selling and Administration expenses

Selling, administration and ordinary development expenses for the three-month and nine-month periods ended September 30, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	2013		2012	
	Three months	Nine months	Three months	Nine months
Salaries	65,144	194,324	45,099	155,307
Severance benefits	4,851	14,202	4,184	12,569
Employee benefits	14,544	45,849	12,908	40,307
Commission expense	41,656	114,402	42,028	119,256
Depreciation	13,291	38,953	14,014	42,248
Amortization	30,115	105,267	35,484	93,253
Research and development	318,134	669,962	231,337	751,829
Exporting expense	5,421	16,970	5,433	17,919
Legal cost	1,769	8,952	7,191	27,972
Rental expense	3,483	11,107	3,968	11,321
Taxes and dues	4,215	13,670	2,499	7,641
Other	37,243	120,339	29,104	99,471
	539,866	1,353,997	433,249	1,379,093

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28. Financial Income and Expense

Financial income and expenses for the three-month and nine-month periods ended September 30, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	2013		2012	
	Three months	Nine months	Three months	Nine months
Finance income				
Interest income	20,121	45,659	20,075	68,136
Dividend income	963	2,381	-	216
Foreign exchange differences	309,529	370,145	171,802	375,645
Gain from derivative instruments	10,269	5,557	4,127	4,744
Others	-	205	-	5,874
Total Finance income	340,882	423,947	196,004	454,615
Finance expense				
Interest expenses	63,664	200,558	79,930	242,345
Foreign exchange differences	211,391	335,362	90,994	245,869
Loss from derivative instruments	4,163	36,924	6,299	11,214
Loss on redemption of borrowings	-	-	-	10,469
Total Finance expense	279,218	572,844	177,223	509,897
Net finance income (expense)	61,664	(148,897)	18,781	(55,282)

29. Casualty Losses

During the nine-month period ended September 30, 2013, the Group recognized casualty losses of ₩ 205,502 million caused by fire on the manufacturing facilities located in Wuxi, China, which includes impairment losses on property, plant and equipment, impairment losses on inventories, depreciation of temporarily idle property, plant and equipment and others. The amount is included in other non-operating expenses.

30. Income Tax

Interim period income tax expense was recognized in the interim consolidated statements of comprehensive income based on the best estimate of the weighted average annual tax rate expected for the full financial year. The estimated average annual effective income tax rate is 7% for the year ending December 31, 2013. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. By December 31, 2013, tax loss carryforwards are expected to decrease due to the increase in taxable profit of current year. This leads to the increase in the effective income tax rate compared to the preceding period.

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31. Earnings per Share

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

Basic earnings (loss) per ordinary share for the three-month and nine-month periods ended September 30, 2013 and 2012, are as follows:

	2013		2012	
	Three months	Nine months	Three months	Nine months
<i>(in millions of Korean won, except number of shares and per share amounts)</i>				
Profit(loss) attributable to ordinary shares	958,277	2,083,680	1,885	(322,392)
Weighted average number of ordinary shares outstanding ¹	710,200,891	710,200,891	694,122,451	677,724,663
Basic earnings(loss) per share	1,349	2,934	3	(476)

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

	2013		2012	
	Three months	Nine months	Three months	Nine months
<i>(in shares)</i>				
Beginning balance	694,716,983	694,155,767	694,122,430	592,171,582
Exercise of conversion rights	15,483,908	16,045,124	21	7,369
Exercise of stock options	-	-	-	51,186
Issuance of common stock	-	-	-	85,494,526
Weighted average number of ordinary shares outstanding	710,200,891	710,200,891	894,122,451	677,724,663

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Diluted earnings(loss) per share is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Parent Company has convertible bond as dilutive potential ordinary shares. The convertible bond is assumed to have been converted into ordinary shares, and the net profit(loss) is adjusted to eliminate the interest expense less the tax effect.

<i>(in millions of Korean won, except number of shares and per share amounts)</i>	2013		2012	
	Three months	Nine months	Three months	Nine months
Profit(loss) attributable to ordinary shares	958,277	2,083,680	1,885	(322,392)
Deduction : Income related to Convertible bond	(22,388)	-	(10,719)	-
Adjusted profit attributable to ordinary shares	935,889	2,083,680	(8,834)	(322,392)
Adjusted weighted average number of ordinary shares outstanding ¹	725,837,339	710,200,891	711,520,722	677,724,663
Diluted earnings(loss) per share	1,289	2,934	(12)	(476)

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

<i>(in shares)</i>	2013		2012	
	Three months	Nine months	Three months	Nine months
Weighted average number of ordinary shares outstanding	710,200,891	710,200,891	694,122,451	677,724,663
Dilutive potential ordinary shares : Convertible bond	15,636,448	-	17,398,271	-
Adjusted weighted average number of ordinary shares outstanding	725,837,339	710,200,891	711,520,722	677,724,663

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32. Related Party Transactions

Details of associate and jointly controlled entity as of September 30, 2013, are as follows:

Type	Investee	Locations
Associate	Siliconfile Technologies Inc.	Korea
Jointly controlled entity	HITECH Semiconductor (Wuxi) Co., Ltd.(HITECH)	China

Significant transactions between the Group and related parties for the nine-month periods ended September 30, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	2013		2012	
	Sales	Purchases	Sales	Purchases
Associate	76,959	1,133	67,305	665
Jointly controlled entity	46,921	466,235	54,221	473,166
SK Telecom Co., Ltd. ^{1,3}	954	2,231	381	364
Other related parties ^{2,3,4}	12,291	293,765	78	79,720
	137,125	763,364	121,985	553,915

¹ Related party with significant influence over the Group.

² Transactions with subsidiaries of SK Telecom Co., Ltd., SK Holdings Co., Ltd. and its subsidiaries, which have control over SK Telecom Co., Ltd., and SK C&C Company Ltd. and its subsidiaries, which are controlled by the same key management personnel of the Group.

³ Transactions that occurred after February 14, 2012, the date of obtaining significant influence over the Group.

⁴ The Group entered into a contract with SK Holdings Co., Ltd., wherein it pays royalty for the use of the SK brand in proportion to sales amount from March 2012 to December 2014. For the nine-month period ended September 30, 2013, royalty on the SK brand amounted to ₩ 13,030 million.

The balances of significant transactions as of September 30, 2013 and December 31, 2012, are as follows:

<i>(in millions of Korean won)</i>	September 30, 2013		December 31, 2012	
	Receivables	Payables	Receivables	Payables
Associate	21,826	-	26,299	1
Jointly controlled entity	7,865	222,987	9,515	225,873
SK Telecom Co., Ltd. ¹	1,031	330	887	287
Other related parties ²	792	150,396	61	23,756
	31,514	373,713	36,762	249,917

¹ Related party with significant influence over the Group.

² Balances with subsidiaries of SK Telecom Co., Ltd., SK Holdings Co., Ltd. and its subsidiaries, which have control over SK Telecom Co., Ltd., and SK C&C Company Ltd. and its subsidiaries, which are controlled by the same key management personnel of the Group.

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Key management compensation

Key management includes chief executive officer, executives from subsidiaries, directors, internal auditors and others. The compensation paid to key management for the nine-month periods ended September 30, 2013 and 2012, consists of:

<i>(in millions of Korean won)</i>	<u>Details</u>	<u>2013</u>	<u>2012</u>
Short-term employee benefits	Wages, salaries, bonus and other	19,250	17,790
Defined benefits	Retirement payment and other	3,773	2,183
Other long-term benefits	Long-term employment allowance	4	1
		<u>23,027</u>	<u>19,974</u>

33. Commitments and Contingencies

Significant pending litigations and claims of the Group as of September 30, 2013, are as follows:

(a) Litigation filed by Rambus

The Group was a defendant in lawsuits claimed by Rambus Inc. ("Rambus"), a developer of High-bandwidth chip connection technology, alleging that the Group's certain DRAM products are infringing Rambus' patents ("Patent Litigation"), and that the Group together with other major memory chip manufacturers conspired to prevent Rambus' proprietary DRAM technology from becoming the standard computer memory technology ("Antitrust Litigation").

However, on June 11, 2013, the Group entered into a settlement and patent license agreement with Rambus, and pursuant to the agreement the Group and Rambus withdrew all outstanding disputes, including Patent Litigation and Antitrust Litigation, and the Group secured rights to use the Rambus' patents for the next five years.

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

On July 24, 1997, the Group sold 13 million shares of Hanwha Investment & Securities Co., Ltd. ("HIS") to Canadian Imperial Bank of Commerce ("CIBC"). In relation to this transaction, HHI entered into a share option agreement with CIBC in which HHI was obligated to buy back the 13 million shares of HIS if CIBC exercised its put option. In return, the Group and Hyundai Securities Co., Ltd. ("HSC") provided HHI with a comfort letter stating that HHI would not suffer any burden as a result of the transaction. The Group, in turn, received a similar letter from HSC. Upon CIBC's exercise of its put option, HHI repurchased the shares in July 2000 and requested approximately US\$ 220 million of compensation for damage which is equivalent to the repurchase price to the Group and HSC.

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

In January 2002, the court rendered a ruling that the Group, HSC and the former CEO of HSC jointly and severally pay 70% of the claim amount (₩ 171,822 million) and interest thereon to HHI. The

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

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

HHI, however, made another appeal to the Supreme Court of Korea on September 10, 2009. The Supreme Court of Korea, on February 2, 2012, reversed and remanded the above Seoul High Court ruling to the extent it excluded ₩ 4,284 million and related interest, on the grounds that Seoul High Court erred in deducting the market value of the shares from the compensation.

The Group, in order to minimize the possibility of interest payment on the potential amount of claimed damages, made a conditional/provisional payment of ₩ 7,971 million in principal and interest to HHI while the litigation mentioned above was in progress in Seoul High Court. In July 13, 2012, Seoul High Court rendered a ruling partially in favor of the plaintiff for the same reason as judged in the Supreme Court of Korea ruling. The Group, therefore, on August 2, 2012, made an additional payment of ₩ 944 million to HHI. After considering potential benefits from appealing to a higher court, each of the Group and HHI decided not to appeal. Therefore, this lawsuit has been finalized and concluded.

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

However, the Group appealed to the Seoul High Court on November 11, 2009, and on November 10, 2011, the court rendered a ruling that the Group and HSC should only pay ₩ 48,770 million and related interest. The Group, HSC and HHI appealed to the Supreme Court of Korea on November 25, 2011. As of September 30, 2013 the ultimate outcome of the lawsuits described above cannot be determined, but could have a material effect.

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(c) Other litigation and patent-related claims

Apart from the above litigation, the Group is in the midst of defending itself against other various lawsuits and claims regarding patent infringements. As a result, as of September 30, 2013, the Group recognized a liability for the expected future losses that are probable and can be reliably estimated. However, the final outcome of these matters cannot be determined, but could have a material effect on the Group's consolidated financial statements. The accompanying interim consolidated financial statements do not include any adjustments in relation to such uncertainty.

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.

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.

Post- process service contract with HITECH

The Parent Company 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 contract, 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.

Assets provided as collaterals

Details of assets provided as collaterals¹ as of September 30, 2013, are as follows:

<i>(in millions of Korean won)</i>	Book value	Pledged amount	Remark
Land	36,224		
Buildings	87,298	1,461,514	Borrowings
Machinery	1,511,781		
	1,635,303	1,461,514	

¹ Other than the above assets provided as collaterals, the finance lease assets of the Group are pledged as collateral for the finance lease liabilities in accordance with finance lease agreement (Note 15).

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Financing agreements

Details of credit lines with financial institutions as of September 30, 2013, are as follows:

<i>(in millions of US dollars and Chinese Renminbi)</i>	Financial Institution	Commitment	Cur.	Amount
		Import finance like usance	USD	540
The Parent Company	Korea Exchange Bank and other	Export finance like bills bought	USD	425
		Comprehensive limit contract about Import & Export	USD	1,050
SK hynix Semiconductor (China) Ltd.(SKHYCL)	Agricultural Bank of China and other	Import finance like usance	RMB	1,530
			USD	1,062
SK hynix America Inc. (SKHYA) and other sales entities	Citibank and other	Accounts receivable factoring contracts which have no right to recourse	USD	681

Guarantees provided to others

Details of guarantees provided to others as of September 30, 2013, are as follows:

<i>(in millions of Korean won)</i>	Amount	Remark
Employees	28	Guarantees for employees' borrowings related to employee stock ownership

Capital commitment

As of September 30, 2013, the Group has ₩ 317,224 million (2012: ₩ 114,610 million) of commitment in relation to the capital expenditures on tangible assets which is not recorded in the books.

34. Derivative Financial Instruments

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

As of September 30, 2013, the carrying amount of derivative financial assets is ₩ 1,121 million (December 31, 2012: ₩ 198 million) and the carrying amount of derivative financial liabilities is ₩ 47,314 million (December 31, 2012: ₩ 18,635 million).

Gains and loss relating to the derivative instruments for the nine-month period ended September 30, 2013, amounted to ₩ 5,557 million (2012: ₩ 4,744 million) and ₩ 36,924 million (2012: ₩ 11,214 million), respectively.

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35. Cash Generated from Operations

Reconciliations between operating profit and net cash inflow from operating activities for the nine-month periods ended September 30, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	2013	2012
Profit(loss) for the period before income tax	2,240,765	(309,719)
Adjustments		
Defined benefits	94,126	80,785
Depreciation ¹	2,184,078	2,305,158
Depreciation of investment properties	959	960
Amortization	105,989	93,710
Loss on foreign currency translation	60,091	26,329
Reversal of provision for loss on inventories	30,633	-
Impairment loss on property, plant and equipment	73,837	-
Interest expense	200,558	242,344
Gain on foreign currency translation	(81,659)	(104,024)
Interest income	(45,659)	(68,136)
Loss on derivative instruments	31,367	6,470
Income from jointly controlled entities and associates	(13,369)	(11,036)
Others	9,136	6,130
Changes in operating assets and liabilities		
Increase in trade receivables	(519,946)	(170,353)
Decrease(Increase) inventories	332,817	(372,592)
Decrease(Increase) in loans and other receivables	(64,087)	77,397
Increase in trade payables	131,918	108,757
Increase in other payables	26,409	10,459
Increase(Decrease) in provision	(86,394)	37,956
Payment of defined benefit liability	(23,230)	(65,381)
Increase(Decrease) in other non-trade payables	173,104	(46,569)
Others	(96,038)	(86,923)
Cash Generated from Operations	4,765,405	1,761,722

¹ Including depreciation of temporarily idle property, plant and equipment.