

SK hynix Inc.
(Formerly Hynix Semiconductor Inc.)
and Subsidiaries

Interim Consolidated Financial Statements

June 30, 2012 and 2011

SK hynix Inc. and Subsidiaries
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June 30, 2012 and 2011

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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.(formerly Hynix Semiconductor 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 June 30, 2012, and the related consolidated statements of comprehensive income for the three-month and six-month periods ended June 30, 2012 and 2011, and statements of changes in equity and cash flows for the six-month periods ended June 30, 2012 and 2011, 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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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, 2011, 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 March 12, 2012. These financial statements are not included in this review report. The consolidated statement of financial position as of December 31, 2011, presented herein for comparative purpose, is consistent, in all material respects, with the above audited statement of financial position as of December 31, 2011.

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
August 9, 2012

This report is effective as of August 9, 2012, 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
June 30, 2012 and December 31, 2011

<i>(in millions of Korean won)</i>	Notes	June 30, 2012		December 31, 2011	
Assets					
Current assets					
Cash and cash equivalents	4, 6, 14	₩	1,719,419	₩	1,243,788
Short-term financial instruments	4, 6, 14		1,270,338		632,139
Trade receivables	7, 8, 13, 14		1,691,692		1,540,925
Loans and other receivables	7, 13, 14		214,768		212,641
Inventories	9		1,348,997		1,183,608
Assets classified as held for sale	18		29,040		29,033
Other financial assets	4, 14, 34		487		1
Other current assets	10		159,281		94,715
			<u>6,434,022</u>		<u>4,936,850</u>
Non-current assets					
Investments in jointly controlled entities and associates	12		101,352		103,613
Available-for-sale financial assets	4,11,14		49,881		47,492
Property, plant and equipment	15		12,008,981		10,899,308
Intangible assets	17		712,028		707,648
Investment property	16		30,528		31,168
Loans and other receivables	7, 13, 14		16,258		38,461
Other financial assets	6, 14, 34		326		3,441
Deferred income tax assets			317,072		315,718
Other non-current assets	10		164,724		154,449
			<u>13,401,150</u>		<u>12,301,298</u>
Total assets		₩	<u>19,835,172</u>	₩	<u>17,238,148</u>
Liabilities					
Current liabilities					
Trade payables	14	₩	797,425	₩	678,408
Other payables	14		1,117,336		516,724
Other non-trade payables	14, 19		366,917		345,878
Provisions	21		414,184		353,467
Other financial liabilities	4, 14, 22, 34		12,023		38,678
Borrowings	4, 14, 20		2,515,440		2,830,426
Current tax liabilities			13,347		11,170
Other current liabilities	23		40,692		42,535
			<u>5,277,364</u>		<u>4,817,286</u>
Non-current liabilities					
Borrowings	4, 14, 20		4,112,706		3,946,039
Other non-trade payables	14, 19		78,338		94,326
Defined benefit liabilities	24		467,517		458,699
Other financial liabilities	4, 14, 22, 34		1,977		7,796
Other non-current liabilities	23		37,668		38,731
			<u>4,698,206</u>		<u>4,545,591</u>
Total liabilities			<u>9,975,570</u>		<u>9,362,877</u>
Equity attributable to owners of the Parent Company					
Capital stock	25		3,488,252		2,978,498
Capital surplus	25		3,049,248		1,229,052
Accumulated other comprehensive income			87,763		107,107
Other components of equity			4,101		5,762
Retained earnings			<u>3,230,970</u>		<u>3,555,323</u>
Non-controlling interest			<u>(732)</u>		<u>(471)</u>
Total equity			<u>9,859,602</u>		<u>7,875,271</u>
Total liabilities and equity		₩	<u>19,835,172</u>	₩	<u>17,238,148</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 Six-Month Periods Ended June 30, 2012 and 2011

<i>(in millions of Korean won, except per share amounts)</i>	Notes	2012		2011	
		Three Months	Six months	Three Months	Six months
Net sales	5	₩ 2,631,953	₩ 5,020,341	₩ 2,758,362	₩ 5,551,547
Cost of sales	26	<u>(2,158,512)</u>	<u>(4,340,788)</u>	<u>(2,127,016)</u>	<u>(4,239,394)</u>
Gross profit		473,441	679,553	631,346	1,312,153
Selling, administration and ordinary development expenses	26, 27	(472,295)	(945,843)	(374,198)	(722,667)
Other operating income	28	29,630	43,648	196,549	214,272
Other operating expenses	26, 28	<u>(7,972)</u>	<u>(14,534)</u>	<u>(6,808)</u>	<u>(34,040)</u>
Operating income(loss)		22,804	(237,176)	446,889	769,718
Financial income	29	162,135	284,260	220,965	399,298
Financial expenses	29	(229,231)	(358,324)	(187,270)	(409,533)
Income from jointly controlled entities and associates	12	417	6,959	3,283	5,802
Other non-operating income		-	949	-	-
Other non-operating expenses		<u>-</u>	<u>(11,571)</u>	<u>(11,392)</u>	<u>(11,392)</u>
Profit(loss) before income tax(benefit)		(43,875)	(314,903)	472,475	753,893
Income tax expense(benefit)		<u>9,432</u>	<u>9,627</u>	<u>(521)</u>	<u>7,356</u>
Profit(loss) for the period		<u>₩ (53,307)</u>	<u>₩ (324,530)</u>	<u>₩ 472,996</u>	<u>₩ 746,537</u>
Other comprehensive income(loss)					
Currency translation differences		13,310	(25,418)	(37,443)	(101,441)
Change in value of available-for-sale financial assets	11	(2,480)	3,410	(9,097)	(15,017)
Actuarial loss on defined benefit liabilities	24	(9)	(13)	(14)	(31)
Other comprehensive income from jointly controlled entities and associates	12	1,619	2,663	(2,774)	(4,568)
Total comprehensive income(loss) for the period		<u>₩ (40,867)</u>	<u>₩ (343,888)</u>	<u>₩ 423,668</u>	<u>₩ 625,480</u>
Profit(loss) for the period attributable to:					
Equity holders of the Parent Company		₩ (53,158)	₩ (324,278)	₩ 471,087	₩ 744,352
Non-controlling interest		(149)	(252)	1,909	2,185
Total comprehensive income(loss) for the period attributable to:					
Equity holders of the Parent Company		₩ (40,759)	₩ (343,627)	₩ 423,745	₩ 626,670
Non-controlling interest		(108)	(261)	(77)	(1,190)
Earnings(loss) per share attributable to the equity holders of the Parent Company for the period	31				
Basic earnings(loss) per share		₩ (77)	₩ (484)	₩ 796	₩ 1,257
Diluted earnings(loss) per share		(102)	(484)	709	1,246

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
Six-Month Periods Ended June 30, 2012 and 2011

Notes	Attributable to equity holders of the Parent Company							Non-controlling Interest	Total Equity
	Paid-in Capital	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, 2011	₩ 2,969,023	₩ 1,193,100	₩ (23,261)	₩ 5,762	₩ 3,761,299	₩ 7,905,923	₩ 1,653	₩ 7,907,576	
Comprehensive income									
Profit for the period	-	-	-	-	744,352	744,352	2,185	746,537	
Loss on the valuation of available-for-sale financial assets	11	-	(11,803)	-	-	(11,803)	(3,214)	(15,017)	
Currency translation differences	-	-	(101,280)	-	-	(101,280)	(161)	(101,441)	
Other comprehensive income from jointly controlled entities and associates	12	-	(4,568)	-	-	(4,568)	-	(4,568)	
Actuarial loss on defined benefit liabilities	24	-	-	-	(31)	(31)	-	(31)	
Total comprehensive income			(117,651)		744,321	626,670	(1,190)	625,480	
Transactions with equity holders of the Parent Company :									
Dividends	-	-	-	-	(88,541)	(88,541)	-	(88,541)	
Exercise of conversion rights	25	9,475	36,192	-	-	45,667	-	45,667	
Others	25	-	(240)	-	(15)	(255)	-	(255)	
Total transactions with equity holders of the Parent Company		9,475	35,952		(88,556)	(43,129)		(43,129)	
Balance at June 30, 2011	₩ 2,978,498	₩ 1,229,052	₩ (140,912)	₩ 5,762	₩ 4,417,064	₩ 8,489,464	₩ 463	₩ 8,489,927	
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	-	-	-	-	(324,278)	(324,278)	(252)	(324,530)	
Gain on the valuation of available-for-sale financial assets	11	-	3,410	-	-	3,410	-	3,410	
Currency translation differences	-	-	(25,417)	-	-	(25,417)	(1)	(25,418)	
Other comprehensive income from jointly controlled entities and associates	12	-	2,663	-	-	2,663	-	2,663	
Actuarial loss on defined benefit liabilities	24	-	-	-	(5)	(5)	(8)	(13)	
Total comprehensive income			(19,344)		(324,283)	(343,627)	(261)	(343,888)	
Transactions with equity holders of the Parent Company :									
Issue of share capital	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	-	(1,661)	2,129	-	2,129	
Others	-	-	1	-	(70)	(69)	-	(69)	
Total transactions with equity holders of the Parent Company		509,754	1,820,196		(1,661)	(70)		2,328,219	
Balance at June 30, 2012	₩ 3,488,252	₩ 3,049,248	₩ 87,763	₩ 4,101	₩ 3,230,970	₩ 9,860,334	₩ (732)	₩ 9,859,602	

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

SK hynix Inc. and Subsidiaries
Interim Consolidated Statements of Cash Flows
Six-Month Periods Ended June 30, 2012 and 2011

<i>(in millions of Korean won)</i>	Notes	2012	2011
Cash flows from operating activities			
Cash generated from operations	35	₩ 1,330,973	₩ 1,609,004
Interest received		44,769	28,744
Interest paid		(145,930)	(122,061)
Dividends received		12,098	8,883
Income tax paid		(12,139)	(11,110)
Net cash generated from operating activities		<u>1,229,771</u>	<u>1,513,460</u>
Cash flows from investing activities			
Decrease in short-term financial assets		1,001,358	1,333,453
Increase in short-term financial assets		(1,704,045)	(1,422,842)
Decrease in loans and other receivables		4,536	4,715
Increase in loans and other receivables		(5,582)	(3,940)
Proceeds from derivatives		1,450	12,796
Payments from derivatives		(38,708)	(940)
Proceeds from disposal of assets classified as held for sale		23	6,786
Proceeds from disposal of available-for-sale financial assets		9,318	-
Acquisition of available-for-sale financial assets		(424)	(5,416)
Proceeds from disposal of property, plant and equipment		25,919	4,934
Proceeds from disposal of Investment property		-	151
Acquisition of property, plant and equipment		(1,919,626)	(2,066,038)
Proceeds from disposal of Intangible assets		4	29
Acquisition of intangible assets		(66,404)	(93,022)
Acquisition of investments in associates		-	(12,180)
Acquisition of investments in subsidiaries		3,019	-
Net cash used in investing activities		<u>(2,689,162)</u>	<u>(2,241,514)</u>
Cash flows from financing activities			
Proceeds from borrowings		3,492,459	1,376,131
Repayments of borrowings		(3,884,189)	(1,052,408)
Proceeds from issuance of share capital		2,328,102	-
Dividends paid		-	(88,541)
Net cash provided by financing activities		<u>1,936,372</u>	<u>235,182</u>
Effect of foreign exchange rates on cash and cash equivalents		<u>(1,350)</u>	<u>(12,398)</u>
Net increase (decrease) in cash and cash equivalents		475,631	(505,270)
Cash and cash equivalents at the beginning of period		1,243,788	1,253,226
Cash and cash equivalents at the end of period		<u>₩ 1,719,419</u>	<u>₩ 747,956</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
June 30, 2012 and 2011, and December 31, 2011

1. General Information

General information about SK hynix Inc. (formerly Hynix Semiconductor 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 June 30, 2012, 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	21.0
Share Management Council ¹	32,132,131	4.7
Individual investors	515,890,299	74.3
	694,122,430	100.0

¹As of June 30, 2012, the number of shares held by each member of Share Management Council is as follows:

Shareholder	Number of shares	Percentage of ownership (%)
Korea Exchange Bank	10,092,500	1.5
Korea Finance Corporation	7,640,500	1.1
Shinhan Bank	7,481,500	1.1
Other financial institutions	6,917,631	1.0
	32,132,131	4.7

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, SK Telecom Co.,Ltd. has the voting rights over the Share Management Council’s shares as of June 30, 2012.

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.

SK hynix Inc. and Subsidiaries
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As of June 30, 2012, the Group's consolidated subsidiaries are as follows:

Names of subsidiaries	Number of Shares	Ownership (%)	Locations	Remarks
Hynix Engineering Co., Ltd.	671,932	99.65	Korea	Domestic subsidiary
Hystec Co., Ltd.	236,408	99.65	Korea	Domestic subsidiary
Hynix HRD Center Co., Ltd.	59,102	99.65	Korea	Domestic subsidiary
Hylogitec Co., Ltd.	39,401	99.65	Korea	Domestic subsidiary
Ami Power Co. Ltd.	524,852	99.65	Korea	Domestic subsidiary
QRT Semiconductor Co., Ltd.	20,000	100	Korea	Domestic subsidiary
SK hynix America Inc.(SKHYA)	6,285,587	97.74	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)	10,000	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

Change in the scope of consolidation

The following subsidiary was newly included in the scope of consolidation for the six-month period ended June 30, 2012.

Name of subsidiary	Remark
SK hynix Italy S.r.l.(SKHYIT)	Obtained control over the entity through acquisition of shares

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 six-month period ended June 30, 2012, 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 June 30, 2012.

New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2012, and not early adopted by the Group are as follows:

- Amendments to Korean-IFRS1019, *Employee Benefits*

According to the amendments to Korean-IFRS1019, Employee Benefits, 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). This amendment will be effective for the Group as of January 1, 2013, and the Group is assessing the impact of application of the amended Korean-IFRS 1019 on its consolidated financial statements as of the report date.

- Amendments to 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 1101 does not extend the use of fair value accounting but provides guidance on how it should be applied where its use is already required or permitted by other standards within Korean-IFRSs. This amendment will be effective for the Group as of January 1, 2013, and the Group expects that it would not have a material impact on its consolidated financial statements.

- Amendments to Korean-IFRS 1001, *Presentation of Financial Statements*

Korean-IFRS 1001, *Presentation of Financial Statements*, requires entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be recycled to profit or loss in the future. This amendment will be effective for annual periods beginning on or after July 1, 2012, and early adoption is permitted. The Group expects that it would not have a material impact on its 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 for the policies stated below.

The income tax expense was calculated on the basis of the expected weighted average tax rate enacted or substantively enacted at the reporting date.

3. Critical Accounting Estimates and Assumptions

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, 2011.

There is no significant change in risk management department and policies for the six-month period ended June 30, 2012.

(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 June 30, 2012, if the currency had weakened/strengthened by 10% against the US dollar with all other variables held constant, loss(profit) before income tax for the period would have been ₩ 251,963 million (2011: ₩ 211,556 million) lower/higher, 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 June 30, 2012, if the currency had weakened/strengthened by 10% against the Japanese Yen with all other variables held constant, loss(profit) before income tax for the period would have been ₩ 53,963 million (2011: ₩ 26,393 million) lower/higher, 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 June 30, 2012, if the currency had weakened/strengthened by 10% against the Euro with all other variables held constant, loss(profit) before income tax for the period would have been ₩ 14,805 million (2011: ₩ 43,905 million) lower/higher, 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.

The listed securities held by the Group are traded in active markets such as KOSPI stock index, KOSDAQ stock index and TWSE(Taiwan) index.

The table below summarizes the impact of increases/decreases in the Group's equity as a result of the changes in the price per share at the active market on the securities held by the Group.

<i>(in millions of Korean won)</i>	June 30, 2012		June 30, 2011	
	20% increase	20% decrease	20% increase	20% decrease
Effects in equity	6,257	(6,257)	5,763	(5,763)

Accumulated other comprehensive income would increase/decrease as a result of changes in the price of the equity securities classified as available-for-sale.

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

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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 June 30, 2012, 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 six-month period ended June 30, 2012, if interest rates on borrowings had been 100 basis points higher/lower with all other variables held constant, loss(profit) before income tax for the period would have been ₩ 8,038 million (2011: ₩ 6,534 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.

i) Trade and other receivables

Credit risk is managed on group basis, and the Group is managing and analyzing the credit risk for each of new clients before standard payment and delivery terms and conditions are offered. The Group operates a consistent trade receivables policy (TR Policy) to manage credit risk exposure. The purpose of the TR policy is to support timely decision-making and minimize loss by securing payment of TR. Assumed TR risk is especially mitigated with credit insurance, guarantees /collateral and internal credit limits. In order to manage the risk, Global Credit Insurance Program is structured with a credit insurance company, Korea Trade Insurance Corporation.

ii) Other assets

Credit risk arises from cash and cash equivalents, financial instruments and deposits with banks and financial institutions, as well as credit exposures from short-term and long-term loans. The maximum exposure to credit risk at the end of reporting date is the book value of assets. For banks and financial institutions, only independently rated parties with a high credit rating are accepted, and accordingly management does not expect any losses from non-performance by these counterparties.

(c) Liquidity risk

There is no significant change in contractual undiscounted cash flows of financial liabilities for the six-month period ended June 30, 2012.

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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/equity ratio and net borrowing ratio as of June 30, 2012 and December 31, 2011 are as follows:

<i>(in millions of Korean won)</i>	June 30, 2012	December 31, 2011
Total liabilities (A)	9,975,570	9,362,877
Total equity (B)	9,859,602	7,875,271
Cash and cash equivalents and others(C) ¹	2,989,757	1,875,927
Total borrowings (D)	6,628,146	6,776,465
Debt ratio (A/B)	101%	119%
Net borrowing ratio (D-C)/B	37%	62%

¹ Cash and cash equivalents include short-term financial instruments.

4.3 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 June 30, 2012 and December 31, 2011:

<i>(in millions of Korean won)</i>	June 30, 2012			
	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit or loss				
Trading derivatives	-	487	-	487
Available-for-sale financial assets				
Equity securities (at fair value)	39,906	-	-	39,906
	39,906	487	-	40,393
Liabilities				
Financial liabilities at fair value through profit or loss				
Trading derivatives	-	14,000	-	14,000
	-	14,000	-	14,000
December 31, 2011				
<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	-	3,114	-	3,114
Available-for-sale financial assets				
Equity securities (at fair value)	34,498	-	-	34,498
	34,498	3,114	-	37,612
Liabilities				
Financial liabilities at fair value through profit or loss				
Trading derivatives	-	46,474	-	46,474
	-	46,474	-	46,474

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 June 30, 2012 and December 31, 2011:

<i>(in millions of Korean won)</i>	June 30, 2012	December 31, 2011
Novelis Korea Ltd.	1,699	1,699
JNT Frontier Private Equity Unit	700	700
SV M&A No.1 Equity Unit	1,001	715
Seoul Investment Initial & Green	950	950
TS Investment	800	800
Intellectual Discovery, Ltd.	4,000	4,000
Anobit Technologies Ltd.	-	3,123
Equity investment in a construction guarantee association	217	165
Others	608	842
	9,975	12,994

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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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 six-month periods ended June 30, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012					
	Three months			Six months		
	Semi-conductor	Other	Total	Semi-conductor	Other	Total
Total segment revenue	2,621,484	64,519	2,686,003	4,999,605	140,289	5,139,894
Inter-segment revenue ¹	-	(54,050)	(54,050)	-	(119,553)	(119,553)
Revenue from external customers	2,621,484	10,469	2,631,953	4,999,605	20,736	5,020,341
Operating Profit(Loss)²	23,055	(251)	22,804	(238,197)	1,021	(237,176)

<i>(in millions of Korean won)</i>	2011					
	Three months			Six months		
	Semi-conductor	Other	Total	Semi-conductor	Other	Total
Total segment revenue	2,746,966	60,702	2,807,668	5,528,177	130,816	5,658,993
Inter-segment revenue ¹	-	(49,306)	(49,306)	-	(107,446)	(107,446)
Revenue from external customers	2,746,966	11,396	2,758,362	5,528,177	23,370	5,551,547
Operating Profit(Loss)²	443,868	3,021	446,889	760,820	8,898	769,718

¹ Sales between segments are carried out at arm's length.

² The management of the Group assesses segment performance based on segment operating profit(loss).

The Group's semiconductor products are classified into two types of products, DRAM and NAND Flash. During the six-month period ended June 30, 2012, the share of each type of products among the total revenue is approximately 73% and 24% (2011: 74% and 24%), respectively.

The Group's revenue information by geographical segments (location of subsidiaries) for the three-month and six-month periods ended June 30, 2012 and 2011, follows:

<i>(in millions of Korean won)</i>	2012		2011	
	Three months	Six months	Three months	Six months
Domestic	188,847	356,725	179,611	383,467
China	497,932	865,725	467,554	945,094
Asia	854,831	1,562,818	983,345	1,961,407
United States	881,670	1,796,723	851,194	1,665,068
Europe	208,673	438,350	276,658	596,511
	2,631,953	5,020,341	2,758,362	5,551,547

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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 June 30, 2012 and December 31, 2011, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2012	December 31, 2011
Domestic	9,951,071	8,777,412
China	2,936,567	2,987,296
Asia	1,960	1,880
United States	25,235	25,645
Europe	1,428	340
	12,916,261	11,792,573

Details of the Group's revenue for the three-month and six-month periods ended June 30, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012		2011	
	Three months	Six months	Three months	Six months
Sales of goods	2,624,674	5,004,270	2,751,037	5,536,589
Sales of services	7,279	14,494	6,531	13,341
Royalty income	-	1,577	794	1,617
	2,631,953	5,020,341	2,758,362	5,551,547

6. Restricted Financial Instruments

As of June 30, 2012, short-term financial instruments amounted to ₩ 65,660 million (December 31, 2011: ₩ 50,691 million) and other financial assets amounted to ₩ 326 million (December 31, 2011: ₩ 326 million) are pledged as collateral for certain borrowings, supporting small business and other purposes. Meanwhile, ₩ 251,041 million of restricted cash equivalents as of December 31, 2011, which were pledged as guarantee in the Rambus litigation, were released by a resolution of the court during the six-month period ended June 30, 2012 (Note 33).

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7. Trade and Other Receivables

Details of current and non-current loans and other receivables as of June 30, 2012 and December 31, 2011, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2012	December 31, 2011
Current		
Other receivables	194,190	115,044
Accrued income	10,893	7,565
Short-term loans	6,734	6,237
Short-term guarantee deposits	437	283
Deposits	2,514	83,512
	<u>214,768</u>	<u>212,641</u>
Non-current		
Long-term other receivables	80	23,209
Long-term loans	4,761	4,541
Guarantee deposits	10,480	9,649
Long-term deposits	937	1,062
	<u>16,258</u>	<u>38,461</u>
	<u>231,026</u>	<u>251,102</u>

Trade receivables and loans and other receivables, net of provision for impairment, as of June 30, 2012 and December 31, 2011, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2012	December 31, 2011
Trade receivables	1,695,645	1,544,780
Less : provision for impairment	(3,953)	(3,855)
Trade receivables - net	<u>1,691,692</u>	<u>1,540,925</u>
Current loans and other receivables	219,908	217,566
Less : provision for impairment	(5,140)	(4,925)
Current loans and other receivables - net	<u>214,768</u>	<u>212,641</u>
Non-current loans and other receivables	29,145	51,445
Less : provision for impairment	(12,887)	(12,984)
Non-current loans and other receivables - net	<u>16,258</u>	<u>38,461</u>
	<u>1,922,718</u>	<u>1,792,027</u>

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Movements in the provision for impairment of trade receivables for the six-month periods ended June 30, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
At January 1	3,855	4,066
Provision for receivables impairment	162	724
Unused amounts reversed	(27)	(98)
Receivables written-off during the period as uncollectible	-	(324)
Others	(37)	(605)
At June 30	3,953	3,763

Movements in the provision for impairment of current loans and other receivables for the six-month periods ended June 30, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
At January 1	4,925	4,788
Provision for receivables impairment	249	-
Unused amounts reversed	-	(713)
Others	(34)	473
At June 30	5,140	4,548

Movements in the provision for impairment of non-current loans and other receivables for the six-month periods ended June 30, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
At January 1	12,984	12,713
Provision for receivables impairment	11	231
Unused amounts reversed	(234)	(45)
Others	126	(99)
At June 30	12,887	12,800

8. Derecognition of financial assets

The Group has entered into trade receivable discounting agreements with several financial institutions. Outstanding trade receivables discounted but not yet matured amount to ₩ 517,241 million (December 31, 2011: ₩ 519,961 million) as of June 30, 2012.

The Group is obliged to redeem upon default of the counterparties and accordingly, accounted for the above transactions as collateralized borrowings.

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9. Inventories

Details of inventories as of June 30, 2012 and December 31, 2011, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2012	December 31, 2011
Finished goods	507,044	455,123
Less : valuation allowance	(67,716)	(70,893)
Finished goods - net	439,328	384,230
Work in progress	663,988	662,693
Less : valuation allowance	(63,266)	(132,570)
Work in progress - net	600,722	530,123
Raw materials	184,919	138,362
Less : valuation allowance	(2,205)	(620)
Raw materials - net	182,714	137,742
Supplies	43,117	48,765
Less : valuation allowance	(2,581)	(4,004)
Supplies - net	40,536	44,761
Goods in transit	85,791	87,354
Less : valuation allowance	(94)	(602)
Goods in transit - net	85,697	86,752
	1,348,997	1,183,608

10. Other Current and Non-current Assets

Details of other current and non-current assets as of June 30, 2012 and December 31, 2011, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2012	December 31, 2011
Current Assets		
Advance payments	6,608	5,740
Prepaid expenses	140,635	74,116
Others	12,038	14,859
	159,281	94,715
Non-current Assets		
Long-term advance payments	90	113
Long-term prepaid expenses	147,803	132,907
Others	16,831	21,429
	164,724	154,449
	324,005	249,164

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11. Available-for-sale Financial Assets

Changes in the book value of available-for-sale financial assets for the six-month periods ended June 30, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
At January 1	47,492	57,044
Acquisition	424	5,416
Disposal	(3,443)	-
Other comprehensive Income transferred to equity ¹	5,408	(15,978)
At June 30	49,881	46,482

¹ Net of income tax effect of ₩ 1,998 million (2011: ₩ 960 million).

12. Investments in Jointly Controlled Entities and Associates

Details of investments in jointly controlled entities and associates as of June 30, 2012, are as follows:

Type	Investee	Locations	Ownership (%)
Associate	Siliconfile Technologies Inc.	Korea	29.7
Jointly controlled entity	HITECH Semiconductor (Wuxi) Co., Ltd.(HITECH)	China	45.0

Changes in investments in jointly controlled entities and associates for the six-month periods ended June 30, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012		
	Siliconfile Technologies Inc.¹	HITECH	Total
At January 1	8,138	95,475	103,613
Dividend	-	(11,882)	(11,882)
Share of profit	378	6,581	6,959
Share of equity movement	(75)	2,737	2,662
At June 30	8,441	92,911	101,352

¹ As of June 30, 2012, fair value on the active market amounted to ₩ 8,162 million (December 31, 2011: ₩ 8,138 million).

<i>(in millions of Korean won)</i>	2011		
	Siliconfile Technologies Inc.	HITECH	Total
At January 1	15,858	82,305	98,163
Acquisition	-	12,180	12,180
Dividend	-	(8,837)	(8,837)
Share of profit(loss)	(549)	6,351	5,802
Share of equity movement	-	(4,568)	(4,568)
At June 30	15,309	87,431	102,740

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13. Credit Risk of Financial Instruments

The aging analysis of trade receivables and loans and other receivables as of June 30, 2012 and December 31, 2011, are as follows:

June 30, 2012							
<i>(in millions of Korean won)</i>	Over due					Impaired	Total
	Current	Over 3 months			Over 6 months		
		Less than 3 months	and less than 6 months	Over 6 months			
Trade receivables	1,687,515	6,375	438	156	1,161	1,695,645	
Current loans and other receivables	215,132	-	-	-	4,776	219,908	
Non-current loans and other receivables	16,319	-	-	-	12,826	29,145	
	1,918,966	6,375	438	156	18,763	1,944,698	

December 31, 2011							
<i>(in millions of Korean won)</i>	Over due					Impaired	Total
	Current	Over 3 months			Over 6 months		
		Less than 3 months	and less than 6 months	Over 6 months			
Trade receivables	1,538,979	3,974	170	132	1,525	1,544,780	
Current loans and other receivables	213,068	-	-	-	4,498	217,566	
Non-current loans and other receivables	38,819	-	-	-	12,626	51,445	
	1,790,866	3,974	170	132	18,649	1,813,791	

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

As of June 30, 2012, maximum exposure of credit risk relating guarantees provided by the Group is ₩ 33 million (December 31, 2011: ₩ 35 million) which will be paid upon request of warrantee as mentioned in Note 33.

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

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14. Financial Instruments by Categories

Details of financial assets by category as of June 30, 2012 and December 31, 2011, are as follows:

	June 30, 2012			
	Assets at fair value through the profit and	Available-for-sale financial assets	Loans and receivables	Total
<i>(in millions of Korean won)</i>				
Cash and cash equivalents	-	-	1,719,419	1,719,419
Short-term financial assets	-	-	1,270,338	1,270,338
Trade receivables	-	-	1,691,692	1,691,692
Other receivables	-	-	231,026	231,026
Other financial assets	487	-	326	813
Available-for-sale financial assets	-	49,881	-	49,881
	487	49,881	4,912,801	4,963,169

	December 31, 2011				
	Assets at fair value through the profit and	Available -for-sale financial	Held-to-maturity financial	Loans and receivables	Total
<i>(in millions of Korean won)</i>					
Cash and cash equivalents	-	-	-	1,243,788	1,243,788
Short-term financial assets	-	-	-	632,139	632,139
Trade receivables	-	-	-	1,540,925	1,540,925
Other receivables	-	-	-	251,102	251,102
Other financial assets	3,114	-	1	327	3,442
Available-for-sale financial assets	-	47,492	-	-	47,492
	3,114	47,492	1	3,668,281	3,718,888

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Details of financial liabilities by category as of June 30, 2012 and December 31, 2011, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2012		
	Liabilities at fair value through the profit and loss	Liabilities measured at amortized cost	Total
Trade payables	-	797,425	797,425
Other payables	-	1,117,336	1,117,336
Other non-trade payables	-	445,255	445,255
Borrowings	-	6,628,146	6,628,146
Other financial liabilities	14,000	-	14,000
	14,000	8,988,162	9,002,162

<i>(in millions of Korean won)</i>	December 31, 2011		
	Liabilities at fair value through the profit and loss	Liabilities measured at amortized cost	Total
Trade payables	-	678,408	678,408
Other payables	-	516,724	516,724
Other non-trade payables	-	440,204	440,204
Borrowings	-	6,776,465	6,776,465
Other financial liabilities	46,474	-	46,474
	46,474	8,411,801	8,458,275

15. Property, Plant and Equipment

Details of changes in property, plant and equipment for the six-month periods ended June 30, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
At January 1	10,899,308	10,590,580
Acquisition	2,702,491	2,074,405
Disposal	(25,212)	(4,941)
Depreciation charge	(1,550,331)	(1,686,696)
Transfer	(7)	6,308
Foreign exchange differences	(17,268)	(107,242)
At June 30	12,008,981	10,872,414

Certain amount of the property, plant and equipment are pledged as collateral for certain borrowings of the Group as of June 30, 2012 (Note 33).

The Group leases certain buildings, machinery and others from GE Capital and Lian Xin under finance lease agreements.

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The book value of the machinery and others subject to finance lease agreement amounted to ₩ 700,690 million (December 31, 2011: ₩ 560,406 million) as of June 30, 2012. The plant and equipment are pledged as collateral for the finance lease liabilities.

The Group leases certain machinery and others from GE Capital and Macquarie Capital under operating lease agreements. The payment schedule of minimum lease payments under operating lease agreements as of June 30, 2012, is as follows:

<i>(in millions of Korean won)</i>	Total lease payment
No later than 1 year	15,859
Later than 1 year	6,145
	22,004

16. Investment Property

Details of changes in investment property for the six-month periods ended June 30, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
At January 1	31,168	37,186
Acquisition	-	-
Disposal	-	(84)
Depreciation charge	(640)	(657)
At June 30	30,528	36,445

17. Intangible Assets

Details of changes in intangible assets for the six-month periods ended June 30, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
At January 1	707,648	603,653
Acquisition	66,404	93,022
Disposal	(3,954)	(1,543)
Amortization charge	(58,066)	(18,671)
Other	(4)	(45)
At June 30	712,028	676,416

Among costs associated with development activities, ₩ 55,081 million (2011: ₩ 82,738 million), that were directly attributable and met capitalization criteria, were capitalized as development cost for the six-month period ended June 30, 2012. However, research and other development expenditures that did not meet the criteria amounted to ₩ 520,491 million (2011: ₩ 395,566 million) and were recognized as an expense as incurred in the statement of comprehensive income for the six-month period ended June 30, 2012.

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18. Assets classified as held for sale

Details of changes in assets classified as held for sale for the six-month periods ended June 30, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
At January 1	29,033	53,205
Transfer ¹	-	(6,308)
Disposal	(5)	(7,101)
Other	12	(1,534)
At June 30	29,040	38,262

¹ Certain assets classified as held for sale were transferred to the property, plant and equipment as these assets were no longer held for sale.

19. Other Non-trade Payables

Details of other non-trade payables as of June 30, 2012 and December 31, 2011, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2012	December 31, 2011
Current		
Accrued expenses	366,917	345,878
Non-current		
Long-term other payables	50,916	64,470
Long-term accrued expense	6,114	6,073
Rent deposit payables	21,308	23,783
	78,338	94,326
	445,255	440,204

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20. Borrowings

Details of borrowings as of June 30, 2012 and December 31, 2011, are as follows:

<i>(in millions of Korean won)</i>	<u>June 30, 2012</u>	<u>December 31, 2011</u>
Current		
Short-term borrowings	1,128,720	1,416,158
Current maturities of long-term borrowings	682,038	1,074,006
Current maturities of debentures	149,972	299,844
Current maturities of convertible bonds	554,710	40,418
	<u>2,515,440</u>	<u>2,830,426</u>
Non-current		
Long-term borrowings	2,072,581	1,482,824
Debentures	1,558,928	1,489,999
Convertible bonds	481,197	973,216
	<u>4,112,706</u>	<u>3,946,039</u>
	<u>6,628,146</u>	<u>6,776,465</u>

For the six-month period ended June 30, 2012, the Group redeemed USD 300 million of long-term borrowings on maturity and USD 500 million of unsecured bonds in advance, and recognized ₩10,470 million of loss on early redemption. Meanwhile, the Group raised funds through ₩856,508 million of long-term loans and ₩550,000 million of unsecured bonds during the six-month period ended June 30, 2012.

Details of book value and fair value of non-current borrowings as of June 30, 2012 and December 31, 2011, are as follows:

<i>(in millions of Korean won)</i>	<u>June 30, 2012</u>		<u>December 31, 2011</u>	
	<u>Book value</u>	<u>Fair value</u>	<u>Book value</u>	<u>Fair value</u>
Long-term borrowings	2,072,581	2,072,577	1,482,824	1,482,824
Debentures	1,558,928	1,484,532	1,489,999	1,534,502
Convertible bond	481,197	503,881	973,216	1,054,442
	<u>4,112,706</u>	<u>4,060,990</u>	<u>3,946,039</u>	<u>4,071,768</u>

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21. Provisions

Details of changes in provisions for the six-month periods ended June 30, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012			Total
	Sales returns	Legal claims	Warranty reserve	
At January 1	3,807	349,660	-	353,467
Addition	594	64,727	2,690	68,011
Reversal and utilization	-	(7,971)	-	(7,971)
Foreign Exchange difference and other	-	677	-	677
At June 30	4,401	407,093	2,690	414,184

<i>(in millions of Korean won)</i>	2011			Total
	Sales returns	Legal claims		
At January 1	14,276	517,847		532,123
Addition	-	3,178		3,178
Reversal and utilization	(3,775)	(210,854)		(214,639)
Foreign Exchange difference and other	-	46,994		46,994
At June 30	10,501	357,165		367,666

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

A warranty reserve is accrued for the estimated costs of future warranty claims over generally one to two years of warranty periods based on historical experience to guarantee the quality of products.

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22. Other Financial Liabilities

Details of other financial liabilities as of June 30, 2012 and December 31, 2011, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2012	December 31, 2011
Current		
Derivative liabilities (Note 34)	12,023	38,678
Non-current		
Derivative liabilities (Note 34)	1,977	7,796
	14,000	46,474

23. Other Current and Non-current Liabilities

Details of other current and non-current liabilities as of June 30, 2012 and December 31, 2011, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2012	December 31, 2011
Current		
Unearned income	2,160	2,509
Withholdings	21,211	22,707
Deposits received	820	901
Advance receipts	16,474	16,384
Other	27	34
	40,692	42,535
Non-current		
Long-term withholdings	1,659	4,133
Other long-term employee benefit liabilities	35,969	34,569
Other	40	29
	37,668	38,731
	78,360	81,266

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24. Defined Benefit Liabilities

Defined benefit liabilities as of June 30, 2012 and December 31, 2011, are determined as follows:

<i>(in millions of Korean won)</i>	June 30, 2012	December 31, 2011
Present value of obligations	479,077	471,290
Fair value of plan assets ¹	(11,560)	(12,591)
Liability in the statement of financial position	467,517	458,699

¹ Includes contributions to the National Pension Fund in accordance with the National Pension Law amounting to ₩ 2,006 million (December 31, 2011: ₩ 2,151 million).

The expense amounts of severance benefits for the three-month and six-month periods ended June 30, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012		2011	
	Three months	Six months	Three months	Six months
Current service cost	20,257	40,513	16,353	32,616
Interest expenses	6,788	13,576	6,226	12,441
Expected return on plan assets	(114)	(228)	(138)	(271)
Total expenses	26,931	53,861	22,441	44,786

The line items in which severance benefits are included for the three-month and six-month periods ended June 30, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012		2011	
	Three months	Six months	Three months	Six months
Cost of sales (manufacturing costs)	15,713	31,753	13,691	27,316
Selling, administration and ordinary development expenses	11,218	22,108	8,750	17,470
Total expenses	26,931	53,861	22,441	44,786

Changes in the carrying amount of defined benefit obligations for the six-month periods ended June 30, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
At January 1	471,290	372,296
Current service cost	40,513	32,616
Interest expense	13,576	12,441
Benefits paid	(46,797)	(23,691)
Other	495	(54)
At June 30	479,077	393,608

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The movements in the fair value of plan assets for the six-month periods ended June 30, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
At January 1	12,591	13,234
Expected return on plan assets	228	271
Benefits paid	(1,246)	(726)
Actuarial losses	(13)	(31)
Other	-	5
At June 30	11,560	12,753

25. Share capital and Capital Surplus

Details of share capital and capital surplus as of June 30, 2012, are as follows:

<i>(in thousands of share capital, except for par value and paid-in capital)</i>			
Authorized shares	Outstanding shares¹	Par value (per share)	Paid in capital
9,000,000	697,650	₩ 5,000	₩ 3,488,252 million

¹As of June 30, 2012, the actual number of shares which the shareholders own is 694,122 thousand shares. The difference of 3,528 thousand shares is the result of stock retirement.

Changes in share capital and capital surplus for the six-month periods ended June 30, 2012, and 2011, are as follows:

<i>(in millions of Korean won and in thousands of shares)</i>	Paid in Capital		Capital Surplus			
	Total owned	Share capital	Share premium	Conversion right	Other	Total
At January 1, 2011	590,277	2,969,023	645,513	75,821	471,766	4,162,123
Exercise of conversion rights	1,895	9,475	39,663	(3,471)	-	45,667
Others ¹	-	-	-	-	(240)	(240)
At June 30, 2011	592,172	2,978,498	685,176	72,350	471,526	4,207,550
At January 1, 2012	592,172	2,978,498	685,177	72,350	471,525	4,207,550
Issue of share capital	101,850	509,250	1,816,726	-	-	2,325,976
Exercise of conversion rights	7	36	160	(13)	-	183
Exercise of stock options	93	468	3,322	-	-	3,790
Others	-	-	-	-	1	1
At June 30, 2012	694,122	3,488,252	2,505,385	72,337	471,526	6,537,500

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 June 30, 2012, is 3,528 thousand

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shares.

26. Expenses by Nature

Expense that are recorded as cost of sales, selling, administration, ordinary development expenses and other operating expenses in the statements of comprehensive income for the three-month and six-month periods ended June 30, 2012 and 2011, consist of:

<i>(in millions of Korean won)</i>	2012		2011	
	Three months	Six months	Three months	Six months
Changes in inventories	(29,544)	(125,696)	(51,553)	2,256
Raw materials and consumables used	717,722	1,353,069	596,092	1,172,377
Employee benefit expenses	384,004	814,480	364,616	647,443
Depreciation, amortization	769,957	1,609,037	859,197	1,706,024
Royalty expense	61,381	124,618	36,966	72,732
Commission expense	93,338	183,756	85,581	169,395
Utilities expense	106,115	232,629	91,469	198,426
Repair expense	224,357	430,358	238,695	445,406
Outsourcing expense	250,781	501,828	212,564	414,409
Other	60,668	177,086	74,395	167,633
	2,638,779	5,301,165	2,508,022	4,996,101

27. Selling, Administration and Ordinary Development Expenses

Selling, administration and ordinary development expenses for the three-month and six-month periods ended June 30, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012		2011	
	Three months	Six months	Three months	Six months
Salaries	52,408	110,209	49,296	87,027
Severance benefits	4,178	8,385	3,575	7,106
Employee benefits	14,676	27,399	12,939	23,952
Commission expense	40,126	77,229	34,790	69,698
Depreciation	15,247	28,234	14,084	28,291
Amortization	27,212	57,769	9,155	18,294
Research and development	256,669	520,491	203,603	395,566
Exporting expense	6,356	12,486	7,069	13,317
Legal cost	14,028	20,781	7,526	15,298
Rental expense	3,780	7,352	3,563	7,148
Taxes and dues	2,646	5,142	2,247	4,518
Other	34,969	70,366	26,351	52,452
	472,295	945,843	374,198	722,667

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28. Other Operating Income and Expense

Other operating income for the three-month and six-month periods ended June 30, 2012 and 2011, consist of:

<i>(in millions of Korean won)</i>	2012		2011	
	Three months	Six months	Three months	Six months
Rental income	4,719	8,969	4,255	8,549
Gain on disposal of assets held-for-sale	-	18	2,979	6,302
Gain on disposal of property, plant and equipment	1,134	1,247	69	83
Other	23,777	33,414	189,246	199,338
Total	29,630	43,648	196,549	214,272

Other operating expenses for the three-month and six-month periods ended June 30, 2012 and 2011, consist of:

<i>(in millions of Korean won)</i>	2012		2011	
	Three months	Six months	Three months	Six months
Loss on disposal of assets held-for-sale	-	-	88	6,617
Loss on disposal of property, plant and equipment	471	540	30	81
Loss on disposal of intangible assets	1,803	3,950	710	1,515
Donation	1,028	1,575	115	1,126
Loss on disposal of trade receivables	304	494	310	735
Amortization of suspended assets	3,349	5,851	3,708	7,799
Other	1,017	2,124	1,847	16,167
Total	7,972	14,534	6,808	34,040

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29. Financial Income and Expense

Financial income and expense for the three-month and six-month periods ended June 30, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012		2011	
	Three months	Six months	Three months	Six months
Finance income				
Interest income	26,104	48,061	15,075	28,475
Dividend income	215	216	43	45
Foreign exchange differences	106,381	227,404	168,855	349,958
Gain from derivative instruments	29,432	2,704	36,992	20,820
Gain on disposal of available-for-sale financial assets	3	5,875	-	-
Total Financial income	162,135	284,260	220,965	399,298
Finance expense				
Interest expenses	80,887	162,415	81,216	161,081
Foreign exchange differences	133,305	178,437	105,369	208,078
Loss from derivative instruments	4,569	7,002	685	40,374
Loss on redemption of debenture	10,470	10,470	-	-
Total Financial expense	229,231	358,324	187,270	409,533
Net finance income (expense)	(67,096)	(74,064)	33,695	(10,235)

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30. Income Tax

The income tax expense was recognized in the interim consolidated statements of comprehensive income based on the expected annual tax rate.

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 six-month periods ended June 30, 2012 and 2011, are as follows:

<i>(in millions of Korean won except for shares and per share amounts)</i>	2012		2011	
	Three months	Six months	Three months	Six months
Profit(loss) attributable to ordinary shareholders	(53,158)	(324,278)	471,087	744,352
Weighted average number of ordinary shares outstanding ¹	694,088,523	669,435,650	592,171,582	592,171,582
Basic earnings(loss) per share	(77)	(484)	796	1,257

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

<i>(in shares)</i>	2012		2011	
	Three months	Six months	Three months	Six months
Beginning balance	694,025,502	592,171,582	590,710,939	590,276,554
Exercise of conversion rights	3,428	7,348	1,460,643	1,895,028
Exercise of stock options	59,593	29,797	-	-
Issue of share capital	-	77,226,923	-	-
Weighted average number of ordinary shares outstanding	694,088,523	669,435,650	592,171,582	592,171,582

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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 two categories of dilutive potential ordinary shares: convertible bond and share options. 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. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Parent Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

<i>(in millions of Korean won except for shares and per share amounts)</i>	2012		2011	
	Three months	Six months	Three months	Six months
Profit(loss) attributable to ordinary shares	(53,158)	(324,278)	471,087	744,352
Add : Convertible bond related costs	(19,520)	-	(25,362)	18,234
Adjusted profit attributable to ordinary shares	(72,678)	(324,278)	445,725	762,586
Adjusted weighted average number of ordinary shares outstanding ¹	710,571,049	669,435,650	628,548,264	612,056,014
Diluted earnings(loss) per share	(102)	(484)	709	1,246

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

<i>(in shares)</i>	2012		2011	
	Three months	Six months	Three months	Six months
Weighted average number of ordinary shares outstanding	694,088,523	669,435,650	592,171,582	592,171,582
Dilutive potential ordinary shares				
Convertible bond	16,482,526	-	36,292,148	19,809,622
Share options	-	-	84,534	74,810
Adjusted weighted average number of ordinary shares outstanding	710,571,049	669,435,650	628,548,264	612,056,014

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32. Related Party Transactions

Details of associates and jointly controlled entities as of June 30, 2012, 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 six-month periods ended June 30, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012		2011	
	Sales	Purchases	Sales	Purchases
Associates	35,827	422	28,029	317
Jointly controlled entities	31,910	311,261	19,126	199,765
SK Telecom Co., Ltd. ^{1,3}	5	144	-	-
Other related parties ^{2,3,4}	-	48,617	-	-
Total	67,742	360,444	47,155	200,082

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.

³ Significant transactions accrued 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. to pay royalty on the SK brand in proportion to sales amount from March 2012 to December 2014. For the six-month period ended June 30, 2012, royalty on the SK brand amounted to ₩2,709 million.

The balances of significant transactions as of June 30, 2012 and December 31, 2011, are as follows:

<i>(in millions of Korean won)</i>	June 30, 2012		December 31, 2011	
	Receivables	Payables	Receivables	Payables
Associates	15,725	-	9,100	-
Jointly controlled entities	11,027	263,564	14,478	295,693
SK Telecom Co., Ltd. ¹	-	115	-	-
Other related parties ²	-	18,103	-	-
Total	26,752	281,782	23,578	295,693

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.

In addition to the above transactions and outstanding balances with related parties, the Group had transactions with SK securities Co., Ltd., a subsidiary of SK Holdings Co., Ltd., to manage short-term

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financial instruments(MMDA and others). For the six-month period ended June 30, 2012, the Group deposited ₩200,000 million in MMDA accounts and has ₩50,000 million of MMDA balance as of June 30, 2012.

Key management compensation

Key management includes two chief executive officers, 15 executives from subsidiaries, 34 directors, 16 internal auditors and 56 others. The compensation paid to key management for the six-month periods ended June 30, 2012 and 2011, consists of:

<i>(in millions of Korean won)</i>	Details	2012	2011
Short-term employee benefits	Wages, salaries, bonus and other	12,529	10,356
Post-employment benefits	Retirement payment and other	1,510	1,170
Other long-term benefits	Long-term employment allowance	1	1
Total		14,040	11,527

33. Commitments and contingencies

Group's pending litigations as of June 30, 2012

(a) Anti-Trust Act

In June 2002, the United States Department of Justice ("DOJ") notified the Group that the DOJ had commenced an investigation whether certain Dynamic Random Access Memory ("DRAM") manufacturers had breached the US Anti-Trust Act. In order to settle the investigation commenced by the DOJ, on April 22, 2005, the Group entered into a plea agreement with the DOJ. In relation to the lawsuits, the Group reached settlements through separate negotiations with the direct purchaser classes and individual companies. Also, in November 2010, the Group reached settlements with the indirect purchaser classes to pay US\$ 50 million.

Meanwhile, the flash product related civil suits were settled of June, 30, 2012, and, therefore, all litigations related to flash product in United States were closed. In addition, civil suits filed by the direct and indirect purchaser classes in three provinces (British Columbia, Ontario, Quebec) in Canada in connection with DRAM and SRAM are also pending. The flash product related civil suit hold in Ontario, Canada, was dropped by the plaintiff and, therefore, there are two outstanding civil suits filed by the direct and indirect purchaser classes in British Columbia and Quebec, Canada, as of June 30, 2012.

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As of June 30, 2012, 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.

(b) Litigation filed by Rambus

The Group is a defendant in litigations brought by Rambus Inc. ("Rambus"), a developer of high-bandwidth chip connection technologies, with respect to the alleged infringement of Rambus' patents by the Group' 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 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.

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

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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.

As of June 30, 2012, 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.

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

On July 24, 1997, the Group sold 13 million shares of Prudential Investment & Securities Co., Ltd. ("PIS") 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 PIS 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 9, 2012, reversed and remanded the above Seoul High Court

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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 at the Seoul High Court. On July 13, 2012, the 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 the 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 June 30, 2012, the ultimate outcome of the lawsuits described above cannot be determined, but could have a material effect.

(d) Lawsuit against Hyundai Securities Co., Ltd. ("HSC")

On August 27, 2009, Hyundai Securities Co., Ltd. ("HSC") filed a lawsuit against the Group at the Seoul Central District Court with respect to the lawsuit described above, seeking the Group to pay ₩ 99,172 million and interest to HSC on the grounds that the Group has the ultimate expense reimbursement obligation.

As a result of the lawsuit, on December 17, 2010, the Seoul Central District Court ruled that HSC's payment to HHI were on behalf of the Group as an agency and therefore, the Group had responsibility to repay the amounts that HSC had paid to HHI. The Group made a provisional payment amounting to ₩ 160,724 million to HSC and appealed to the Seoul High Court on January 7, 2011. On September 28, 2011, the Seoul High Court rejected the Group's appeal by stating that the Group was liable to HSC as ruled by the Seoul Central District Court. The Group filed an appeal to the Supreme Court of Korea on October 19, 2011.

As of June 30, 2012, the ultimate outcome of the lawsuits described above cannot be determined, but could have a material effect.

Separately, the Group filed a lawsuit against HSC on September 21, 2009, at the Seoul Central District Court in connection with the agreed payment claim of ₩ 211,829 million and interest on the

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grounds that HSC provided the Group with a comfort letter similar to what HSC provided to HHI in which HSC guaranteed that the Group would not suffer any legal or economic losses in connection with the transactions described above, and the agreement for loss compensation. As a result of the lawsuit, the Seoul Central District Court ruled against the Group on the grounds that the comfort letter is restricted to a loss incurred by the sanctions from the government and therefore, the comfort letter was not an agreement for compensation for all legal or economic losses. However, the Group appealed to the Seoul High Court on January 7, 2011.

On September 22, 2011, the Seoul High Court rejected the Group's appeal stating the same reason as judged in the first ruling. After considering any benefit from an appeal to a higher court, the Group decided not to appeal any more. Therefore, this lawsuit has been finalized.

Meanwhile, on February 25, 2011, HSC filed a lawsuit against the Group seeking the Group to pay ₩ 27,917 million and delay interest on the grounds that the Group is finally liable to HSC's payment to HHI in relation to the taxes levied on HHI and any related losses incurred by HHI in connection with HHI's repurchase of shares of PIS. the Group brought a counteraction against this claim at Seoul Central District Court and made a provisional payment amounting to ₩ 30,235 million to HSC to avoid any delay interest in case of unfavourable ruling against the Group. As a result of above lawsuit, on February 17, 2012, the Seoul Central District Court ruled that HSC's payment to HHI were on behalf of the Group as an agency and therefore, the Group had responsibility to repay the amounts that HSC had paid to HHI. The Court ordered the HSC to decrease the purport of the claim and HSC made a repayment to the Group for ₩ 949 million. In addition, the Group lodged an appeal to the Seoul High Court on March 8, 2012.

As of June 30, 2012, the ultimate outcome of the lawsuits described above cannot be determined, but could have a material effect.

(e) 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 June 30, 2012, 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.

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Contract for supply of industrial water

In March 2001, the Group and Veolia Water Industrial Development Co., Ltd. (“VWID”, formerly Vivendi Water Industrial Development Co., Ltd.) entered into a contract for the purpose of purchasing industrial water from VWID for 12 years from March 2001 to March 2013. The contract was subsequently extended to March 2018 in December 2006, and amended in March 2007 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 machinery of US\$ 177 million and US\$ 128 million, from the Parent Company and the Parent Company’s subsidiary (SKHYMC), respectively. 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 machinery of US\$ 9.5 million from the Parent Company. In connection with agreement, the Group is liable to guarantee a certain level of margin to HITECH.

Repurchase agreement of Sithe Ichon power plants

The Parent Company has previously entered into a long-term service agreement for the purchase of steam and electricity from Sithe Ichon Power Generating Corp. (“Sithe Ichon”). In June 2005, the Sithe Ichon and Hynix Engineering Co., Ltd. (“Hynix Engineering”, formerly Astec Co., Ltd.), the Parent Company’ subsidiary, entered into an agreement to purchase the power generating facility from Sithe Ichon for ₩ 119,000 million. In connection with the agreement, in July 2005, the Parent Company entered into an agreement with Sithe Ichon and Hynix Engineering under which the Parent Company provides Sithe Ichon a guarantee for Hynix Engineering’s performance under the purchase contract, and also the Parent Company entered into an agreement with Hynix Engineering to pay ₩ 56,319 million, which consisted of ₩ 39,106 million of compensation to Sithe Ichon for the early termination of the previously entered service agreement between the Parent Company and Sithe Ichon, and ₩ 17,213 million of indemnity for expected losses from the planned disposal of a part of the facility. As of June 30, 2012, the aforementioned agreement and all the related assets have been transferred to Ami Power Co., Ltd. (“Ami Power”), a newly incorporated entity that was spun off from Hynix Engineering. In addition, the Parent Company, Hynix Engineering and Ami Power entered into agreements under which Ami Power provides steam and electricity (“Energy”) to the Parent Company. In November 2011, Ami Power received notice of the cancellation of a contract related the purchase of Energy from the Parent Company. Accordingly, Ami Power is scheduled to dispose of the related facility and will be liquidated. In this regard, the Group recognized impairment loss for the difference between carrying value and net realizable value of the plant for the year ended December 31, 2011.

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Assets provided as collaterals

Details of assets provided as collaterals as of June 30, 2012, are as follows:

<i>(in millions of Korean won)</i>	Book value	Pledged amount	Remark
Land	37,073		
Buildings	92,461	2,369,198	Borrowings and credit lines ¹
Machinery	2,356,146		
	2,485,680	2,369,198	

¹ Beside 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.

Financing agreements

As of June 30, 2012, the Group has bank overdraft agreement with a limit of ₩ 1,000 million (December 31, 2011: ₩ 41,000 million) with Hana Bank.

Details of credit lines with financial institutions as of June 30, 2012, are as follows:

<i>(in millions of US dollars and Chinese Renminbi)</i>	Financial Institution	commitment		
The Parent Company	Korea Exchange Bank and others	Import finance like usance	USD	840
		Export finance like bills bought	USD	525
		Comprehensive limit contract about Import & Export	USD	645
SK hynix Semiconductor (China) Ltd.(SKHYCL)	Agricultural Bank of China	Import finance like usance	RMB	1,100
			USD	280
SK hynix America Inc. (SKHYA) and other sales entities	Citibank and others	Accounts receivable factoring contract which have no right to recourse	USD	315

Guarantees provided to others

Details of guarantees provided to others as of June 30, 2012, are as follows:

<i>(in millions of Korean won)</i>	Amount	Remark
Employees	33	Guarantees for employees' borrowings relating to employee stock ownership

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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 June 30, 2012, derivative financial assets amounted to ₩ 487 million (December 31, 2011: ₩ 3,114 million) and derivative financial liabilities amounted to ₩ 14,000 million (December 31, 2011: ₩ 46,474 million).

Gains and loss relating to the derivative instruments for the six-month period ended June 30, 2012, amounted to ₩ 2,704 million (2011: ₩ 20,820 million) and 7,002 million (2011: ₩ 40,374 million), respectively.

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35. Cash Generated from Operations

Reconciliations between operating profit and net cash inflow from operating activities for the six-month periods ended June 30, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012	2011
Profit(loss) for the period before income tax	(314,903)	753,893
Adjustments		
Defined benefits	53,861	44,786
Depreciation	1,550,971	1,687,353
Amortization	58,066	18,671
Loss on foreign currency translation	30,532	27,332
Loss on disposal of property, plant and equipment	540	81
Loss on disposal of intangible assets	3,950	1,515
Interest expenses	162,415	161,081
Gain on foreign currency translation	(34,742)	(164,244)
Gain on disposal of assets held-for-sale	(18)	(6,302)
Gain on disposal of property, plant and equipment	(1,247)	(83)
Gain on disposal of available-for-sale financial assets	(5,875)	-
Interest income	(48,061)	(28,475)
Loss on derivative instruments	4,298	19,554
Others	4,119	1,610
Changes in operating assets and liabilities		
Increase in trade receivables	(161,901)	(117,552)
Decrease(Increase) in loans and other receivables	14,518	(13,878)
Increase inventories	(155,568)	(14,150)
Increase in other assets	(10,451)	(43,239)
Increase(Decrease) in trade payables	104,925	(178,365)
Increase in non-trade payables	93,659	35,432
Decrease in other payables	(25,170)	(11,453)
Increase(Decrease) in provision	58,008	(217,175)
Decrease in other liabilities	(5,402)	(324,423)
Payment of defined benefit liability	(45,551)	(22,965)
Cash Generated from Operations	1,330,973	1,609,004

Significant transactions not affecting cash flows

For the six-month period ended June 30, 2012, the Group's other payables increased by ₩560,721 million relating to the acquisition of property, plant and equipment. In addition, ₩216,682 million of property, plant and equipment were purchased through finance lease obligations.

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36. Business combination

In May 2012, the Group acquired all the common shares of Ideafly S.r.l.(SK hynix Italy S.r.l.('SKHYIT')), which was a NAND flash development company in Italy for ₩18 million. As of the date of acquisition, the identifiable assets acquired were ₩3,608 million and the liabilities assumed were ₩3,470 million. The difference between consideration and net assets acquired was recognized as a gain for the six-month period ended June 30, 2012.