

# **SK hynix Inc. and Subsidiaries**

**Interim Consolidated Financial Statements**

**March 31, 2013 and 2012**

# SK hynix Inc. and Subsidiaries

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March 31, 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 March 31, 2013, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the three-month periods ended March 31, 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.

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*Samil PricewaterhouseCoopers, LS Yongsan Tower, 191, Hangangno 2-ga, Yongsan-gu,  
Seoul 140-702, Korea (Yongsan P.O Box 266, 140-600), [www.samil.com](http://www.samil.com)*

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**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 purposes, 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  
May 8, 2013

This report is effective as of May 8, 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.

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

<i>(in millions of Korean won)</i>	<b>Notes</b>	<b>March 31, 2013</b>	<b>December 31, 2012</b>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	4, 6	₩ 741,111	₩ 658,387
Short-term financial instruments	4, 6, 9	1,186,823	1,126,229
Trade receivables	6, 10	1,796,652	1,719,521
Loans and other receivables	4, 6, 10	182,035	125,055
Inventories	11	1,585,533	1,509,331
Assets classified as held for sale	18	27,986	26,958
Current tax assets		1,271	12,719
Other financial assets	4, 6	29,670	-
Other current assets	12	149,062	135,373
		<u>5,700,143</u>	<u>5,313,573</u>
<b>Non-current assets</b>			
Investments in jointly controlled entity and associate	14	111,395	104,100
Available-for-sale financial assets	4, 6, 13	53,626	44,297
Property, plant and equipment	15	11,598,526	11,586,192
Intangible assets	17	1,017,329	983,630
Investment property	16	29,568	29,888
Loans and other receivables	4, 6, 10	18,612	19,127
Other financial assets	4, 6, 9, 33	1,738	525
Deferred income tax assets		360,312	378,366
Other non-current assets	12	166,965	188,995
		<u>13,358,071</u>	<u>13,335,120</u>
<b>Total assets</b>		<u>₩ 19,058,214</u>	<u>₩ 18,648,693</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade payables	6	₩ 630,427	₩ 592,738
Other payables	4, 6	505,369	381,260
Other non-trade payables	4, 6, 19	324,178	361,076
Provisions	21	346,985	330,615
Other financial liabilities	4, 6, 22, 33	43,100	17,020
Borrowings	4, 6, 8, 20	2,542,165	2,719,197
Other current liabilities	23	41,948	25,906
Current tax liabilities		21,509	13,368
		<u>4,455,681</u>	<u>4,441,180</u>
<b>Non-current liabilities</b>			
Borrowings	4, 6, 20	3,830,527	3,752,779
Other non-trade payables	4, 6, 19	91,734	97,533
Defined benefit liabilities	24	592,887	575,096
Other financial liabilities	4, 6, 22, 33	1,532	1,615
Other non-current liabilities	23	42,307	41,048
		<u>4,558,987</u>	<u>4,468,071</u>
<b>Total liabilities</b>		<u>9,014,668</u>	<u>8,909,251</u>
<b>Equity attributable to owners of the Parent Company</b>			
Capital stock	25	3,488,467	3,488,419
Capital surplus	25	3,054,075	3,053,874
Accumulated other comprehensive income		9,642	(115,402)
Retained earnings		3,491,844	3,313,265
		<u>10,044,028</u>	<u>9,740,156</u>
<b>Non-controlling interest</b>		<u>(482)</u>	<u>(714)</u>
<b>Total equity</b>		<u>10,043,546</u>	<u>9,739,442</u>
<b>Total liabilities and equity</b>		<u>₩ 19,058,214</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 Periods Ended March 31, 2013 and 2012**

<i>(in millions of Korean won, except per share amounts)</i>	<b>Notes</b>	<b>2013</b>		<b>2012</b>	
<b>Net sales</b>	5	₩	2,781,147	₩	2,388,389
<b>Cost of sales</b>	26		<u>(2,018,229)</u>		<u>(2,178,386)</u>
<b>Gross profit</b>			762,918		210,003
Selling and administrative expenses	26,27		<u>(445,967)</u>		<u>(473,548)</u>
<b>Operating income (loss)</b>			316,951		(263,545)
Financial income	28		142,993		196,371
Financial expenses	28		(258,214)		(203,339)
Income from jointly controlled entity and associate	14		3,614		6,543
Other non-operating income			17,561		11,086
Other non-operating expenses			<u>(14,688)</u>		<u>(18,144)</u>
<b>Profit (loss) before income tax</b>			208,217		(271,028)
Income tax expense	29		<u>29,504</u>		<u>195</u>
<b>Profit(loss) for the period</b>		₩	<u>178,713</u>	₩	<u>(271,223)</u>
<b>Other comprehensive income (loss) after tax</b>					
Line items will not be reclassified to profit or loss					
Actuarial loss on defined benefit liabilities	24		<u>(16)</u>		<u>(5)</u>
Line items will be reclassified subsequently to profit or loss when specific conditions are met					
Available-for-sale financial assets	13		6,575		5,890
Currency translation differences			114,902		(38,728)
Other comprehensive income from jointly controlled entity and associate	14		3,681		1,044
<b>Total comprehensive income (loss) for the period</b>		₩	<u>303,855</u>	₩	<u>(303,022)</u>
<b>Income(loss) for the period attributable to:</b>					
Equity holders of the Parent Company		₩	178,595	₩	(271,119)
Non-controlling interest			118		(104)
<b>Total comprehensive income (loss) for the period attributable to:</b>					
Equity holders of the Parent Company		₩	303,623	₩	(302,868)
Non-controlling interest			232		(154)
<b>Earning (loss) per share attributable to the equity holders of the Parent Company for the period</b>	30				
Basic earnings (loss) per share		₩	257	₩	(420)
Diluted earnings (loss) per share			257		(420)

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**  
**Three-Month Periods Ended March 31, 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>										
<b>Balance at January 1, 2012</b>		₩ 2,978,498	₩ 1,229,052	₩ 107,107	₩ 5,762	₩ 3,555,323	₩ 7,875,742	₩ (471)	₩ 7,875,271	
<b>Comprehensive income</b>										
Loss for the period		-	-	-	-	(271,119)	(271,119)	(104)	(271,223)	
Gain on the valuation of available-for-sale financial assets	13	-	-	5,890	-	-	5,890	-	5,890	
Currency translation differences		-	-	(38,686)	-	-	(38,686)	(42)	(38,728)	
Other comprehensive income from jointly controlled entity and associate	14	-	-	1,044	-	-	1,044	-	1,044	
Actuarial loss on defined benefit liabilities	24	-	-	-	-	3	3	(8)	(5)	
Total comprehensive income (loss)		-	-	(31,752)	-	(271,116)	(302,868)	(154)	(303,022)	
<b>Transactions with equity holders of the Parent company</b>										
Issuance of common stock	25	509,250	1,816,727	-	-	-	2,325,977	-	2,325,977	
Exercise of conversion rights	25	20	78	-	-	-	98	-	98	
Others		-	-	-	-	(76)	(76)	-	(76)	
Total transactions with equity holders of the Parent Company		509,270	1,816,805	-	-	(76)	2,325,999	-	2,325,999	
<b>Balance at March 31, 2012</b>		₩ 3,487,768	₩ 3,045,857	₩ 75,355	₩ 5,762	₩ 3,284,131	₩ 9,898,873	₩ (625)	₩ 9,898,248	
<b>Balance at January 1, 2013</b>		₩ 3,488,419	₩ 3,053,874	₩ (115,402)	₩ -	₩ 3,313,265	₩ 9,740,156	₩ (714)	₩ 9,739,442	
<b>Comprehensive income</b>										
Profit for the period		-	-	-	-	178,595	178,595	118	178,713	
Gain on the valuation of available-for-sale financial assets	13	-	-	6,575	-	-	6,575	-	6,575	
Currency translation differences		-	-	114,788	-	-	114,788	114	114,902	
Other comprehensive income from jointly controlled entity and associate	14	-	-	3,681	-	-	3,681	-	3,681	
Actuarial loss on defined benefit liabilities	24	-	-	-	-	(16)	(16)	-	(16)	
Total comprehensive income		-	-	125,044	-	178,579	303,623	232	303,855	
<b>Transactions with equity holders of the Parent Company</b>										
Exercise of conversion rights	25	48	201	-	-	-	249	-	249	
Total transactions with equity holders of the Parent Company		48	201	-	-	-	249	-	249	
<b>Balance at March 31, 2013</b>		₩ 3,488,467	₩ 3,054,075	₩ 9,642	₩ -	₩ 3,491,844	₩ 10,044,028	₩ (482)	₩ 10,043,546	

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

**SK hynix Inc. and Subsidiaries**  
**Interim Consolidated Statements of Cash Flows**  
**Three-Month Periods Ended March 31, 2013 and 2012**

<i>(in millions of Korean won)</i>	Notes	2013	2012
<b>Cash flows from operating activities</b>			
Cash generated from operations	34	₩ 990,056	₩ 776,242
Interest received		7,169	15,303
Interest paid		(50,738)	(41,311)
Dividends received		1,362	1
Income tax paid		(2,089)	(6,422)
<b>Net cash generated from operating activities</b>		<u>945,760</u>	<u>743,813</u>
<b>Cash flows from investing activities</b>			
Decrease in short-term financial assets		354,349	463,205
Increase in short-term financial assets		(413,645)	(540,319)
Increase in other financial assets		(29,977)	-
Decrease in loans and other receivables		477	1,652
Increase in loans and other receivables		(846)	(4,635)
Proceeds from derivatives		463	1,450
Payments from derivatives		(1,515)	(443)
Proceeds from disposal of assets classified as held for sale		-	23
Proceeds from disposal of available-for-sale financial assets		119	8,995
Acquisition of available-for-sale financial assets		(852)	(51)
Proceeds from disposal of property, plant and equipment		9,553	19,884
Acquisition of property, plant and equipment		(497,484)	(1,185,377)
Proceeds from disposal of Intangible assets		200	4
Acquisition of intangible assets		(69,513)	(27,637)
<b>Net cash used in investing activities</b>		<u>(648,671)</u>	<u>(1,263,249)</u>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		1,217,425	1,092,187
Repayments of borrowings		(1,438,186)	(1,448,910)
Proceeds from issuance of common stock	25	-	2,325,977
<b>Net cash provided by (used in) financing activities</b>		<u>(220,761)</u>	<u>1,969,254</u>
<b>Effect of foreign exchange rates on cash and cash equivalents</b>		<u>6,396</u>	<u>(2,502)</u>
<b>Net increase in cash and cash equivalents</b>		82,724	1,447,316
<b>Cash and cash equivalents at the beginning of period</b>		658,387	1,243,788
<b>Cash and cash equivalents at the end of period</b>		<u>₩ 741,111</u>	<u>₩ 2,691,104</u>

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**  
**March 31, 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 March 31, 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	21.05
Share Management Council <sup>1</sup>	31,245,418	4.50
Other investors <sup>2</sup>	516,819,876	74.45
	<b>694,165,294</b>	<b>100.00</b>

<sup>1</sup> As of March 31, 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	1.45
Korea Finance Corporation	7,640,500	1.10
Shinhan Bank	7,481,500	1.08
Other financial institutions	6,030,918	0.87
	<b>31,245,418</b>	<b>4.50</b>

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 these conflict 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 March 31, 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.

If the Share Management Council holds more than 10 million shares as of March 31, 2013, the exercise period of this right will be automatically renewed until stockholding drops below 10 million shares.

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

**SK hynix Inc. and Subsidiaries**  
**Notes to the Interim Consolidated Financial Statements**  
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As of March 31, 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
Ami Power Co., Ltd.	526,721	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.	Discontinued 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

Major subsidiaries' summarized statements of financial position as of March 31, 2013 and December 31, 2012, translated into Korean won using the exchange rate as of the reporting date are as follows:

<i>(in millions of Korean won)</i>	March 31, 2013			December 31, 2012		
	Assets	Liabilities	Equity	Assets	Liabilities	Equity
SK hynix America Inc.(SKHYA)	885,994	845,414	40,580	867,351	836,418	30,933
SK hynix Asia Pte.Ltd.(SKHYS)	186,824	118,290	68,534	146,471	80,538	65,933
SK hynix Semiconductor HongKong Ltd.(SKHYH)	294,930	245,089	49,841	326,673	275,851	50,822
SK hynix Japan Inc.(SKHYJ)	233,731	174,379	59,352	194,730	141,766	52,964
SK hynix Semiconductor Taiwan Inc.(SKHYT)	312,017	271,582	40,435	276,666	238,930	37,736
SK hynix Semiconductor (China)Ltd.(SKHYCL)	3,569,737	996,356	2,573,381	3,234,346	848,071	2,386,275
SK hynix Deutschland GmbH(SKHYD)	119,561	87,332	32,229	82,039	50,918	31,121
SK hynix U.K. Ltd.(SKHYU)	80,988	69,173	11,815	81,677	71,264	10,413



**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 three-month period ended March 31, 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 March 31, 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 and the comparative consolidated statement of the comprehensive income is restated by reflecting adjustments resulting from the retrospective application. 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*, the use of a 'corridor' approach is no longer permitted, and therefore 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.

In addition, according to Korean IFRS 1019, termination benefits are paid when an employee's employment is terminated by the Group's decision before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for certain benefits. The Group recognizes a liability and expense for termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits and (b) when the Group recognizes costs for a restructuring that is within the scope of Korean IFRS 1037 and involves the payment of termination benefits. In the case of voluntary redundancy, the measurement of termination benefits is based on the number of employees expected to accept the offer. Where the benefits fall due more than 12 months after the reporting period, they are discounted to its present value. This amendment does not have a material impact on its financial statements.

**SK hynix Inc. and Subsidiaries**  
**Notes to the Interim Consolidated Financial Statements**  
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- Enactment of Korean IFRS 1110, *Consolidated Financial Statements*

Korean IFRS 1110 supersedes Korean IFRS 1027, *Consolidated and Separate Financial Statements*, and SIC-2012, *Consolidation—Special Purpose Entities*.

Korean IFRS 1110 explains the principle of control which is the basis for determining which entities are consolidated in the consolidated financial statements. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The standard sets out further guidance where it is difficult to determine control.

In accordance with transition of Korean IFRS 1110, when there are changes as of January 1, 2013, the date of initial application, the financial statements for the comparative periods are restated in conformity with the conclusion of Korean IFRS 1110 unless it is impracticable to do so. When there are no changes of consolidation scope, the previous accounting treatments are not adjusted. Based on the Group's review, the adoption of this standard did not change the scope of consolidation.

- 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. A joint operation is a joint arrangement whereby joint operators have rights to the assets and obligations for the liabilities, and directly account for the assets and liabilities and the related revenues and expenses. A joint venture is a joint arrangement whereby joint venturers have rights to the net assets of the arrangement and account for their interest in the joint venture using the equity method. The adoption of this standard did not have a material impact on its interim consolidated financial statements.

- 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. Disclosure impact resulting from the application of this standard was not reflected on these interim consolidated financial statements.

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

Korean IFRS 1113, *Fair Value Measurement*, aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across Korean IFRSs. Korean IFRS 1113 does not extend the use of fair value accounting but provides guidance on how it should be applied when its use is already required or permitted by other standards within the Korean IFRSs. 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 interim consolidated financial statements.

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**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 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. Financial Risk Management**

**4.1 Financial Risk Factors**

The Group's activities are exposed to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The interim consolidated financial statements do not include all the financial risk management and disclosures that are required in the annual consolidated financial statements and, therefore, refer to the annual consolidated financial statements for the year ended December 31, 2012.

There is no significant change in risk management department and policies for the three-month period ended March 31, 2013.

(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.

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As of March 31, 2013, if the currency had strengthened /weakened by 10% against the US dollar with all other variables held constant, profit(loss) before income tax for the period would have been ₩ 188,767 million (2012: ₩ 254,563 million) higher/lower, mainly as a result of foreign exchange gains/losses on translation of US dollar-denominated trade receivables and foreign exchange losses/gains on translation of US dollar-denominated borrowings and payables.

As of March 31, 2013, if the currency had strengthened /weakened by 10% against the Japanese Yen with all other variables held constant, profit(loss) before income tax for the period would have been ₩ 31,028 million (2012: ₩ 44,690 million) higher/lower, mainly as a result of foreign exchange gains/losses on translation of Japanese Yen-denominated trade receivables and foreign exchange losses/gains on translation of Japanese Yen-denominated trade payables.

As of March 31, 2013, if the currency had strengthened /weakened by 10% against the Euro with all other variables held constant, profit(loss) before income tax for the period would have been ₩ 21,180 million (2012: ₩ 22,815 million) higher/lower, mainly as a result of foreign exchange gains/losses on translation of Euro-denominated trade receivables and foreign exchange losses/gains on translation of Euro-denominated trade payables.

ii) Price risk

The Group is exposed to equity securities price risk because of investments held by the Group and classified on the interim consolidated statement of financial position either as available-for-sale or at fair value through profit or loss. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. There is no significant change in price risk for the three-month period ended March 31, 2013.

iii) Interest rate risk

The Group's cash flow interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates.

The Group manages its cash flow 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 that are lower than those available if the Group borrowed at fixed rates directly. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (primarily quarterly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts.

As of March 31, 2013, 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 borrowings with variable interest-bearing financial deposits.

For the three-month period ended March 31, 2013, if interest rates on borrowings had been 100 basis points lower/higher with all other variables held constant, profit(loss) before income tax for the period

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would have been ₩ 4,370 million (2012: ₩ 3,627 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

(b) Credit risk

The Group is exposed to credit risk which arises from counterparty's non-performance of obligation. The credit risk mainly arises from operating activities and financial activities. There is no significant change in credit risk for the three-month period ended March 31, 2013.

(c) Liquidity risk

There is no significant change in contractual undiscounted cash flows of financial liabilities for the three-month period ended March 31, 2013.

**4.2 Capital Risk 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 paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The debt-to-equity ratio and net borrowing ratio as of March 31, 2013 and December 31, 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>March 31, 2013</u>	<u>December 31, 2012</u>
Total liabilities (A)	9,014,668	8,909,251
Total equity (B)	10,043,546	9,739,442
Cash and cash equivalents and others(C) <sup>1</sup>	1,927,934	1,784,616
Total borrowings (D)	6,372,692	6,471,976
Debt-to-equity ratio (A/B)	90%	91%
Net borrowing ratio (D-C)/B	44%	48%

<sup>1</sup> Cash and cash equivalents include short-term financial instruments.



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**4.3 Fair Value of Financial Instruments**

As of March 31, 2013, there are no significant changes in the business or economic circumstances that affect the fair value of the entity's financial assets and financial liabilities.

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

<i>(in millions of Korean won)</i>	<b>March 31, 2013</b>		<b>December 31, 2012</b>	
	<b>Book value</b>	<b>Fair value</b>	<b>Book value</b>	<b>Fair value</b>
<b>Financial assets<sup>1</sup></b>				
Cash and cash equivalents	741,111	741,111	658,387	658,387
Short-term financial instruments	1,186,823	1,186,823	1,126,229	1,126,229
Loans and other receivable	200,647	200,647	144,182	144,182
Other financial assets	31,408	31,408	525	525
Available-for-sale financial assets <sup>2</sup>	41,441	41,441	32,932	32,932
<b>Total</b>	<b>2,201,430</b>	<b>2,201,430</b>	<b>1,962,255</b>	<b>1,962,255</b>
<b>Financial liabilities<sup>1</sup></b>				
Other payables	505,369	505,369	381,260	381,260
Other non-trade payables	415,912	415,912	458,609	458,609
Borrowings	6,372,692	6,483,168	6,471,976	6,563,692
Other financial liabilities	44,632	44,632	18,635	18,635
<b>Total</b>	<b>7,338,605</b>	<b>7,449,081</b>	<b>7,330,480</b>	<b>7,422,196</b>

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

<sup>2</sup> 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.

**4.4 Fair Value Measurement**

The table below analyzes financial instruments carried at fair value, by valuation method. The different levels have been defined 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).

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

		<b>March 31, 2013</b>			
<i>(in millions of Korean won)</i>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>	
<b>Assets</b>					
Available-for-sale financial assets					
Equity securities (at fair value)	41,441	-	-	41,441	
	<b>41,441</b>	<b>-</b>	<b>-</b>	<b>41,441</b>	
<b>Liabilities</b>					
Financial liabilities at fair value through profit or loss					
Trading derivatives	-	44,632	-	44,632	
	<b>-</b>	<b>44,632</b>	<b>-</b>	<b>44,632</b>	
		<b>December 31, 2012</b>			
<i>(in millions of Korean won)</i>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>	
<b>Assets</b>					
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	
	<b>32,932</b>	<b>198</b>	<b>-</b>	<b>33,130</b>	
<b>Liabilities</b>					
Financial liabilities at fair value through profit or loss					
Trading derivatives	-	18,635	-	18,635	
	<b>-</b>	<b>18,635</b>	<b>-</b>	<b>18,635</b>	

The fair value of financial instruments traded in active markets is based on quoted market prices at the statement of financial position date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, an entity within the same industry, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1. Instruments included in Level 1 consist primarily of listed equity investments classified as trading securities or available for sale.

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The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value of instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the statement of financial position date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

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

<i>(in millions of Korean won)</i>	<u>March 31, 2013</u>	<u>December 31, 2012</u>
JNT Frontier Private Equity Unit	1,400	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	800	800
IMM investment	547	499
L&S Investment	565	565
Intellectual Discovery, Ltd.	4,000	4,000
Equity investment in a construction guarantee association	396	396
Daishin Aju IB Investment Co., Ltd.	1,304	500
Others	109	109
	<u>12,185</u>	<u>11,365</u>

The range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed, and therefore, the above instruments are measured at cost.

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**4.5 Valuation Techniques**

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

<i>(in millions of Korean won)</i>	<u>Fair value</u>	<u>Level</u>	<u>Valuation technique</u>
<b>Derivative :</b>			
Foreign currency forward contract	4,426	2	Present value technique
Interest rates swap	4,563	2	Present value technique
Conversion option	35,643	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 periods ended March 31, 2013 and 2012, is as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>			<u>2012</u>		
	<u>Semi-conductor</u>	<u>Other</u>	<u>Total</u>	<u>Semi-conductor</u>	<u>Other</u>	<u>Total</u>
Total segment revenue	2,770,955	72,803	2,843,758	2,378,122	75,769	2,453,891
Inter-segment revenue	-	(62,611)	(62,611)	-	(65,502)	(65,502)
Revenue from external customers	2,770,955	10,192	2,781,147	2,378,122	10,267	2,388,389
<b>Operating Profit(Loss)</b>	<b>312,398</b>	<b>4,553</b>	<b>316,951</b>	<b>(264,816)</b>	<b>1,271</b>	<b>(263,545)</b>

The Group's semiconductor products are classified into two types of products, DRAM and NAND Flash. During the three-month period ended March 31, 2013, the share of each type of products among the total revenue is approximately 72% and 25% (2012: 71% and 26%), respectively.

The Group's revenue information by geographical segments (location of subsidiaries) for the three-month periods ended March 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
Domestic	232,341	167,878
China	510,621	367,794
Asia	751,443	707,987
United States	1,041,135	915,053
Europe	245,607	229,677
	<b>2,781,147</b>	<b>2,388,389</b>

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

<i>(in millions of Korean won)</i>	<b>March 31, 2013</b>	<b>December 31, 2012</b>
Domestic	9,702,520	9,853,629
China	2,802,113	2,638,507
Asia	1,487	1,614
United States	304,493	293,181
Europe	1,775	1,775
	<b>12,812,388</b>	<b>12,788,706</b>

Details of the Group's revenue for the three-month periods ended March 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>	<b>2012</b>
Sales of goods	2,766,949	2,379,597
Sales of services	14,198	7,215
Royalty income	-	1,577
	<b>2,781,147</b>	<b>2,388,389</b>

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**6. Financial Instruments by Categories**

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

<b>March 31, 2013</b>					
<i>(in millions of Korean won)</i>	<b>Assets at fair value through the profit and loss</b>	<b>Available-for- sale financial assets</b>	<b>Held-to- maturity financial assets</b>	<b>Loans and receivables</b>	<b>Total</b>
Cash and cash equivalents	-	-	-	741,111	741,111
Short-term financial instruments	-	-	-	1,186,823	1,186,823
Trade receivables	-	-	-	1,796,652	1,796,652
Other receivables	-	-	-	200,647	200,647
Other financial assets	-	-	29,670	1,738	31,408
Available-for-sale financial assets	-	53,626	-	-	53,626
	<b>-</b>	<b>53,626</b>	<b>29,670</b>	<b>3,926,971</b>	<b>4,010,267</b>
<b>December 31, 2012</b>					
<i>(in millions of Korean won)</i>	<b>Assets at fair value through the profit and loss</b>	<b>Available-for- sale financial assets</b>	<b>Held-to- maturity financial assets</b>	<b>Loans and receivables</b>	<b>Total</b>
Cash and cash equivalents	-	-	-	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
	<b>198</b>	<b>44,297</b>	<b>-</b>	<b>3,648,646</b>	<b>3,693,141</b>

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

<b>March 31, 2013</b>				
<i>(in millions of Korean won)</i>	<b>Liabilities at fair value through the profit and loss</b>	<b>Liabilities measured at amortized cost</b>	<b>Other</b>	<b>Total</b>
Trade payables	-	630,427	-	630,427
Other payables	-	505,369	-	505,369
Other non-trade payables	-	415,912	-	415,912
Borrowings	-	6,083,396	289,296	6,372,692
Other financial liabilities	44,632	-	-	44,632
	<b>44,632</b>	<b>7,635,104</b>	<b>289,296</b>	<b>7,969,032</b>
<b>December 31, 2012</b>				
<i>(in millions of Korean won)</i>	<b>Liabilities at fair value through the profit and loss</b>	<b>Liabilities measured at amortized cost</b>	<b>Other</b>	<b>Total</b>
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
	<b>18,635</b>	<b>7,563,149</b>	<b>341,434</b>	<b>7,923,218</b>

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**7. Credit Risk of Financial Instruments**

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

		March 31, 2013					
		Overdue					
<i>(in millions of Korean won)</i>	Not Past due	Less than 3 months	Over 3 months and less than 6 months	Over 6 months	Impaired	Total	
Trade receivables	1,797,775	485	164	88	1,092	1,799,604	
Current loans and other receivables	182,372	-	-	-	4,726	187,098	
Non-current loans and other receivables	18,693	-	-	-	12,812	31,505	
	<b>1,998,840</b>	<b>485</b>	<b>164</b>	<b>88</b>	<b>18,630</b>	<b>2,018,207</b>	

		December 31, 2012					
		Overdue					
<i>(in millions of Korean won)</i>	Not Past due	Less than 3 months	Over 3 months and less than 6 months	Over 6 months	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	
	<b>1,864,990</b>	<b>981</b>	<b>186</b>	<b>79</b>	<b>18,598</b>	<b>1,884,834</b>	

The maximum exposure to credit risk at the reporting date 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 March 31, 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 32.



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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 ₩ 289,296 million as of March 31, 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 March 31, 2013, short-term financial instruments amounted to ₩ 77,406 million (December 31, 2012: ₩ 76,223 million) and other financial assets amounted to ₩ 326 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 March 31, 2013 and December 31, 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>March 31, 2013</u>	<u>December 31, 2012</u>
<b>Current</b>		
Other receivables	163,650	111,986
Accrued income	13,726	8,569
Short-term loans	2,173	1,823
Short-term guarantee deposits	263	320
Deposits	2,223	2,357
	<u>182,035</u>	<u>125,055</u>
<b>Non-current</b>		
Long-term other receivables	80	80
Long-term loans	6,820	6,630
Guarantee deposits	10,828	11,540
Other Long-term deposits	884	877
	<u>18,612</u>	<u>19,127</u>
	<u><b>200,647</b></u>	<u><b>144,182</b></u>

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

<i>(in millions of Korean won)</i>	<b>March 31, 2013</b>	<b>December 31, 2012</b>
Trade receivables	1,799,604	1,722,778
Less : provision for impairment	<u>(2,952)</u>	<u>(3,257)</u>
Trade receivables - net	<u>1,796,652</u>	<u>1,719,521</u>
Current loans and other receivables	187,098	130,090
Less : provision for impairment	<u>(5,063)</u>	<u>(5,035)</u>
Current loans and other receivables - net	<u>182,035</u>	<u>125,055</u>
Non-current loans and other receivables	31,505	31,966
Less : provision for impairment	<u>(12,893)</u>	<u>(12,839)</u>
Non-current loans and other receivables - net	<u>18,612</u>	<u>19,127</u>
	<b><u>1,997,299</u></b>	<b><u>1,863,703</u></b>

Movements in the provision for impairment of trade receivables for the three-month periods ended March 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>	<b>2012</b>
<b>At January 1</b>	3,257	3,855
Provision for receivables impairment	-	110
Unused amounts reversed	(240)	(18)
Effect of foreign exchange rates	<u>(65)</u>	<u>(250)</u>
<b>At March 31</b>	<b><u>2,952</u></b>	<b><u>3,697</u></b>

Movements in the provision for impairment of current loans and other receivables for the three-month periods ended March 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>	<b>2012</b>
<b>At January 1</b>	5,035	4,925
Provision for receivables impairment	28	-
Unused amounts reversed	(55)	(250)
Effect of foreign exchange rates	<u>55</u>	<u>326</u>
<b>At March 31</b>	<b><u>5,063</u></b>	<b><u>5,001</u></b>

Movements in the provision for impairment of non-current loans and other receivables for the three-month periods ended March 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>	<b>2012</b>
<b>At January 1</b>	12,839	12,984
Provision for receivables impairment	6	125
Unused amounts reversed	-	(3)
Effect of foreign exchange rates	<u>48</u>	<u>(20)</u>
<b>At March 31</b>	<b><u>12,893</u></b>	<b><u>13,086</u></b>

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**11. Inventories**

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

<i>(in millions of Korean won)</i>	<u>March 31, 2013</u>	<u>December 31, 2012</u>
Finished goods	746,427	645,889
Less : valuation allowance	<u>(62,909)</u>	<u>(82,638)</u>
Finished goods - net	683,518	563,251
Work in progress	693,646	721,707
Less : valuation allowance	<u>(24,856)</u>	<u>(38,355)</u>
Work in progress - net	668,790	683,352
Raw materials	142,299	179,689
Less : valuation allowance	<u>(5,828)</u>	<u>(3,704)</u>
Raw materials - net	136,471	175,985
Supplies	42,637	42,227
Less : valuation allowance	<u>(69)</u>	<u>(61)</u>
Supplies - net	42,568	42,166
Goods in transit	54,186	44,709
Less : valuation allowance	<u>-</u>	<u>(132)</u>
Goods in transit - net	54,186	44,577
	<u><b>1,585,533</b></u>	<u><b>1,509,331</b></u>

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

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

<i>(in millions of Korean won)</i>	<u>March 31, 2013</u>	<u>December 31, 2012</u>
<b>Current Assets</b>		
Advance payments	3,573	4,255
Prepaid expenses	140,400	123,197
Others	<u>5,089</u>	<u>7,921</u>
	149,062	135,373
<b>Non-current Assets</b>		
Long-term advance payments	54	62
Long-term prepaid expenses	146,606	167,356
Others	<u>20,305</u>	<u>21,577</u>
	166,965	188,995
	<u><b>316,027</b></u>	<u><b>324,368</b></u>

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**13. Available-for-sale Financial Assets**

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

<i>(in millions of Korean won)</i>	<b>2013</b>	<b>2012</b>
<b>At January 1</b>	44,297	47,492
Acquisition	852	51
Disposal	(33)	(3,122)
Other comprehensive income transferred to equity <sup>1</sup>	8,510	8,567
<b>At March 31</b>	<b>53,626</b>	<b>52,988</b>

<sup>1</sup> Net of income tax effect of ₩ 1,935 million (2012: ₩ 2,677 million).

**14. Investments in Jointly Controlled Entity and Associate**

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

<i>(in millions of Korean won)</i>		March 31, 2013				December 31, 2012	
Type	Investee	Number of Stock	Owner-ship (%)	Acquisition cost	Net asset value	Book value	Book value
Associate	Siliconfile Technologies Inc. <sup>1</sup>	2,358,832	27.93	22,835	8,344	9,310	8,909
Jointly controlled entity	HITECH Semiconductor (Wuxi) Co.,Ltd.(HITECH)	Certificate	45.00	90,149	102,085	102,085	95,191
				<b>112,984</b>	<b>110,429</b>	<b>111,395</b>	<b>104,100</b>

<sup>1</sup> As of March 31, 2013, the fair value on the active market amounts to ₩ 19,932 million (December 31, 2012: ₩ 16,677 million).

Changes in investments in jointly controlled entity and associate for the three-month periods ended March 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>		
	Siliconfile Technologies Inc.	HITECH	Total
<b>At January 1</b>	8,909	95,191	104,100
Share of profit	512	3,102	3,614
Other <sup>1</sup>	(111)	3,792	3,681
<b>At March 31</b>	<b>9,310</b>	<b>102,085</b>	<b>111,395</b>

<sup>1</sup> Share of 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>			
<b>At January 1</b>	8,138	95,475	103,613
Share of profit	162	6,381	6,543
Other <sup>1</sup>	(75)	1,118	1,043
<b>At March 31</b>	<b>8,225</b>	<b>102,974</b>	<b>111,199</b>

<sup>1</sup> Share of other comprehensive income of the jointly controlled entity and associate.

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

		March 31, 2013			
<i>(in millions of Korean won)</i>	Locations	Current Assets	Non- Current Assets	Current liabilities	Non- current liabilities
Siliconfile Technologies Inc.	Korea	37,884	13,869	18,988	2,892
HITECH Semiconductor(Wuxi) Co., Ltd.(HITECH)	China	174,735	402,639	109,251	241,267
		<b>212,619</b>	<b>416,508</b>	<b>128,239</b>	<b>244,159</b>
		December 31, 2012			
<i>(in millions of Korean won)</i>	Locations	Current Assets	Non- Current Assets	Current liabilities	Non- current liabilities
Siliconfile Technologies Inc.	Korea	47,629	13,576	30,181	2,584
HITECH Semiconductor(Wuxi) Co., Ltd.(HITECH)	China	180,509	397,564	129,219	237,317
		<b>228,138</b>	<b>411,140</b>	<b>159,400</b>	<b>239,901</b>

The summary of sales and net income of the investees for the three-month periods ended March 31, 2013 and 2012, is as follows:

	2013		2012	
	Sales	Net Income	Sales	Net Income
<i>(in millions of Korean won)</i>				
Siliconfile Technologies Inc.	26,569	1,832	18,083	580
HITECH Semiconductor (Wuxi)Co., Ltd.(HITECH)	148,291	6,894	147,880	14,180
	<b>174,860</b>	<b>8,726</b>	<b>165,963</b>	<b>14,760</b>

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**15. Property, Plant and Equipment**

Details of changes in property, plant and equipment for the three-month periods ended March 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
<b>At January 1</b>	11,586,192	10,899,308
Acquisition	637,501	1,187,009
Disposal	(8,515)	(19,840)
Depreciation charge	(727,004)	(808,056)
Foreign exchange differences and others	110,352	(34,158)
<b>At March 31</b>	<b><u>11,598,526</u></b>	<b><u>11,224,263</u></b>

Certain property, plant and equipment are pledged as collateral for certain borrowings of the Group as of March 31, 2013 (Note 32).

**Finance lease**

As of March 31, 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 ₩ 334,537 million (December 31, 2012: ₩ 355,365 million) as of March 31, 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 three-month periods ended March 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
<b>At January 1</b>	29,888	31,168
Acquisition	-	-
Disposal	-	-
Depreciation charge	(320)	(320)
<b>At March 31</b>	<b><u>29,568</u></b>	<b><u>30,848</u></b>

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**17. Intangible Assets**

Details of changes in intangible assets for the three-month periods ended March 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
<b>At January 1</b>	983,630	707,648
Acquisition	69,513	27,637
Disposal	(1,684)	(2,152)
Amortization charge	(45,002)	(30,703)
Foreign exchange differences and others	10,872	(20)
<b>At March 31</b>	<b><u>1,017,329</u></b>	<b><u>702,410</u></b>

Among costs associated with development activities, ₩ 43,150 million (2012: ₩ 22,887 million), that was directly attributable and met capitalization criteria, was capitalized as development cost for the three-month period ended March 31, 2013. However, research and other development expenditures that did not meet the criteria amounted to ₩ 234,317 million (2012: ₩ 263,823 million) were recognized as an expense as incurred in the statement of comprehensive income for the three-month period ended March 31, 2013.

**18. Assets classified as held for sale**

Details of changes in assets classified as held for sale for the three-month periods ended March 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
<b>At January 1</b>	26,958	29,033
Disposal	(4)	(5)
Other	1,032	(391)
<b>At March 31</b>	<b><u>27,986</u></b>	<b><u>28,637</u></b>

**19. Other Non-trade Payables**

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

<i>(in millions of Korean won)</i>	<u>March 31, 2013</u>	<u>December 31, 2012</u>
<b>Current</b>		
Accrued expenses	324,178	361,076
<b>Non-current</b>		
Long-term other payables	72,930	75,492
Long-term accrued expenses	2,595	3,531
Rent deposit payables	16,209	18,510
	91,734	97,533
	<b><u>415,912</u></b>	<b><u>458,609</u></b>

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**20. Borrowings**

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

<i>(in millions of Korean won)</i>	<b>March 31, 2013</b>	<b>December 31, 2012</b>
<b>Current</b>		
Short-term borrowings	778,461	1,020,609
Current maturities of long-term borrowings	453,812	418,575
Current maturities of debentures	299,811	299,697
Current maturities of convertible bonds	1,010,081	980,316
	<u>2,542,165</u>	<u>2,719,197</u>
<b>Non-current</b>		
Long-term borrowings	2,375,112	2,301,807
Debentures	1,455,415	1,450,972
	<u>3,830,527</u>	<u>3,752,779</u>
	<b><u>6,372,692</u></b>	<b><u>6,471,976</u></b>

Details of changes in borrowings for the three-month periods ended March 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>	<b>2012</b>
<b>At January 1</b>	6,471,976	6,776,465
Borrowings	1,217,425	1,092,187
Repayment	(1,438,186)	(1,448,910)
Conversion of convertible instruments	(252)	(99)
Others <sup>1</sup>	121,729	(25,061)
<b>At March 31</b>	<b><u>6,372,692</u></b>	<b><u>6,394,582</u></b>

<sup>1</sup> Effects of changes in foreign exchange rates and unwinding of discount.



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**21. Provisions**

Details of changes in provisions for the three-month periods ended March 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>			
	<b>Sales returns</b>	<b>Legal claims</b>	<b>Warranty</b>	<b>Total</b>
<b>At January 1</b>	5,305	322,361	2,949	330,615
Addition	1,789	4,340	-	6,129
Reversal and utilization	-	-	(1,518)	(1,518)
Foreign exchange difference and other	-	11,759	-	11,759
<b>At March 31</b>	<b>7,094</b>	<b>338,460</b>	<b>1,431</b>	<b>346,985</b>

<i>(in millions of Korean won)</i>	<b>2012</b>			
	<b>Sales returns</b>	<b>Legal claims</b>	<b>Warranty</b>	<b>Total</b>
<b>At January 1</b>	3,807	349,660	-	353,467
Addition	-	37,853	2,590	40,443
Reversal and utilization	(725)	(7,971)	-	(8,696)
Foreign exchange difference and other	-	(4,512)	-	(4,512)
<b>At March 31</b>	<b>3,082</b>	<b>375,030</b>	<b>2,590</b>	<b>380,702</b>

**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 32).

**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 March 31, 2013 and December 31, 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>March 31, 2013</u>	<u>December 31, 2012</u>
<b>Current</b>		
Derivative liabilities (Note 33)	43,100	17,020
<b>Non-current</b>		
Derivative liabilities (Note 33)	1,532	1,615
	<u>44,632</u>	<u>18,635</u>

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

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

<i>(in millions of Korean won)</i>	<u>March 31, 2013</u>	<u>December 31, 2012</u>
<b>Current</b>		
Unearned income	2,355	1,431
Withholdings	30,172	19,915
Deposits received	666	841
Advance receipts	8,675	3,684
Other	80	35
	<u>41,948</u>	<u>25,906</u>
<b>Non-current</b>		
Long-term withholdings	665	666
Other long-term employee benefit liabilities	40,996	40,335
Other	646	47
	<u>42,307</u>	<u>41,048</u>
	<u>84,255</u>	<u>66,954</u>

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**24. Defined Benefit Liabilities**

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

<i>(in millions of Korean won)</i>	<u>March 31, 2013</u>	<u>December 31, 2012</u>
Present value of obligations	609,761	592,171
Fair value of plan assets <sup>1</sup>	(16,874)	(17,075)
	<u><b>592,887</b></u>	<u><b>575,096</b></u>

<sup>1</sup> Includes contributions to the National Pension Fund in accordance with the National Pension Law amounting to ₩ 1,903 million (December 31, 2012: ₩ 1,952 million).

The amounts recognized in the statements of comprehensive income for the three-month periods ended March 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
Current service cost	24,528	20,256
Interest expenses	7,020	6,788
Expected return on plan assets	(174)	(114)
	<u><b>31,374</b></u>	<u><b>26,930</b></u>

The line items in which severance benefits are included for the three-month periods ended March 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
Cost of sales (manufacturing costs)	18,471	16,040
Selling, administration expenses	12,903	10,890
	<u><b>31,374</b></u>	<u><b>26,930</b></u>

Changes in the carrying amount of defined benefit obligations for the three-month periods ended March 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
<b>At January 1</b>	592,171	471,290
Current service cost	24,528	20,256
Interest expenses	7,020	6,788
Benefits paid	(13,884)	(14,917)
Other	(74)	(130)
<b>At March 31</b>	<u><b>609,761</b></u>	<u><b>483,287</b></u>

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The movements in the fair value of plan assets for the three-month periods ended March 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>2013</b>	<b>2012</b>
<b>At January 1</b>	17,075	12,591
Expected return on plan assets	174	114
Benefits paid	(359)	(507)
Actuarial losses	(16)	(5)
<b>At March 31</b>	<b>16,874</b>	<b>12,193</b>

**25. Share Capital and Capital Surplus**

Details of share capital and capital surplus as of March 31, 2013, are as follows:

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

<b>Authorized shares</b>	<b>Outstanding shares<sup>1</sup></b>	<b>Par value (per share)</b>	<b>Paid in capital</b>
9,000,000	697,693	₩ 5,000	₩ 3,488,467million

<sup>1</sup>As of March 31, 2013, the actual number of shares which the shareholders own is 694,165 thousand shares. The difference of 3,528 thousand shares is the result of stock retirement.

Changes in share capital and capital surplus for the three-month periods ended March 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won and in thousands of shares)</i>	<b>Total owned shares</b>	<b>Paid in Capital</b>	<b>Capital Surplus</b>			<b>Total</b>
		<b>Share capital</b>	<b>Share premium</b>	<b>Conversion right consideration</b>	<b>Other</b>	
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	1,816,727	-	-	2,325,977
Exercise of conversion rights	4	20	85	(7)	-	98
<b>At March 31, 2012</b>	<b>694,026</b>	<b>3,487,768</b>	<b>2,501,989</b>	<b>72,343</b>	<b>471,525</b>	<b>6,533,625</b>
At January 1, 2013	694,156	3,488,419	2,506,532	72,331	475,011	6,542,293
Exercise of conversion rights	9	48	219	(18)	-	249
<b>At March 31, 2013</b>	<b>694,165</b>	<b>3,488,467</b>	<b>2,506,751</b>	<b>72,313</b>	<b>475,011</b>	<b>6,542,542</b>

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 March 31, 2013, is 3,528 thousand shares.

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**26. Expenses by Nature**

Expense that are recorded as cost of sales, selling and administration expenses in the statements of comprehensive income for the three-month periods ended March 31, 2013 and 2012, consist of:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
Changes in inventories	(105,705)	(96,153)
Raw materials and consumables used	563,476	635,347
Employee benefit expenses	388,856	430,477
Depreciation and amortization	771,909	836,577
Royalty expense	38,519	63,237
Commission expense	105,815	90,417
Utilities expense	157,269	126,515
Repair expense	230,274	206,002
Outsourcing expense	235,883	251,047
Other	77,900	108,468
	<u><b>2,464,196</b></u>	<u><b>2,651,934</b></u>

**27. Selling and Administration expenses**

Selling and administration expenses for the three-month periods ended March 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
Salaries	50,824	57,801
Severance benefits	4,579	4,207
Employee benefits	13,478	12,723
Commission expense	32,551	37,102
Depreciation	12,825	12,987
Amortization	44,756	30,556
Research and development	234,317	263,823
Exporting expense	5,525	6,130
Legal cost	4,900	6,753
Rental expense	3,893	3,573
Taxes and dues	3,120	2,495
Other	35,199	35,398
	<u><b>445,967</b></u>	<u><b>473,548</b></u>

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**28. Financial Income and Expense**

Financial income and expense for the three-month periods ended March 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
<b>Finance income</b>		
Interest income	12,528	21,957
Dividend income	1,362	1
Foreign exchange differences	127,892	159,837
Gain from derivative instruments	1,124	8,704
Gain on disposal of available-for-sale financial assets	87	5,872
<b>Total Financial income</b>	<u>142,993</u>	<u>196,371</u>
<b>Finance expense</b>		
Interest expenses	67,880	81,528
Foreign exchange differences	162,079	83,947
Loss from derivative instruments	28,255	37,864
<b>Total Financial expense</b>	<u>258,214</u>	<u>203,339</u>
<b>Net finance income (expense)</b>	<u><b>(115,221)</b></u>	<u><b>(6,968)</b></u>

**29. 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 14% for the year ending the year ended 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 future taxable profit. This leads to the increase of effective income tax rate compared to the preceding period.

**30. 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 periods ended March 31, 2013 and 2012, is as follows:

<i>(in millions of Korean won except for shares and per share amounts)</i>	<u>2013</u>	<u>2012</u>
Profit(loss) attributable to ordinary shares	178,595	(271,119)
Weighted average number of ordinary shares outstanding <sup>1</sup>	<u>694,165,294</u>	<u>644,779,348</u>
<b>Basic earnings(loss) per share</b>	<u><b>257</b></u>	<u><b>(420)</b></u>

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<sup>1</sup>Weighted average number of ordinary shares outstanding is calculated as follows:

<i>(in shares)</i>	<u>2013</u>	<u>2012</u>
Beginning balance	694,155,767	592,171,582
Exercise of conversion rights	9,527	3,920
Issuance of common stock	-	52,603,846
<b>Weighted average number of ordinary shares outstanding</b>	<b><u>694,165,294</u></b>	<b><u>644,779,348</u></b>

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 for shares and per share amounts)</i>	<u>2013</u>	<u>2012</u>
Profit(loss) attributable to ordinary shares	178,595	(271,119)
Add : Convertible bond related costs	-	-
Adjusted profit attributable to ordinary shares	178,595	(271,119)
Adjusted weighted average number of ordinary shares outstanding <sup>1</sup>	694,165,294	644,779,348
<b>Diluted earnings(loss) per share</b>	<b><u>257</u></b>	<b><u>(420)</u></b>

<sup>1</sup> Adjusted weighted average number of ordinary shares outstanding is calculated as follows:

<i>(in shares)</i>	<u>2013</u>	<u>2012</u>
Weighted average number of ordinary shares outstanding	694,165,294	644,779,348
Dilutive potential ordinary shares		
Convertible bond	-	-
<b>Adjusted weighted average number of ordinary shares outstanding</b>	<b><u>694,165,294</u></b>	<b><u>644,779,348</u></b>

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**31. Related Party Transactions**

Details of associate and jointly controlled entity as of March 31, 2013, are as follows:

<u>Type</u>	<u>Investee</u>	<u>Locations</u>
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 three-month periods ended March 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>		<u>2012</u>	
	<u>Sales</u>	<u>Purchases</u>	<u>Sales</u>	<u>Purchases</u>
Associate	20,485	325	13,819	186
Jointly controlled entity	15,002	152,505	13,711	158,703
SK Telecom Co., Ltd. <sup>1,3</sup>	17	882	5	9
Other related parties <sup>2,3,4</sup>	9,212	61,467	-	24,029
	<b>44,716</b>	<b>215,179</b>	<b>27,535</b>	<b>182,927</b>

<sup>1</sup> Related party with significant influence over the Group.

<sup>2</sup> 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.

<sup>3</sup> Significant transactions accrued after February 14, 2012, the date of obtaining significant influence over the Group.

<sup>4</sup> The Group entered into a contract with SK Holdings Co., Ltd. to pay royalty on the SK brand in proportion to sales amount from March 2012 to December 2014. For the three-month period ended March 31, 2013, royalty on the SK brand amounted to ₩ 2,709 million.

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

<i>(in millions of Korean won)</i>	<u>March 31, 2013</u>		<u>December 31, 2012</u>	
	<u>Receivables</u>	<u>Payables</u>	<u>Receivables</u>	<u>Payables</u>
Associate	14,228	1	26,299	1
Jointly controlled entity	11,641	215,774	9,515	225,873
SK Telecom Co., Ltd. <sup>1</sup>	887	121	887	287
Other related parties <sup>2</sup>	10,086	26,798	61	23,756
	<b>36,842</b>	<b>242,694</b>	<b>36,762</b>	<b>249,917</b>

<sup>1</sup> Related party with significant influence over the Group.

<sup>2</sup> 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.



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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 three-month periods ended March 31, 2013 and 2012, consists of:

<i>(in millions of Korean won)</i>	<b>Details</b>	<b>2013</b>	<b>2012</b>
Short-term employee benefits	Wages, salaries, bonus and other	5,836	6,568
Post-employment benefits	Retirement payment and other	800	719
Other long-term benefits	Long-term employment allowance	1	-
		<b>6,637</b>	<b>7,287</b>

**32. Commitments and Contingencies**

**Group's pending litigations as of March 31, 2013**

Significant pending litigations and claims of the Group as of March 31, 2013, are as follows:

*(a) Anti-Trust Act*

In connection with the civil suits for DRAM, in April 2013, the Group reached settlements with direct and indirect purchaser classes in three provinces (British Columbia, Ontario, Quebec) in Canada. Meanwhile, civil suits filed by the direct and indirect purchaser classes in three provinces (British Columbia, Ontario, Quebec) in connection with SRAM are pending.

As of March 31, 2013, the ultimate outcome of the lawsuits described above cannot be determined, but could have a material effect on the Group's interim consolidated financial statements. The accompanying interim consolidated financial statements do not include any additional adjustments in excess of managements' current expectation in relation to such uncertainty.

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*(b) Litigation filed by Rambus*

The Group is a defendant in litigations brought by Rambus Inc. ("Rambus"), a developer of highbandwidth chip connection technologies, with respect to the alleged infringement of Rambus' patents by the Group's manufacture, sales, offer for sales, use or otherwise disposal of Single Data Rate ("SDR") Synchronous Dynamic Random Access Memory ("SDRAM") and Double Data Rate ("DDR") SDRAM products. The litigations have been brought in Germany, France, the United Kingdom and the United States. In 2004, the European Patent Office revoked Rambus' certain key patents subject to such litigation against the Group in the European Union jurisdiction. Accordingly, in 2005, the litigation in the United Kingdom was dismissed, the litigation in France ceased further proceedings, and the litigation in Germany has been deferred without any progress.

Meanwhile, in connection with the litigation in the United States, on March 10, 2009, the United States District Court for the Northern District of California issued the judgment that ordered the Group to pay for damages for the infringement of Rambus' patents and to pay royalties of 1% for SDR SDRAM products and 4.25% for DDR SDRAM products manufactured or sold in the United States from February 1, 2009 to April 17, 2010 ("on-going royalties"). The Group appealed the court's final judgment to the United States Court of Appeals for the Federal Circuit on April 6, 2009.

The United States District Court for the Northern District of California accepted the Group's motion to stay the execution of the final judgment and ruled that such execution should be stayed on the condition that the Group post a bond and provide part of its Cheong-ju plant in Korea as a collateral while the Group pursues the filing of the appeal at the United States Court of Appeals for the Federal Circuit. This ruling prevents Rambus from seeking to collect its damages while the appeal is pending. However, considering the improvement in the Group's financial condition, the United States District Court for the Northern District of California ordered to provide additional payment guarantee instead of providing part of its Cheong-ju plant in Korea as a collateral. In connection with this ruling, the Korea Development Bank and other banks provided payment guarantee in the amount of US\$ 400 million for the Group.

On May 13, 2011, the United States Court of Appeals for the Federal Circuit vacated the original judgment issued by the United States District Court for the Northern District of California concluding the court used the wrong legal standard in deciding Rambus's unlawful destruction of document at a time litigation was reasonably foreseeable ("spoliation") and remanded the case for further proceedings to the court. In light of the fact that the court's judgment has been vacated, the bond and on-going royalties, which have been posted and maintained by the Group, were released to the Group.

On September 21, 2012, the court to which the case was remanded issued its decision on Rambus's spoliation issue finding that Rambus has engaged in spoliation and concluded that the appropriate sanction was to strike from the evidence the documents supporting royalty payments in excess of a reasonable and non-discriminatory terms("RAND terms"). Accordingly, the parties submitted each brief on what the RAND terms would be for the patents in suit by November, 2012 based on the court's decision.

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Separately, Rambus also brought another lawsuit against the Group and its US subsidiary by alleging that the Group and its subsidiary's DDR2 and Graphic DDR SDRAM products had infringed on Rambus' patents. In addition, Rambus filed a lawsuit in the San Francisco Superior Court against the Group together with its US subsidiary, and other major memory chip manufacturers alleging that the defendants conspired to prevent Rambus's proprietary DRAM technology from becoming the standard computer memory technology. However on February 15, 2012, the court issued the final judgment rejecting Rambus's claims and Rambus appealed the court's final judgment to the Court of Appeal of the State of California on April 2, 2012.

As of March 31, 2013, the ultimate outcome of the lawsuits described above cannot be determined, but could have a material effect on the Group's interim consolidated financial statements. The accompanying interim consolidated financial statements do not include any additional adjustments in excess of managements' current expectation in relation to such uncertainty.

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*(c) 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 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.

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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 March 31, 2013 the ultimate outcome of the lawsuits described above cannot be determined, but could have a material effect.

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*(d) 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 March 31, 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 collaterals<sup>1</sup> as of March 31, 2013, are as follows:

<i>(in millions of Korean won)</i>	<u>Book value</u>	<u>Pledged amount</u>	<u>Remark</u>
Land	36,638		
Buildings	89,403	1,505,463	Borrowings
Machinery	1,835,250		
	<u>1,961,291</u>	<u>1,505,463</u>	

<sup>1</sup> 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 contract(Note 15).

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**Financing agreements**

Details of credit lines with financial institutions as of March 31, 2013, are as follows:

<i>(in millions of US dollars and Chinese Renminbi)</i>	<b>Financial Institution</b>	<b>Commitment</b>	<b>Cur.</b>	<b>Amount</b>
		Import finance like usance	USD	830
The Parent Company	Korea Exchange Bank and other	Export finance like bills bought	USD	425
		Comprehensive limit contract about Import & Export	USD	760
SK hynix Semiconductor (China) Ltd.(SKHYCL)	Agricultural Bank of China and other	Import finance like usance	RMB	1,530
			USD	312
SK hynix America Inc. (SKHYA) and other sales entities	Citibank and other	Accounts receivable factoring contracts which have no right to recourse	USD	367

**Guarantees provided to others**

Details of guarantees provided to others as of March 31, 2013, are as follows:

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

**Capital commitment**

As of March 31, 2013, the Group has ₩ 186,799 million (2012: ₩ 114,610 million) of commitment in relation to the capital expenditures on tangible assets.

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**33. 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 March 31, 2013, the carrying amount of derivative financial assets is zero (December 31, 2012: ₩ 198 million) and the carrying amount of derivative financial liabilities is ₩ 44,632 million (December 31, 2012: ₩ 18,635 million).

Gains and loss relating to the derivative instruments for the three-month period ended March 31, 2013, amounted to ₩ 1,124 million (2012: ₩ 8,704 million) and ₩ 28,255 million (2012: ₩ 37,864 million), respectively.



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**34. Cash Generated from Operations**

Reconciliations between operating profit and net cash inflow from operating activities for the three-month periods ended March 31, 2013 and 2012, are as follows:

<i>(in millions of Korean won)</i>	<u>2013</u>	<u>2012</u>
<b>Profit(loss) for the period before income tax</b>	208,217	(271,028)
<b>Adjustments</b>		
Defined benefits	31,374	26,930
Depreciation	727,004	808,056
Amortization	45,002	30,703
Depreciation of investment properties	320	320
Loss on foreign currency translation	111,265	9,749
Interest expense	67,880	81,528
Gain on foreign currency translation	(50,390)	(71,741)
Interest income	(12,528)	(21,957)
Loss on derivative instruments	27,131	29,160
Income from jointly controlled entities and associates	(3,614)	(6,543)
Others	(590)	(3,235)
<b>Changes in operating assets and liabilities</b>		
Increase(Decrease) in trade receivables	3,285	(39,757)
Increase in loans and other receivables	(39,569)	(59,979)
Increase inventories	(64,992)	(63,102)
Increase(Decrease) in trade payables	(12,883)	37,149
Increase in non-trade payables	9,115	313,048
Decrease in other payables	(55,853)	(46,204)
Increase in provision	4,586	30,763
Increase in other liabilities	8,821	6,792
Payment of defined benefit liability	(13,525)	(14,410)
<b>Cash Generated from Operations</b>	<u><b>990,056</b></u>	<u><b>776,242</b></u>