

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

**Interim Consolidated Financial Statements**

**March 31, 2012 and 2011**

**SK hynix Inc. and Subsidiaries**  
**Index**  
**March 31, 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 consolidated financial statements consist of consolidated statements of financial position of SK hynix Inc. and its subsidiaries (collectively the Group) as of March 31, 2012, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the three-month periods ended March 31, 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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**SK hynix Inc. and Subsidiaries**  
**Notes to the Interim Consolidated Financial Statements**  
**March 31, 2012 and 2011, and December 31, 2011**

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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  
May 16, 2012

This report is effective as of May 16, 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 audit report should understand that there is a possibility that the above review report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

**SK hynix Inc. and Subsidiaries**  
**Interim Consolidated Statements of Financial Position**  
**March 31, 2012 and December 31, 2011**

<i>(in millions of Korean won)</i>	Notes	March 31, 2012		December 31, 2011	
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	4,6,14	₩	2,691,104	₩	1,243,788
Short-term financial instruments	4,6,14		707,583		632,139
Trade receivables	7,14		1,572,139		1,540,925
Loans and other receivables	7,14		264,081		212,641
Inventories	9		1,254,207		1,183,608
Assets classified as held for sale	18		28,637		29,033
Other financial assets	14		-		1
Other current assets	10		116,944		94,715
			<u>6,634,695</u>		<u>4,936,850</u>
<b>Non-current assets</b>					
Investments in jointly controlled entities and associates	12		111,199		103,613
Available-for-sale financial assets	11, 14		52,988		47,492
Property, plant and equipment	15		11,224,263		10,899,308
Intangible assets	17		702,410		707,648
Investment property	16		30,848		31,168
Loans and other receivables	7,14		38,091		38,461
Other financial assets	14,34		8,690		3,441
Deferred income tax assets			316,970		315,718
Other non-current assets	10		144,206		154,449
			<u>12,629,665</u>		<u>12,301,298</u>
<b>Total assets</b>		₩	<u>19,264,360</u>	₩	<u>17,238,148</u>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Trade payables	14	₩	710,644	₩	678,408
Other payables	14		818,906		516,724
Other non-trade payables	14, 19		328,851		345,878
Provisions	21		380,702		353,467
Other financial liabilities	14, 22,34		36,684		38,678
Borrowings	14,20		2,348,541		2,830,426
Current tax liabilities			9,868		11,170
Other current liabilities	23		54,512		42,535
			<u>4,688,708</u>		<u>4,817,286</u>
<b>Non-current liabilities</b>					
Borrowings	14, 20		4,046,041		3,946,039
Other non-trade payables	14, 19		76,022		94,326
Defined benefit liabilities	24		471,094		458,699
Other financial liabilities	14, 22, 34		45,148		7,796
Other non-current liabilities	23		39,099		38,731
			<u>4,677,404</u>		<u>4,545,591</u>
<b>Total liabilities</b>			<u>9,366,112</u>		<u>9,362,877</u>
<b>Equity attributable to owners of the Parent Company</b>					
Capital stock	25		3,487,768		2,978,498
Capital surplus	25		3,045,857		1,229,052
Accumulated other comprehensive income			75,355		107,107
Other components of equity			5,762		5,762
Retained earnings			3,284,131		3,555,323
			<u>9,898,248</u>		<u>7,875,271</u>
<b>Non-controlling interest</b>			<u>-625</u>	-	<u>471</u>
<b>Total equity</b>			<u>9,898,248</u>		<u>7,875,271</u>
<b>Total liabilities and equity</b>		₩	<u>19,264,360</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 Periods Ended March 31, 2012 and 2011**

<i>(in millions of Korean won, except per share amounts)</i>	<b>Notes</b>	<b>2012</b>	<b>2011</b>
<b>Net sales</b>	5	₩ 2,388,389	₩ 2,793,185
<b>Cost of sales</b>	26	<u>(2,182,277)</u>	<u>(2,112,379)</u>
<b>Gross profit</b>		206,112	680,806
Selling, administration and ordinary development expenses	26,27	(473,548)	(348,469)
Other operating income	28	14,029	17,723
Other operating expenses	26,28	<u>(6,574)</u>	<u>(27,231)</u>
<b>Operating income (loss)</b>		(259,981)	322,829
Financial income	29	196,371	209,335
Financial expenses	29	(203,339)	(253,265)
Income from jointly controlled entities and associates	12	6,543	2,519
Other non-operating income		949	-
Other non-operating expenses	33	<u>(11,571)</u>	<u>-</u>
Profit(loss) before income tax		(271,028)	281,418
Income tax expense		<u>(195)</u>	<u>(7,878)</u>
<b>Profit(loss) for the period</b>		<u>₩ (271,223)</u>	<u>₩ 273,540</u>
<b>Other comprehensive income(loss)</b>			
Currency translation differences		(38,728)	(63,998)
Change in value of available-for-sale financial assets	11	5,890	(5,920)
Actuarial loss on defined benefit liabilities	24	(5)	(17)
Other comprehensive income from jointly controlled entities and associates	12	<u>1,044</u>	<u>(1,792)</u>
<b>Total comprehensive income(loss) for the period</b>		<u>₩ (303,022)</u>	<u>₩ 201,813</u>
<b>Profit(loss) for the period attributable to:</b>			
Equity holders of the Parent Company		₩ (271,119)	₩ 273,264
Non-controlling interest		(104)	276
<b>Total comprehensive income(loss) for the period attributable to:</b>			
Equity holders of the Parent Company		₩ (302,868)	₩ 202,926
Non-controlling interest		(154)	(1,113)
<b>Earnings(loss) per share attributable to the equity holders of the Parent Company for the period</b>	31		
Basic earnings(loss) per share		₩ (420)	₩ 463
Diluted earnings(loss) per share		(420)	462

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

**SK hynix Inc. and Subsidiaries**  
**Interim Consolidated Statements of Changes in Equity**  
**Three-Month Periods Ended March 31, 2012 and 2011**

		Attributable to equity holders of the Parent Company														
				Accumulated												
				Other		Other										
Notes	Paid-in	Capital	Comprehensive	Components	Retained	Total		Non-controlling	Total							
	Capital	Surplus	Income (loss)	of Equity	Earnings			Interest	Equity							
<i>(in millions of Korean won)</i>																
<b>Balance at January 1, 2011</b>	₩	2,969,023	₩	1,193,100	₩	(23,261)	₩	5,762	₩	3,761,299	₩	7,905,923	₩	1,653	₩	7,907,576
<b>Comprehensive income</b>																
Profit(loss) for the period		-		-		-		-		273,264		273,264		276		273,540
Actuarial loss on defined benefit liabilities	24	-		-		-		-		(17)		(17)		-		(17)
Other comprehensive income from jointly controlled entities and associates	12	-		-		(1,792)		-		-		(1,792)		-		(1,792)
Loss on the valuation of available-for-sale financial assets	11	-		-		(4,641)		-		-		(4,641)		(1,279)		(5,920)
Currency translation differences		-		-		(63,888)		-		-		(63,888)		(110)		(63,998)
Total comprehensive income		-		-		(70,321)		-		273,247		202,926		(1,113)		201,813
<b>Transactions with equity holders of the Parent Company :</b>																
Exercise of conversion rights	25	2,172		8,239		-		-		-		10,411		-		10,411
Dividends		-		-		-		-		(88,556)		(88,556)		-		(88,556)
Others		-		(220)		-		-		-		(220)		-		(220)
Total transactions with equity holders of the Parent Company		2,172		8,019		-		-		(88,556)		(78,365)		-		(78,365)
<b>Balance at March 31, 2011</b>	₩	2,971,195	₩	1,201,119	₩	(93,582)	₩	5,762	₩	3,945,990	₩	8,030,484	₩	540	₩	8,031,024
<b>Balance at January 1, 2012</b>	₩	2,978,498	₩	1,229,052	₩	107,107	₩	5,762	₩	3,555,323	₩	7,875,742	₩	(471)	₩	7,875,271
<b>Comprehensive income</b>																
Profit(loss) for the period		-		-		-		-		(271,119)		(271,119)		(104)		(271,223)
Actuarial loss on defined benefit liabilities	24	-		-		-		-		3		3		(8)		(5)
Other comprehensive income from jointly controlled entities and associates	12	-		-		1,044		-		-		1,044		-		1,044
Gain(loss) on the valuation of available-for-sale financial assets	11	-		-		5,890		-		-		5,890		-		5,890
Currency translation differences		-		-		(38,686)		-		-		(38,686)		(42)		(38,728)
Total comprehensive income		-		-		(31,752)		-		(271,116)		(302,868)		(154)		(303,022)
<b>Transactions with equity holders of the Parent Company :</b>																
Issue of share capital	25	509,250		1,816,727		-		-		-		2,325,977		-		2,325,977
Exercise of conversion rights	25	20		78		-		-		-		98		-		98
Others		-		-		-		-		(76)		(76)		-		(76)
Total transactions with equity holders of the Parent Company		509,270		1,816,805		-		-		(76)		2,325,999		-		2,325,999
<b>Balance at March 31, 2012</b>	₩	3,487,768	₩	3,045,857	₩	75,355	₩	5,762	₩	3,284,131	₩	9,898,873	₩	(625)	₩	9,898,248

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

**SK hynix Inc. and Subsidiaries**  
**Interim Consolidated Statements of Cash Flows**  
**Three-Month Periods Ended March 31, 2012 and 2011**

<i>(in millions of Korean won)</i>	Notes	2012	2011
<b>Cash flows from operating activities</b>			
Cash generated from operations	35	₩ 776,242	₩ 613,319
Interest received		15,303	19,174
Interest paid		(41,311)	(36,868)
Dividends received		1	-
Income tax paid		(6,422)	(1,795)
<b>Net cash generated from operating activities</b>		<u>743,813</u>	<u>593,830</u>
<b>Cash flows from investing activities</b>			
Decrease in short-term financial assets		463,205	901,975
Increase in short-term financial assets		(540,319)	(634,710)
Decrease in loans and other receivables		1,652	1,795
Increase in loans and other receivables		(4,635)	(1,044)
Proceeds from derivatives		1,450	2,355
Payments from derivatives		(443)	(12,104)
Proceeds from disposal of assets classified as held for sale		23	3,806
Proceeds from disposal of available-for-sale financial assets		8,995	-
Acquisition of available-for-sale financial assets		(51)	(3,049)
Proceeds from disposal of property, plant and equipment		19,884	249
Acquisition of property, plant and equipment		(1,185,377)	(937,222)
Proceeds from disposal of Intangible assets		4	5
Acquisition of intangible assets		(27,637)	(35,861)
<b>Net cash used in investing activities</b>		<u>(1,263,249)</u>	<u>(713,805)</u>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		1,092,187	641,424
Repayments of borrowings		(1,448,910)	(349,620)
Proceeds from issuance of share capital		2,325,977	-
Acquisition of non-controlling interest		-	(241)
<b>Net cash provided by financing activities</b>		<u>1,969,254</u>	<u>291,563</u>
<b>Effect of foreign exchange rates on cash and cash equivalents</b>		<u>(2,502)</u>	<u>(8,781)</u>
<b>Net increase in cash and cash equivalents</b>		1,447,316	162,807
<b>Cash and cash equivalents at the beginning of period</b>		1,243,788	1,253,226
<b>Cash and cash equivalents at the end of period</b>		<u>₩ 2,691,104</u>	<u>₩ 1,416,033</u>

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



**SK hynix Inc. and Subsidiaries**  
**Notes to the Interim Consolidated Financial Statements**  
**March 31, 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 March 31, 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	21.1
Share Management Council <sup>1</sup>	44,250,000	6.4
Individual investors	503,675,502	72.5
	<b>694,025,502</b>	<b>100.0</b>

<sup>1</sup>As of March 31, 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
Woori Bank	9,861,000	1.4
Korea Finance Corporation	7,640,500	1.1
Shinhan Bank	7,481,500	1.1
Other financial institutions	9,174,500	1.3
	<b>44,250,000</b>	<b>6.4</b>

According to the share purchase agreement between SK Telecom Co., Ltd. and Share Management Council dated on November 14, 2011, Share Management Council should exercise its voting right of 44.25 million shares following SK Telecom Co., Ltd’s decision in designating officers of the Parent Company and other matters unless it has conflict with Share Management Council’s interests. Accordingly, SK Telecom Co., Ltd. has the voting rights of above shares since February 14, 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 Share Management Council sells all or a part of the share holdings of 44.25 million.

**SK hynix Inc. and Subsidiaries**  
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As of March 31, 2012, the Group's consolidated subsidiaries are as follows:

<b>Names of subsidiaries</b>	<b>Number of Shares</b>	<b>Ownership (%)</b>	<b>Locations</b>	<b>Remarks</b>
Hynix Engineering Co., Ltd.	671,932	99.65	Korea	Domestic subsidiary
Hystech Co., Ltd.	236,408	99.65	Korea	Domestic subsidiary
Hynix HRD Co., Ltd.	59,102	99.65	Korea	Domestic subsidiary
Hylogitech 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 Semiconductor 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 Semiconductor Deutschland GmbH(SKHYD)	Certificate	100	Germany	Overseas sales entity
SK hynix Semiconductor Europe Holding Ltd.(SKHYE)	335,640,000	100	U.K.	Holding company
SK hynix Semiconductor U.K. Ltd.(SKHYU)	186,240,200	100	U.K.	Overseas sales entity
SK hynix Semiconductor Asia Pte. Ltd.(SKHYS)	196,303,500	100	Singapore	Overseas sales entity
SK hynix Semiconductor India Private Limited( 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 Semiconductor 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 Inc. and Subsidiaries**  
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**2. Significant Accounting Policies**

**2.1 Basis of Preparation**

The interim consolidated financial statements for three-month period ended March 31, 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 March 31, 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 the Group.

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

**SK hynix Inc. and Subsidiaries**  
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**3. Critical Accounting Estimates**

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 three-month period ended March 31, 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.

At March 31, 2012, if the currency had weakened/strengthened by 10% against the US dollar with all other variables held constant, profit before income tax for the period would have been ₩ 254,563 million (March 31, 2011: ₩ 243,683 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.

At March 31, 2012, if the currency had weakened/strengthened by 10% against the Japanese Yen with all other variables held constant, profit before income tax for the period would have been ₩ 44,690 million (March 31, 2011: ₩ 20,071 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.

**SK hynix Inc. and Subsidiaries**  
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At March 31, 2012, if the currency had weakened/strengthened by 10% against the Euro with all other variables held constant, profit before income tax for the period would have been ₩ 22,815 million (March 31, 2011: ₩ 30,255 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 summarises 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>	March 31, 2012		March 31, 2011	
	<b>20% increase</b>	<b>20% decrease</b>	<b>20% increase</b>	<b>20% decrease</b>
Effects in equity	6,758	(6,758)	8,164	(8,164)

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

As of March 31, 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 three-month period ended March 31, 2012, if interest rates on borrowings had been 100 basis points higher/lower with all other variables held constant, profit before income tax for the period would have been ₩ 3,627 million (March 31, 2011: ₩ 3,776 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

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(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 three-month period ended March 31, 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 March 31, 2012 and December 31, 2011 are as follows:

<i>(in millions of Korean won)</i>	<u>March 31, 2012</u>	<u>December 31, 2011</u>
Total liabilities (A)	9,366,112	9,362,877
Total equity (B)	9,898,248	7,875,271
Cash and cash equivalents and others(C) <sup>1</sup>	3,398,687	1,875,927
Total borrowings (D)	6,394,582	6,776,465
Debt ratio (A/B)	95%	119%
Net borrowing ratio (D-C)/B	30%	62%

<sup>1</sup> 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 March 31, 2012 and December 31, 2011:

<i>(in millions of Korean won)</i>	<b>March 31, 2012</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets</b>				
Financial assets at fair value through profit or loss				
Trading derivatives	-	8,363	-	8,363
Available-for-sale financial assets				
Equity securities (at fair value)	43,065	-	-	43,065
	<b>43,065</b>	<b>8,363</b>	<b>-</b>	<b>51,428</b>
<b>Liabilities</b>				
Financial liabilities at fair value through profit or loss				
Trading derivatives	-	81,832	-	81,832
	<b>-</b>	<b>81,832</b>	<b>-</b>	<b>81,832</b>
<b>December 31, 2011</b>				
<i>(in millions of Korean won)</i>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets</b>				
Financial assets at fair value through profit or loss				
Trading derivatives	-	3,114	-	3,114
Available-for-sale financial assets				
Equity securities (at fair value)	34,498	-	-	34,498
	<b>34,498</b>	<b>3,114</b>	<b>-</b>	<b>37,612</b>
<b>Liabilities</b>				
Financial liabilities at fair value through profit or loss				
Trading derivatives	-	46,474	-	46,474
	<b>-</b>	<b>46,474</b>	<b>-</b>	<b>46,474</b>

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



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

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

Specific valuation techniques used to value financial instruments include:

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

The following table presents available for sale financial assets that are valued at historical cost as of March 31, 2012 and December 31, 2011. :

<i>(in millions of Korean won)</i>	<u>March 31, 2012</u>	<u>December 31, 2011</u>
Novelis Korea Ltd.	1,699	1,699
JNT Frontier Private Equity Unit	700	700
SV M&A No.1 Equity Unit	715	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	165	165
Others	894	842
	<u><b>9,923</b></u>	<u><b>12,994</b></u>

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

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**5. Segment Information**

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

The segment information for revenue and operating profit(loss) for the three-month periods ended March 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	2012			2011		
	Semi-conductor	Other	Total	Semi-conductor	Other	Total
Total segment revenue	2,378,122	75,769	2,453,891	2,781,211	70,114	2,851,325
Inter-segment revenue <sup>1</sup>	-	(65,502)	(65,502)	-	(58,140)	(58,140)
Revenue from external customers	2,378,122	10,267	2,388,389	2,781,211	11,974	2,793,185
<b>Operating Profit(Loss)<sup>2</sup></b>	<b>(261,252)</b>	<b>1,271</b>	<b>(259,981)</b>	<b>316,952</b>	<b>5,877</b>	<b>322,829</b>

<sup>1</sup> Sales between segments are carried out at arm's length.

<sup>2</sup>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 three-month period ended March 31, 2012, the share of each type of products among the total revenue is approximately 71% and 26% (2011: 76% and 23%), respectively.

The Group's revenue information by geographical segments (location of subsidiaries) for the three-month periods ended March 31, 2012 and 2011, follows:

<i>(in millions of Korean won)</i>	2012	2011
Domestic	167,878	203,856
China	367,794	477,540
Asia	707,987	978,062
United States	915,053	813,874
Europe	229,677	319,853
	<b>2,388,389</b>	<b>2,793,185</b>

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The Group's non-current assets (excluding financial assets, investments in jointly controlled entities and associates and deferred income tax assets) information by geographical segments as of March 31, 2012 and December 31, 2011, are as follows:

<i>(in millions of Korean won)</i>	<b>March 31, 2012</b>	<b>December 31, 2011</b>
Domestic	9,101,699	8,777,412
China	2,972,958	2,987,296
Asia	1,714	1,880
United States	25,038	25,645
Europe	318	340
	<b>12,101,727</b>	<b>11,792,573</b>

Details of the Group's revenue for the three-month periods ended March 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	<b>2012</b>	<b>2011</b>
Sales of goods	2,379,597	2,785,552
Sales of services	7,215	6,810
Royalty income	1,577	823
	<b>2,388,389</b>	<b>2,793,185</b>

## **6. Restricted Financial Instruments**

As of March 31, 2012, short-term financial instruments amounted to ₩ 62,272 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 three-month period ended March 31, 2012 (Note 33).

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**7. Trade and Other Receivables**

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

<i>(in millions of Korean won)</i>	<u>March 31, 2012</u>	<u>December 31, 2011</u>
<b>Current</b>		
Other receivables	161,503	115,044
Accrued income	13,344	7,565
Short-term loans	6,606	6,237
Shor-term guarantee deposits	242	283
Deposits	82,386	83,512
	<u>264,081</u>	<u>212,641</u>
<b>Non-current</b>		
Long-term other receivables	22,899	23,209
Long-term loans	4,552	4,541
Guarantee deposits	9,707	9,649
Long-term deposits	933	1,062
	<u>38,091</u>	<u>38,461</u>
	<b><u>302,172</u></b>	<b><u>251,102</u></b>

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

<i>(in millions of Korean won)</i>	<u>March 31, 2012</u>	<u>December 31, 2011</u>
Trade receivables	1,575,836	1,544,780
Less : provision for impairment	(3,697)	(3,855)
Trade receivables - net	<u>1,572,139</u>	<u>1,540,925</u>
Current loans and other receivables	269,082	217,566
Less : provision for impairment	(5,001)	(4,925)
Current loans and other receivables - net	<u>264,081</u>	<u>212,641</u>
Non-current loans and other receivables	51,177	51,445
Less : provision for impairment	(13,086)	(12,984)
Non-current loans and other receivables - net	<u>38,091</u>	<u>38,461</u>
	<b><u>1,874,311</u></b>	<b><u>1,792,027</u></b>

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Movements in the provision for impairment of trade receivables for the three-month periods ended March 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	<b>2012</b>	<b>2011</b>
<b>At January 1</b>	3,855	4,066
Provision for receivables impairment	110	-
Unused amounts reversed	(18)	(889)
Effect of foreign exchange rates	(250)	-
<b>At March 31</b>	<b>3,697</b>	<b>3,177</b>

Movements in the provision for impairment of current loans and other receivables for the three-month periods ended March 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	<b>2012</b>	<b>2011</b>
<b>At January 1</b>	4,925	4,788
Provision for receivables impairment	-	-
Unused amounts reversed	(250)	(225)
Effect of foreign exchange rates	326	-
<b>At March 31</b>	<b>5,001</b>	<b>4,563</b>

Movements in the provision for impairment of non-current loans and other receivables for the three-month periods ended March 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	<b>2012</b>	<b>2011</b>
<b>At January 1</b>	12,984	12,713
Provision for receivables impairment	125	1
Unused amounts reversed	(3)	(80)
Effect of foreign exchange rates	(20)	-
<b>At March 31</b>	<b>13,086</b>	<b>12,634</b>

**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 ₩ 238,652 million (December 31, 2011: ₩ 519,961 million) as of March 31, 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 March 31, 2012 and December 31, 2011, are as follows:

<i>(in millions of Korean won)</i>	<b>March 31, 2012</b>	<b>December 31, 2011</b>
Finished goods	458,347	455,123
Less : valuation allowance	(72,076)	(70,893)
Finished goods - net	386,271	384,230
Work in progress	707,695	662,693
Less : valuation allowance	(83,460)	(132,570)
Work in progress - net	624,235	530,123
Raw materials	132,428	138,362
Less : valuation allowance	(2,082)	(620)
Raw materials - net	130,346	137,742
Supplies	44,291	48,765
Less : valuation allowance	(2,567)	(4,004)
Supplies - net	41,724	44,761
Goods in transit	71,728	87,354
Less : valuation allowance	(97)	(602)
Goods in transit - net	71,631	86,752
	<b>1,254,207</b>	<b>1,183,608</b>

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

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

<i>(in millions of Korean won)</i>	<b>March 31, 2012</b>	<b>December 31, 2011</b>
<b>Current Assets</b>		
Advance payments	4,915	5,740
Prepaid expenses	97,162	74,116
Others	14,867	14,859
	116,944	94,715
<b>Non-current Assets</b>		
Long-term advance payments	101	113
Long-term prepaid expenses	126,390	132,907
Others	17,715	21,429
	144,206	154,449
	<b>261,150</b>	<b>249,164</b>

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

Changes in the book value of available-for-sale financial assets for the three-month periods ended March 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	<b>2012</b>	<b>2011</b>
<b>At January 1</b>	47,492	57,044
Acquisition	51	1,350
Disposal	(3,122)	-
Net losses transferred to equity <sup>1</sup>	8,567	(6,539)
<b>At March 31</b>	<b>52,988</b>	<b>51,855</b>

<sup>1</sup> Net of income tax effect of ₩ 2,677 million (2011: ₩ 619 million).

**12. Investments in Jointly Controlled Entities and Associates**

Changes in investments in jointly controlled entities and associates for the three-month periods ended March 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	<b>2012</b>	
	<b>Siliconfile Technologies Inc.<sup>1</sup></b>	<b>HITECH</b>
<b>At January 1</b>	8,138	95,475
Acquisition	-	-
Disposal	-	-
Share of profit	162	6,381
Share of equity movement	(75)	1,118
<b>At March 31</b>	<b>8,225</b>	<b>102,974</b>

<sup>1</sup> As of March 31, 2012, fair value on the active market amounting to ₩ 9,600 million (December 31, 2011: ₩ 8,138 million).

<i>(in millions of Korean won)</i>	<b>2011</b>	
	<b>Siliconfile Technologies Inc.</b>	<b>HITECH</b>
<b>At January 1</b>	15,858	82,305
Acquisition	-	-
Disposal	-	-
Share of profit(loss)	(168)	2,687
Share of equity movement	-	(1,792)
<b>At March 31</b>	<b>15,690</b>	<b>83,200</b>

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**13. Credit Risk of Financial Instruments**

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

		March 31, 2012				
		Over due				
<i>(in millions of Korean won)</i>	Not Past due	Less than 3 months	Over 3 months and less than 6 months	Over 6 months	Impaired	Total
Trade receivables	1,572,829	1,211	523	141	1,132	1,575,836
Current loans and other receivables	264,297	-	-	-	4,785	269,082
Non-current loans and other receivables	38,373	-	-	-	12,804	51,177
	<b>1,875,499</b>	<b>1,211</b>	<b>523</b>	<b>141</b>	<b>18,721</b>	<b>1,896,095</b>

		December 31, 2011				
		Over due				
<i>(in millions of Korean won)</i>	Not Past due	Less than 3 months	Over 3 months and less than 6 months	Over 6 months	Impaired	Total
Trade receivables	1,538,979	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
	<b>1,790,866</b>	<b>3,974</b>	<b>170</b>	<b>132</b>	<b>18,649</b>	<b>1,813,791</b>

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

As of March 31, 2012, maximum exposure of credit risk relating guarantees provided by the Group is ₩ 34 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 March 31, 2012 and December 31, 2011, are as follows:

<b>March 31, 2012</b>				
<i>(in millions of Korean won)</i>	<b>Assets at fair value through the profit and loss</b>	<b>Available-for-sale financial assets</b>	<b>Loans and receivables</b>	<b>Total</b>
Cash and cash equivalents	-	-	2,691,104	2,691,104
Short-term financial Instruments	-	-	707,583	707,583
Trade receivables	-	-	1,572,139	1,572,139
Other receivables	-	-	302,172	302,172
Other financial assets	8,363	-	327	8,690
Available-for-sale financial assets	-	52,988	-	52,988
	<b>8,363</b>	<b>52,988</b>	<b>5,273,325</b>	<b>5,334,676</b>

<b>December 31, 2011</b>					
<i>(in millions of Korean won)</i>	<b>Assets at fair value through the profit and loss</b>	<b>Available-for-sale financial assets</b>	<b>Held-to-maturity financial assets</b>	<b>Loans and receivables</b>	<b>Total</b>
Cash and cash equivalents	-	-	-	1,243,788	1,243,788
Short-term financial Instruments	-	-	-	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
	<b>3,114</b>	<b>47,492</b>	<b>1</b>	<b>3,668,281</b>	<b>3,718,888</b>

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

<i>(in millions of Korean won)</i>	<b>March 31, 2012</b>		
	<b>Liabilities at fair value through the profit and loss</b>	<b>Liabilities measured at amortized cost</b>	<b>Total</b>
Trade payables	-	710,644	710,644
Other payables	-	818,906	818,906
Other non-trade payables	-	404,873	404,873
Borrowings	-	6,394,582	6,394,582
Other financial liabilities	81,832	-	81,832
	<b>81,832</b>	<b>8,329,005</b>	<b>8,410,837</b>

  

<i>(in millions of Korean won)</i>	<b>December 31, 2011</b>		
	<b>Liabilities at fair value through the profit and loss</b>	<b>Liabilities measured at amortized cost</b>	<b>Total</b>
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
	<b>46,474</b>	<b>8,411,801</b>	<b>8,458,275</b>

**15. Property, Plant and Equipment**

Details of changes in property, plant and equipment for the three-month periods ended March 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	<b>2012</b>	<b>2011</b>
<b>At January 1</b>	10,899,308	10,590,580
Acquisition	1,187,009	937,222
Disposal	(19,840)	(285)
Depreciation charge	(808,056)	(837,168)
Transfer	(3)	776
Foreign exchange differences	(34,155)	(67,404)
<b>At March 31</b>	<b>11,224,263</b>	<b>10,623,721</b>

Certain amount of the property, plant and equipment are pledged as collateral for certain borrowings of the Group as of March 31, 2012 (Note 33).

The Group leases certain machinery and others from HP Financial Service Co., Ltd. under sale and leaseback agreements, in a form of finance lease. The Group also leases certain buildings, machinery and others from GE Capital and Lian Xian under finance lease agreements.

The book value of the machinery and others subject to finance lease agreement, and sale and leaseback agreement amounted to ₩ 666,595 million (December 31, 2011: ₩ 560,251 million) as of March 31, 2012. The machinery are pledged as collateral for the finance lease liabilities.

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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 March 31, 2012, is as follows:

<i>(in millions of Korean won)</i>	<b>Total lease payment</b>
No later than 1 year	18,409
Later than 1 year	9,970
	<b>28,379</b>

**16. Investment Property**

Details of changes in investment property for the three-month periods ended March 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	<b>2012</b>	<b>2011</b>
<b>At January 1</b>	<b>31,168</b>	<b>37,186</b>
Acquisition	-	-
Disposal	-	-
Depreciation charge	(320)	(328)
<b>At March 31</b>	<b>30,848</b>	<b>36,858</b>

**17. Intangible Assets**

Details of changes in intangible assets for the three-month periods ended March 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	<b>2012</b>	<b>2011</b>
<b>At January 1</b>	<b>707,648</b>	<b>603,653</b>
Acquisition	27,637	35,861
Disposal	(2,152)	(809)
Amortization charge	(30,703)	(9,331)
Other	(20)	(26)
<b>At March 31</b>	<b>702,410</b>	<b>629,348</b>

Among costs associated with research and development activities, ₩ 22,887 million (2011: ₩ 30,413 million), that were directly attributable and met capitalization criteria, were capitalized as development cost for the three-month period ended March 31, 2012. However, other development expenditures that did not meet the criteria amounted to ₩ 263,823 million (2011: ₩ 191,963 million) and were recognized as an expense as incurred in the statement of comprehensive income for the three-month period ended March 31, 2012.

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

Details of changes in assets classified as held for sale for the three-month periods ended March 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	<b>2012</b>	<b>2011</b>
<b>At January 1</b>	29,033	53,204
Transfer <sup>1</sup>	-	(670)
Disposal	(5)	(7,013)
Other	(391)	(800)
<b>At March 31</b>	<b>28,637</b>	<b>44,721</b>

<sup>1</sup> 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 March 31, 2012 and December 31, 2011 are as follows:

<i>(in millions of Korean won)</i>	<b>March 31, 2012</b>	<b>December 31, 2011</b>
<b>Current</b>		
Accrued expenses	328,851	345,878
<b>Non-current</b>		
Long-term other payables	52,864	64,470
Long-term accrued expense	2,863	6,073
Rent deposit payables	20,295	23,783
	76,022	94,326
	<b>404,873</b>	<b>440,204</b>

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**20. Borrowings**

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

<i>(in millions of Korean won)</i>	<u>March 31, 2012</u>	<u>December 31, 2011</u>
<b>Current</b>		
Short-term borrowings	982,532	1,416,158
Current maturities of long-term borrowings	1,026,029	1,074,006
Current maturities of debentures	299,917	299,844
Current maturities of convertible bonds	40,063	40,418
	<u>2,348,541</u>	<u>2,830,426</u>
<b>Non-current</b>		
Long-term borrowings	1,587,229	1,482,824
Debentures	1,481,689	1,489,999
Convertible bonds	977,123	973,216
	<u>4,046,041</u>	<u>3,946,039</u>
	<b><u>6,394,582</u></b>	<b><u>6,776,465</u></b>

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

<i>(in millions of Korean won)</i>	<u>March 31, 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	1,587,229	1,587,229	1,482,824	1,482,824
Debentures	1,481,689	1,549,507	1,489,999	1,534,502
Convertible bond	977,123	1,086,862	973,216	1,054,442
	<b><u>4,046,041</u></b>	<b><u>4,223,598</u></b>	<b><u>3,946,039</u></b>	<b><u>4,071,768</u></b>

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**21. Provisions**

Details of changes in provisions for the three-month periods ended March 31, 2012 and 2011, are as follows:

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

<i>(in millions of Korean won)</i>	<b>2011</b>			<b>Total</b>
	<b>Sales returns</b>	<b>Legal claims</b>		
<b>At January 1</b>	14,276	517,847		532,123
Addition	-	1,611		1,611
Reversal and utilization	(2,660)	(29,581)		(32,241)
Foreign exchange difference and other	-	(13,618)		(13,618)
<b>At March 31</b>	<b>11,616</b>	<b>476,259</b>		<b>487,875</b>

**Provisions for sales returns**

The Group estimates the expected sales returns based on historical results and adjusts sales and cost of sales, respectively. Accordingly, related gross profit and estimated expenses are recorded as provisions for sales returns.

**Provisions for legal claims**

The Group recognizes provisions for legal claims when the Group has a present legal or constructive obligation as a result of past events and an outflow of resources required to settle the obligation is probable and the amount can be reliably estimated (Note 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 March 31, 2012 and December 31, 2011, are as follows:

<i>(in millions of Korean won)</i>	<u>March 31, 2012</u>	<u>December 31, 2011</u>
<b>Current</b>		
Derivative liabilities (Note 34)	36,684	38,678
<b>Non-current</b>		
Derivative liabilities (Note 34)	45,148	7,796
	<b>81,832</b>	<b>46,474</b>

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

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

<i>(in millions of Korean won)</i>	<u>March 31, 2012</u>	<u>December 31, 2011</u>
<b>Current</b>		
Unearned income	2,502	2,509
Withholdings	33,955	22,707
Deposits received	817	901
Advance receipts	17,211	16,384
Other	27	34
	<u>54,512</u>	<u>42,535</u>
<b>Non-current</b>		
Long-term withholdings	4,244	4,133
Other long-term employee benefit liabilities	34,820	34,569
Other	35	29
	<u>39,099</u>	<u>38,731</u>
	<b>93,611</b>	<b>81,266</b>

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**24. Defined Benefit Liabilities**

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

<i>(in millions of Korean won)</i>	<b>March 31, 2012</b>	<b>December 31, 2011</b>
Present value of obligations	483,287	471,290
Fair value of plan assets <sup>1</sup>	(12,193)	(12,591)
<b>Liability in the statement of financial position</b>	<b>471,094</b>	<b>458,699</b>

<sup>1</sup> Includes deposits to the National Pension Fund in accordance with the National Pension Law amounting to ₩ 2,107 million (December 31, 2011: ₩ 2,151 million).

The expense amounts for the three-month periods ended March 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	<b>2012</b>	<b>2011</b>
Current service cost	20,256	16,263
Interest expenses	6,788	6,215
Expected return on plan assets	(114)	(133)
<b>Total expenses</b>	<b>26,930</b>	<b>22,345</b>

The line items in which severance benefits are included for the three-month periods ended March 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	<b>2012</b>	<b>2011</b>
Cost of sales (manufacturing costs)	16,040	13,625
Selling, administration and ordinary development expenses	10,890	8,720
<b>Total expenses</b>	<b>26,930</b>	<b>22,345</b>

Changes in the carrying amount of defined benefit obligations for the three-month periods ended March 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	<b>2012</b>	<b>2011</b>
<b>At January 1</b>	<b>471,290</b>	<b>372,296</b>
Current service cost	20,256	16,263
Interest expense	6,788	6,215
Benefits paid	(14,917)	(13,217)
Other	(130)	(56)
<b>At March 31</b>	<b>483,287</b>	<b>381,501</b>



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The movements in the fair value of plan assets for the three-month periods ended March 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	<b>2012</b>	<b>2011</b>
<b>At January 1</b>	12,591	13,234
Expected return on plan assets	114	133
Benefits paid	(507)	(305)
Actuarial losses	(5)	(17)
Other	-	5
<b>At March 31</b>	<b>12,193</b>	<b>13,050</b>

**25. Share capital and Capital Surplus**

Details of share capital and capital surplus as of March 31, 2012, are as follows:

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

<b>Authorized shares</b>	<b>Outstanding shares</b>	<b>Outstanding shares after the merger of shares<sup>1</sup></b>	<b>Par value (per share)</b>	<b>Paid in capital</b>
9,000,000	5,586,149	697,554	₩ 5,000	₩ 3,487,768 million

<sup>1</sup>As of March 31, 2012, the actual number of shares which the shareholders own is 694,026 thousand shares. The difference of 3,528 thousand shares is the result of stock retirement.

Changes in share capital and capital surplus for the three-month periods ended March 31, 2012, and 2011, are as follows:

<i>(in millions of Korean won and in thousands of shares)</i>	<b>Total owned shares</b>	<b>Paid in Capital</b>		<b>Capital Surplus</b>		
		<b>Share capital</b>	<b>Share premium</b>	<b>Conversion right consideration</b>	<b>Other</b>	<b>Total</b>
At January 1, 2011	590,277	2,969,023	645,513	75,821	471,766	4,162,123
Exercise of conversion rights	434	2,172	9,035	(796)	-	10,411
Others <sup>1</sup>	-	-	-	-	(220)	(220)
<b>At March 31, 2011</b>	<b>590,711</b>	<b>2,971,195</b>	<b>654,548</b>	<b>75,025</b>	<b>471,546</b>	<b>4,172,314</b>
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	1,816,727	-	-	2,325,977
Exercise of conversion rights	4	20	85	(7)	-	98
<b>At March 31, 2012</b>	<b>694,026</b>	<b>3,487,768</b>	<b>2,501,989</b>	<b>72,343</b>	<b>471,525</b>	<b>6,533,625</b>

<sup>1</sup>The changes in ownership interests that did not result in a loss of control over a subsidiary and resulted from transactions (issuance of share capital, acquisition of non-controlling interests) of the shares of SKHYCL.

In accordance with the Articles of Incorporation, shares can be retired and be distributed as dividends to the shareholders, and the total of number of shares retired as of March 31, 2012, is 3,528 thousand shares.

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**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 periods ended March 31, 2012 and 2011, consist of:

<i>(in millions of Korean won)</i>	<u>2012</u>	<u>2011</u>
Changes in inventories	(96,153)	53,809
Raw materials and consumables used	635,347	576,285
Employee benefit expenses	430,477	282,827
Depreciation, amortization and impairment charge	839,079	846,827
Royalty expense	63,237	35,766
Commission expense	90,417	83,814
Utilities expense	126,515	106,957
Repair expense	206,002	206,711
Outsourcing expense	251,047	201,845
Other	116,431	93,238
	<u><b>2,662,399</b></u>	<u><b>2,488,079</b></u>

**27. Selling, Administration and Ordinary Development Expenses**

Selling, administration and ordinary development expenses for the three-month periods ended March 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	<u>2012</u>	<u>2011</u>
Salaries	57,801	37,731
Severance benefits	4,207	3,531
Employee benefits	12,723	11,013
Commission expense	37,102	34,908
Depreciation	12,987	14,206
Amortization	30,556	9,138
Research and development	263,823	191,963
Exporting expense	6,130	6,248
Legal cost	6,753	7,772
Rental expense	3,573	3,585
Taxes and dues	2,495	2,271
Other	35,398	26,103
	<u><b>473,548</b></u>	<u><b>348,469</b></u>

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**28. Other Operating Income and Expense**

Other operating income for the three-month periods ended March 31, 2012 and 2011, consist of:

<i>(in millions of Korean won)</i>	<b>2012</b>	<b>2011</b>
Rental income	4,250	4,294
Gain on disposal of property, plant and equipment	113	14
Gain on disposal of intangible assets	-	1
Other	9,666	13,414
<b>Total</b>	<b>14,029</b>	<b>17,723</b>

Other operating expenses for the three-month periods ended March 31, 2012 and 2011, consist of:

<i>(in millions of Korean won)</i>	<b>2012</b>	<b>2011</b>
Loss on disposal of assets held-for-sale	-	6,529
Loss on disposal of property, plant and equipment	69	50
Loss on disposal of intangible assets	2,148	806
Donation	547	1,012
Loss on disposal of trade receivables	190	425
Amortization of suspended assets	2,502	4,091
Other	1,118	14,318
<b>Total</b>	<b>6,574</b>	<b>27,231</b>

**29. Financial Income and Expense**

Financial income and expense for the three-month periods ended March 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	<b>2012</b>	<b>2011</b>
<b>Finance income</b>		
Interest income	21,957	13,400
Dividend income	1	2
Foreign exchange differences	159,837	186,129
Gain from derivative instruments	8,704	9,804
Gain on disposal of available-for-sale financial assets	5,872	-
<b>Total Financial income</b>	<b>196,371</b>	<b>209,335</b>
<b>Finance expense</b>		
Interest expenses	81,528	79,865
Foreign exchange differences	83,947	107,734
Loss from derivative instruments	37,864	65,666
<b>Total Financial expense</b>	<b>203,339</b>	<b>253,265</b>
<b>Net finance income (expense)</b>	<b>(6,968)</b>	<b>(43,930)</b>

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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 as of March 31, 2012 and 2011, is as follows:

<i>(in millions of Korean won except for shares and per share amounts)</i>	<b>2012</b>	<b>2011</b>
Profit(loss) attributable to ordinary shareholders	(271,119)	273,264
Weighted average number of ordinary shares outstanding	644,779,348	590,710,939
<b>Basic earnings(loss) per share</b>	<b>(420)</b>	<b>463</b>

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

<i>(in shares)</i>	<b>2012</b>	<b>2011</b>
Beginning balance	592,171,582	590,276,554
Exercise of conversion rights	3,920	434,385
Issue of share capital	52,603,846	-
<b>Weighted average number of ordinary shares outstanding</b>	<b>644,779,348</b>	<b>590,710,939</b>

Diluted earnings(loss) per share is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Parent Company has 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.

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<i>(in millions of Korean won except for shares and per share amounts)</i>	<b>2012</b>	<b>2011</b>
Profit(loss) attributable to ordinary shares	(271,119)	273,264
Add : Convertible bond related costs	-	24
Adjusted profit attributable to ordinary shares	(271,119)	273,288
Adjusted weighted average number of ordinary shares outstanding <sup>1</sup>	644,779,348	591,690,582
<b>Diluted earnings(loss) per share</b>	<b>(420)</b>	<b>462</b>

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

<i>(in shares)</i>	<b>2012</b>	<b>2011</b>
Weighted average number of ordinary shares outstanding	644,779,348	590,710,939
Dilutive potential ordinary shares		
Convertible bond	-	915,744
Share options	-	63,899
<b>Adjusted weighted average number of ordinary shares outstanding</b>	<b>644,779,348</b>	<b>591,690,582</b>

### 32. Related Parties

Details of associates and jointly controlled entities as of March 31, 2012, are as follows:

<b>Type</b>	<b>Investee</b>
Associate	Siliconfile Technologies Inc.
Jointly controlled entity	HITECH Semiconductor (Wuxi) Co., Ltd.(HITECH)

Significant transactions between the Group and related parties for the three-month periods ended March 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	<b>2012</b>		<b>2011</b>	
	<b>Sales</b>	<b>Purchases</b>	<b>Sales</b>	<b>Purchases</b>
Associates	13,819	186	12,032	49
Jointly controlled entities	13,711	158,703	8,236	98,375
SK Telecom Co., Ltd. <sup>1,3</sup>	5	9	-	-
Other related parties <sup>2,3</sup>	-	24,029	-	-
<b>Total</b>	<b>27,535</b>	<b>182,927</b>	<b>20,268</b>	<b>98,424</b>

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

<sup>2</sup> Transactions with subsidiaries of SK Telecom Co., Ltd., SK Holdings Co., Ltd. and subsidiaries which have significant influence over the Group.

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

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

<i>(in millions of Korean won)</i>	<b>March 31, 2012</b>		<b>December 31, 2011</b>	
	<b>Receivables</b>	<b>Payables</b>	<b>Receivables</b>	<b>Payables</b>
Associates	10,469	-	9,100	-
Jointly controlled entities	9,875	292,251	14,478	295,693
SK Telecom Co., Ltd. <sup>1</sup>	-	21	-	-
Other related parties <sup>2</sup>	-	18,632	-	-
<b>Total</b>	<b>20,344</b>	<b>310,904</b>	<b>23,578</b>	<b>295,693</b>

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

<sup>2</sup> The balances of significant transactions with subsidiaries of SK Telecom Co., Ltd., SK Holdings Co., Ltd. and subsidiaries which have significant influence over the Group.

**33. Commitments and contingencies**

**Group's pending litigations as of March 31, 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. Meanwhile, DRAM product users in the United States filed lawsuits claiming damages for the breach of the US Anti-trust Act by the Parent Company and SK hynix Semiconductor America Inc. ("SKHYA"), its sales subsidiary located in the United States.

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.

The Ninth Circuit Court of Appeals denied the plaintiffs' motion for rehearing en banc on the Rule 23(f) petition asking the Court to accept an appeal of the District Court's ruling denying Flash indirect purchaser class certification in August 2011. As a result, the flash indirect purchaser action, consisting of 23 individual purchasers, is pending as of March 31, 2012. 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 March 31, 2012.

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As of March 31, 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 to sell, 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 at 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 court ordered that Group's obligations to maintain the bond and make continuing on-going royalties into the escrow account were released.

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

As of March 31, 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

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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 2, 2012, reversed and remanded the above Seoul High Court ruling to the extent it excluded ₩ 4,284 million and related interest, on the grounds that Seoul High Court erred in deducting the market value of the shares from the compensation.

The Group, in order to minimize the possible payment of interest, made a conditional/provisional payment of ₩ 7,971 million in principal and interest as the litigation mentioned above is in progress in Seoul High Court. As of March 31, 2011, the ultimate outcome of the lawsuits described cannot be determined, but may have a material effect. The accompanying consolidated financial statements do not include any additional adjustments in excess of managements' current expectation in relation to such uncertainty.

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



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HHI amounting to ₩ 50,303 million in connection with HHI's repurchase of shares. As a result of the litigation described above, the Seoul Central District Court rendered its ruling on October 22, 2009, that the Group, HSC and the former CEO of HSC jointly and severally shall pay the total amount of compensation and related interest. Subsequently, the Group and HSC paid ₩ 73,692 million pursuant to the first ruling.

However, the Group appealed to the Seoul High Court on November 11, 2009, and on November 10, 2011, the court rendered a ruling that the Group and HSC should only pay ₩ 48,770 million and related interest. The Group, HSC and HHI appealed to the Supreme Court of Korea on November 25, 2011. As of March 31, 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 March 31, 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 Seoul Central District Court in connection with the agreed payment claim of ₩ 211,829 million and interest on the 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

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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 February 25, 2012.

As of March 31, 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 March 31, 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.

**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.

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**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 March 2005, the Sithe Ichon and Hynix Engineering Co., Ltd. ("Hynix Engineering", formerly Astec Co., Ltd.), the Parent Company's 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. In 2005, the Parent Company recognized the related liabilities and charged the losses in the statement of operations. As of March 31, 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 connection with the onerous contract, the Parent Company charged ₩30,530 million of indemnity for expected losses for the year ended December 31, 2011. The compensation for losses on disposal of Ami Power's assets above is to be settled based on actual losses sustained from the disposal. The accompanying interim consolidated financial statements do not include any adjustments in relation to such uncertainty.

**Assets provided as collaterals**

Details of assets provided as collaterals as of March 31, 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>Book value</b>	<b>Pledged amount</b>	<b>Remark</b>
Land	344,817		
Buildings	617,670		
Structures	68,245	3,614,180	Borrowings and credit lines <sup>1</sup>
Machinery	5,034,953		
	<b>6,065,685</b>	<b>3,614,180</b>	

<sup>1</sup>The Group provides newly acquired assets as additional collaterals every six months for revolving credit facility and syndicated loan which were obtained in July 2005 and May 2007, respectively.

**Financing agreements**

As of March 31, 2012, the Group has bank overdraft agreement with a limit of ₩ 41,000 million (December 31, 2011: ₩ 41,000 million) with Korea Exchange Bank and other.

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Details of credit lines with financial institutions as of March 31, 2012, are as follows:

<i>(in millions of US dollars and Chinese Renminbi)</i>	<b>Financial Institution</b>	<b>commitment</b>		
The Parent Company	Korea Exchange Bank and others	Import finance like usance	USD	832
		Export finance like bills bought	USD	525
		Comprehensive limit contract about Import & Export	USD	555
SK hynix Semiconductor (China) Ltd.(SKHYCL)	Agricultural Bank of China	Import finance like usance	RMB	1,100
			USD	360
Hynix Semiconductor SK hynix Semiconductor America Inc.(SKHYA) and other sales entities	Citibank and others	Accounts receivable factoring contract which have no right to recourse	USD	308

**Guarantees provided to others**

Details of guarantees provided to others as of March 31, 2012, are as follows:

<i>(in millions of Korean won)</i>	<b>Amount</b>	<b>Remark</b>
Employees	34	Guarantees for employees' borrowings relating to employee stock ownership

**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 the call option and convertible option, and separately accounted for these as derivative instruments which were embedded in the unsecured public debenture and foreign convertible bond. The Group recognized those options at fair value and resulting gain or loss is reflected in current operations.

As of March 31, 2012, derivative financial assets amounted to ₩ 8,363 million ( December 31, 2011: ₩ 3,114 million ) and derivative financial liabilities amounted to ₩ 81,832 million (December 31, 2011: ₩ 46,474 million ).

Gains and loss relating to the derivative instruments for three-month period ended March 31, 2012, amounted to ₩ 8,704 million (2011: ₩ 9,804 million) and 37,864 million (2011: ₩ 65,666 million), respectively.

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**35. Cash Generated from Operations**

Reconciliations between operating profit and net cash inflow from operating activities for the three-month periods ended March 31, 2012 and 2011, are as follows:

<i>(in millions of Korean won)</i>	<b>2012</b>	<b>2011</b>
<b>Profit(loss) for the period before income tax</b>	(271,028)	281,418
<b>Adjustments</b>		
Defined benefits	26,930	22,345
Depreciation	808,376	837,497
Amortization	30,703	9,331
Loss on foreign currency translation	9,749	32,419
Loss on disposal of property, plant and equipment	69	50
Loss on disposal of intangible assets	2,148	806
Interest expenses	81,528	79,865
Gain on foreign currency translation	(71,741)	(121,218)
Gain on disposal of assets held-for-sale	(18)	(3,322)
Gain on disposal of property, plant and equipment	(113)	(14)
Gain on disposal of available-for-sale financial assets	(5,872)	-
Interest income	(21,957)	(13,400)
Loss on derivative instruments	29,160	55,862
Others	(5,992)	5,754
<b>Changes in operating assets and liabilities</b>		
Increase in trade receivables	(39,757)	(115,844)
Decrease(Increase) in loans and other receivables	(59,979)	33,335
Decrease(Increase) inventories	(63,102)	60,611
Increase in other assets	(2,880)	(19,588)
Increase(Decrease) in trade payables	37,149	(148,003)
Increase in non-trade payables	313,048	685
Decrease in other payables	(46,204)	(325,119)
Increase(Decrease) in provision	30,763	(27,556)
Increase(Decrease) in other liabilities	9,672	(19,683)
Payment of defined benefit liability	(14,410)	(12,912)
<b>Cash Generated from Operations</b>	<b>776,242</b>	<b>613,319</b>