

SK HYNIX, INC. and Subsidiaries

Condensed Consolidated Interim Financial Statements

**September 30, 2016 and 2015**

(Unaudited)

(With Independent Auditors' Review Report Thereon)

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## Independent Auditors' Review Report

Based on a report originally issued in Korean

The Board of Directors and Shareholders  
SK hynix, Inc.:

### **Reviewed financial statements**

We have reviewed the accompanying condensed consolidated interim financial statements of SK hynix, Inc. and its subsidiaries (the "Group") which comprise the condensed consolidated statement of financial position as of September 30, 2016, the condensed consolidated statements of comprehensive income for the three and nine-month periods ended September 30, 2016 and 2015, and changes in equity and cash flows for the nine-month periods ended September 30, 2016 and 2015 and notes, comprising a summary of significant accounting policies and other explanatory information.

### **Management's responsibility**

Management is responsible for the preparation and fair presentation of these condensed consolidated interim financial statements in accordance with Korean International Financial Reporting Standards ("K-IFRS") No.1034 'Interim Financial Reporting', and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' review responsibility**

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

We conducted our reviews in accordance with the Review Standards for Quarterly and Semiannual Financial Statements established by the Securities and Futures Commission of the Republic of Korea. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Korean Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Conclusion**

Based on our reviews, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements referred to above are not prepared fairly, in all material respects, in accordance with K-IFRS No.1034 'Interim Financial Reporting'.

### **Other matters**

The consolidated statement of financial position of the Group as of December 31, 2015, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, which are not accompanying this report, were audited by us in accordance with Korean Standards on Auditing and our report thereon, dated February 17, 2016, expressed an unqualified opinion. The accompanying condensed consolidated statement of financial position of the Group as of December 31, 2015, presented for comparative purposes, is not different from that audited by us in all material respects.

The procedures and practices utilized in the Republic of Korea to review such condensed consolidated interim financial statements may differ from those generally accepted and applied in other countries.



*KPMG Samjong Accounting Corp.*

Seoul, Korea  
November 11, 2016

This report is effective as of November 11, 2016, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying condensed consolidated interim financial statements and notes thereto. Accordingly, the readers of the review report should understand that the above review report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

SK HYNIX, INC. and Subsidiaries  
Condensed Consolidated Statements of Financial Position  
As of September 30, 2016 and December 31, 2015  
(Unaudited)

(In millions of won)

	<b>Note</b>	<b>2016</b>	<b>2015</b>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	5,6 ₩	1,214,703	1,175,719
Short-term financial instruments	5,6,7	2,375,800	3,615,554
Trade receivables, net	5,6,8	2,313,000	2,628,448
Loans and other receivables, net	5,6,8	22,291	61,613
Inventories, net	9	1,995,002	1,923,376
Current tax assets		1,015	1,394
Other current assets	11	306,568	353,926
		<u>8,228,379</u>	<u>9,760,030</u>
<b>Non-current assets</b>			
Investments in associates and joint ventures	12	113,657	122,609
Available-for-sale financial assets	5,6,13	145,137	131,354
Loans and other receivables, net	5,6,8	59,469	62,919
Other financial assets	5,6,7	421	430
Property, plant and equipment, net	14,32	17,888,583	16,966,252
Intangible assets, net	15	1,805,666	1,704,896
Investment property, net	16	2,600	2,679
Deferred tax assets		385,394	361,204
Other non-current assets	11	537,689	565,533
		<u>20,938,616</u>	<u>19,917,876</u>
<b>Total assets</b>	₩	<u>29,166,995</u>	<u>29,677,906</u>

See accompanying notes to the condensed consolidated interim financial statements.

SK HYNIX, INC. and Subsidiaries  
Condensed Consolidated Statements of Financial Position, Continued  
As of September 30, 2016 and December 31, 2015  
(Unaudited)

(In millions of won)

	<b>Note</b>	<b>2016</b>	<b>2015</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade payables	5,6 ₩	643,112	791,373
Other payables	5,6	1,031,297	1,337,803
Other non-trade payables	5,6	466,695	1,001,171
Borrowings	5,6,17	678,594	1,013,372
Provisions	19	33,425	25,276
Current tax liabilities		81,437	627,260
Other current liabilities	18	39,697	44,443
		<u>2,974,257</u>	<u>4,840,698</u>
<b>Non-current liabilities</b>			
Other non-trade payables	5,6	41,525	89,891
Borrowings	5,6,17	3,470,177	2,805,223
Other financial liabilities	5,6,21	435	683
Defined benefit liabilities, net	20	608,487	484,977
Deferred tax liabilities		5,146	7,582
Other non-current liabilities	18	62,388	61,149
		<u>4,188,158</u>	<u>3,449,505</u>
<b>Total liabilities</b>		<u>7,162,415</u>	<u>8,290,203</u>
<b>Equity</b>			
<b>Equity attributable to owners of the Parent Company</b>			
Capital stock	1,22	3,657,652	3,657,652
Capital surplus	22	4,143,736	4,143,736
Other equity	22	(771,913)	(771,913)
Accumulated other comprehensive loss	23	(355,501)	(1,600)
Retained earnings	24	15,326,660	14,358,988
<b>Total equity attributable to owners of the Parent Company</b>		<u>22,000,634</u>	<u>21,386,863</u>
<b>Non-controlling interests</b>		<u>3,946</u>	<u>840</u>
<b>Total equity</b>		<u>22,004,580</u>	<u>21,387,703</u>
<b>Total liabilities and equity</b>	₩	<u>29,166,995</u>	<u>29,677,906</u>

See accompanying notes to the condensed consolidated interim financial statements.

SK HYNIX, INC. and Subsidiaries  
Condensed Consolidated Statements of Comprehensive Income  
For the three and nine-month periods ended September 30, 2016 and 2015  
(Unaudited)

(In millions of won, except per share information)

	<i>Note</i>	2016		2015	
		Three-month period	Nine-month period	Three-month period	Nine-month period
<b>Revenue</b>	4 ₩	4,243,645	11,840,289	4,925,034	14,381,954
Cost of sales	26	2,792,288	7,819,077	2,796,009	7,848,686
<b>Gross profit</b>		1,451,357	4,021,212	2,129,025	6,533,268
Selling and administrative expense	25,26	725,401	2,280,605	745,810	2,186,043
<b>Operating profit</b>		725,956	1,740,607	1,383,215	4,347,225
Finance income	27	235,662	623,886	319,396	680,330
Finance expense	27	243,216	690,151	364,701	686,497
Share of profit of equity-accounted investees	12	2,419	16,600	8,240	18,510
Other income	28	10,869	24,869	13,268	27,118
Other expenses	28	27,526	70,449	47,756	94,695
<b>Profit before income tax</b>		704,164	1,645,362	1,311,662	4,291,991
Income tax expense	29	106,413	313,453	263,300	839,763
<b>Profit for the period</b>		597,751	1,331,909	1,048,362	3,452,228
<b>Other comprehensive income (loss)</b>					
<b>Item that will never be reclassified to profit or loss:</b>					
Remeasurements of defined benefit liability, net of tax	20	(2,161)	(6,436)	(1,605)	(4,851)
<b>Items that are or may be reclassified to profit or loss:</b>					
Foreign operations – foreign currency translation differences, net of tax	23	(285,079)	(347,977)	171,440	246,210
Equity-accounted investees – share of other comprehensive income (loss), net of tax	12,23	(6,753)	(7,119)	6,200	8,461
<b>Other comprehensive income (loss) for the period, net of tax</b>		(293,993)	(361,532)	176,035	249,820
<b>Total comprehensive income for the period</b>	₩	303,758	970,377	1,224,397	3,702,048

See accompanying notes to the condensed consolidated interim financial statements.

# SK HYNIX, INC. AND SUBSIDIARIES

## Condensed Consolidated Statements of Comprehensive Income, Continued

**For the three and nine-month periods ended September 30, 2016 and 2015**

(Unaudited)

(In millions of won, except per share information)

		2016		2015	
	<u>Note</u>	<u>Three-month period</u>	<u>Nine-month period</u>	<u>Three-month period</u>	<u>Nine-month period</u>
<b>Profit attributable to:</b>					
Owners of the Parent Company		596,774	1,327,109	1,048,307	3,452,106
Non-controlling interests		977	4,800	55	122
<b>Total comprehensive income attributable to:</b>					
Owners of the Parent Company		303,475	966,382	1,224,259	3,701,961
Non-controlling interests		283	3,995	138	87
<b>Earnings per share</b>					
Basic earnings per share (in won)	30	845	1,880	1,458	4,762
Diluted earnings per share (in won)	30	845	1,880	1,458	4,762

See accompanying notes to the condensed consolidated interim financial statements.



SK HYNIX, INC. and Subsidiaries  
Condensed Consolidated Statements of Changes in Equity  
For the nine-month periods ended September 30, 2016 and 2015  
(Unaudited)

		Attributable to owners of the Parent Company						Non-controlling interests	Total equity
		Capital stock	Capital surplus	Other equity	Accumulated other comprehensive income (loss)	Retained earnings	Total		
<i>(In millions of won)</i>									
<b>Balance at January 1, 2015</b>	₩	3,657,652	4,143,736	(24)	(41,815)	10,276,904	18,036,453	(150)	18,036,303
<b>Total comprehensive income</b>									
Profit for the period		-	-	-	-	3,452,106	3,452,106	122	3,452,228
Remeasurements of defined benefit liability, net of tax		-	-	-	-	(4,851)	(4,851)	-	(4,851)
Other comprehensive income from joint venture and associate, net of tax		-	-	-	8,461	-	8,461	-	8,461
Foreign currency translation differences for foreign operations, net of tax		-	-	-	246,245	-	246,245	(35)	246,210
<b>Total comprehensive income</b>		-	-	-	254,706	3,447,255	3,701,961	87	3,702,048
<b>Transactions with owners of the Parent Company</b>									
Dividends paid		-	-	-	-	(218,401)	(218,401)	-	(218,401)
Acquisition of treasury shares		-	-	(753,623)	-	-	(753,623)	-	(753,623)
<b>Transactions with owners of the Parent Company</b>		-	-	(753,623)	-	(218,401)	(972,024)	-	(972,024)
<b>Balance at September 30, 2015</b>	₩	3,657,652	4,143,736	(753,647)	212,891	13,505,758	20,766,390	(63)	20,766,327

See accompanying notes to the condensed consolidated interim financial statements.

SK HYNIX, INC. and Subsidiaries  
Condensed Consolidated Statements of Changes in Equity, Continued  
For the nine-month periods ended September 30, 2016 and 2015  
(Unaudited)

		Attributable to owners of the Parent Company						Non-controlling interests	Total equity
		Capital stock	Capital surplus	Other equity	Accumulated other comprehensive income (loss)	Retained earnings	Total		
<i>(In millions of won)</i>									
<b>Balance at January 1, 2016</b>	₩	3,657,652	4,143,736	(771,913)	(1,600)	14,358,988	21,386,863	840	21,387,703
<b>Total comprehensive income</b>									
Profit for the period		-	-	-	-	1,327,109	1,327,109	4,800	1,331,909
Remeasurements of defined benefit liability, net of tax		-	-	-	-	(6,436)	(6,436)	-	(6,436)
Other comprehensive loss from joint venture and associate, net of tax		-	-	-	(7,119)	-	(7,119)	-	(7,119)
Foreign currency translation differences for foreign operations, net of tax		-	-	-	(347,172)	-	(347,172)	(805)	(347,977)
<b>Total comprehensive income</b>		-	-	-	(354,291)	1,320,673	966,382	3,995	970,377
<b>Transactions with owners of the Parent Company</b>									
Dividends paid		-	-	-	-	(353,001)	(353,001)	-	(353,001)
Disposal of a subsidiary		-	-	-	390	-	390	(889)	(499)
<b>Transactions with owners of the Parent Company</b>		-	-	-	390	(353,001)	(352,611)	(889)	(353,500)
<b>Balance at September 30, 2016</b>	₩	3,657,652	4,143,736	(771,913)	(355,501)	15,326,660	22,000,634	3,946	22,004,580

See accompanying notes to the condensed consolidated interim financial statements.

SK HYNIX, INC. and Subsidiaries  
Condensed Consolidated Statements of Cash Flows  
For the nine-month periods ended September 30, 2016 and 2015  
(Unaudited)

(In millions of won)

	<b>Note</b>	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities</b>			
Cash generated from operating activities	33 ₩	4,512,315	7,893,946
Interest received		36,356	43,282
Interest paid		(97,338)	(92,651)
Income tax paid		(902,918)	(985,218)
Dividends received		20,744	16,836
<b>Net cash provided by operating activities</b>		<b>3,569,159</b>	<b>6,876,195</b>
<b>Cash flows from investing activities</b>			
Decrease in short-term financial instruments		5,253,772	9,490,057
Increase in short-term financial instruments		(4,001,672)	(9,432,091)
Collection of loans and other receivables		10,589	16,701
Increase in loans and other receivables		(10,376)	(9,529)
Proceeds from disposal of available-for-sale financial assets		2,294	745
Acquisition of available-for-sale financial assets		(16,323)	(4,051)
Cash inflows from derivative transactions		876	1,376
Cash outflows from derivative transactions		(1,218)	(1,682)
Proceeds from disposal of property, plant and equipment		109,806	161,780
Acquisition of property, plant and equipment		(4,600,747)	(5,591,862)
Proceeds from disposal of intangible assets		1,577	431
Acquisition of intangible assets		(375,594)	(416,664)
Receipt of government grants		-	406
Acquisition of investments in associates		(2,293)	(2,194)
<b>Net cash used in investing activities</b>	₩	<b>(3,629,309)</b>	<b>(5,786,577)</b>

See accompanying notes to the condensed consolidated interim financial statements.

SK HYNIX, INC. and Subsidiaries  
Condensed Consolidated Statements of Cash Flows, Continued  
For the nine-month periods ended September 30, 2016 and 2015  
(Unaudited)

(In millions of won)

	<b>2016</b>	<b>2015</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	₩ 2,081,562	3,502,025
Repayments of borrowings	(1,593,315)	(3,563,291)
Acquisition of treasury shares	-	(753,623)
Dividends paid	(353,001)	(218,401)
<b>Net cash provided by (used in) financing activities</b>	<b>135,246</b>	<b>(1,033,290)</b>
<b>Effect of movements in exchange rates on cash and cash equivalents</b>	<b>(36,112)</b>	<b>17,543</b>
<b>Net increase in cash and cash equivalents</b>	<b>38,984</b>	<b>73,871</b>
<b>Cash and cash equivalents at beginning of the period</b>	<b>1,175,719</b>	<b>436,761</b>
<b>Cash and cash equivalents at end of the period</b>	<b>₩ 1,214,703</b>	<b>510,632</b>

See accompanying notes to the condensed consolidated interim financial statements.

SK HYNIX, INC. and Subsidiaries  
Notes to the Condensed Consolidated Interim Financial Statements  
**September 30, 2016 and 2015**  
(Unaudited)

**1. Reporting Entity**

(1) General information about SK hynix, Inc. (the "Parent Company" or the "Company") and its subsidiaries (collectively the "Group") is as follows:

The Parent Company manufactures, distributes and sells semiconductor products and its shares have been listed on the Korea Exchange since 1996. The Parent Company's headquarters is located at 2091 Gyeongchung-daero, Bubal-eup, Icheon-si, Gyeonggi-do, South Korea, and the Group has manufacturing facilities in Icheon-si and Cheongju-si, South Korea, and Wuxi and Chongqing, China.

As of September 30, 2016, the shareholders of the Parent Company are as follows:

<b>Shareholder</b>	<b>Number of shares</b>	<b>Percentage of ownership (%)</b>
SK Telecom Co., Ltd.	146,100,000	20.07
Share Management Council <sup>1</sup>	5,097,667	0.70
National Pension Service and other investors	554,804,128	76.21
Treasury shares	22,000,570	3.02
	<u>728,002,365</u>	<u>100.00</u>

<sup>1</sup> As of September 30, 2016, the number of shares held by each member of Share Management Council is as follows:

<b>Shareholder</b>	<b>Number of shares</b>	<b>Percentage of ownership (%)</b>
KEB Hana Bank	5,092,500	0.70
Other financial institutions	5,167	0.00
	<u>5,097,667</u>	<u>0.70</u>

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

SK HYNIX, INC. and Subsidiaries  
Notes to the Condensed Consolidated Interim Financial Statements  
September 30, 2016 and 2015  
(Unaudited)

**1. Reporting Entity, Continued**

(2) Details of the Group's consolidated subsidiaries as of September 30, 2016 and December 31, 2015 are as follows:

Company	Location	Business	Ownership(%)	
			2016	2015
SK hyeng Inc.	Korea	Domestic subsidiary	100.00	100.00
SK hystec Inc.	Korea	Domestic subsidiary	100.00	100.00
Siliconfile Technologies Inc.		Development and manufacturing of electronic component		
	Korea		100.00	100.00
SK hynix America Inc. (SKHYA)	U.S.A.	Overseas sales subsidiary	97.74	97.74
Hynix Semiconductor Manufacturing America Inc. (HSMA) <sup>1</sup>	U.S.A.	Discontinued subsidiary	-	100.00
SK hynix Deutschland GmbH (SKHYD)	Germany	Overseas sales subsidiary	100.00	100.00
SK hynix U.K. Ltd. (SKHYU)	U.K.	Overseas sales subsidiary	100.00	100.00
SK hynix Asia Pte. Ltd. (SKHYS)	Singapore	Overseas sales subsidiary	100.00	100.00
SK hynix Semiconductor India Private Ltd. (SKHYS) <sup>2</sup>	India	Overseas sales subsidiary	100.00	100.00
SK hynix Semiconductor Hong Kong Ltd. (SKHYH)	Hong Kong	Overseas sales subsidiary	100.00	100.00
SK hynix Semiconductor (Shanghai) Co., Ltd. (SKHYCS)	China	Overseas sales subsidiary	100.00	100.00
SK hynix Japan Inc. (SKHYJ)	Japan	Overseas sales subsidiary	100.00	100.00
SK hynix Semiconductor Taiwan Inc. (SKHYT)	Taiwan	Overseas sales subsidiary	100.00	100.00
SK hynix Semiconductor (China) Ltd. (SKHYCL)	China	Overseas manufacturing subsidiary	100.00	100.00
SK hynix Semiconductor (Wuxi) Ltd. (SKHYMC)	China	Overseas manufacturing subsidiary	100.00	100.00
SK hynix (Wuxi) Semiconductor Sales Ltd. (SKHYCW)	China	Overseas sales subsidiary	100.00	100.00
SK hynix Italy S.r.l (SKHYIT)	Italy	Overseas R&D center	100.00	100.00
SK hynix memory solutions Inc. (SKHMS)	U.S.A.	Overseas R&D center	100.00	100.00
SK hynix Flash Solution Taiwan (SKHYFST)	Taiwan	Overseas R&D center	100.00	100.00
SK APTECH Ltd. (SKAPTECH)	Hong Kong	Holding company	100.00	100.00
SK hynix Semiconductor (Chongqing) Ltd. (SKHYCQL) <sup>3</sup>	China	Overseas manufacturing subsidiary	100.00	100.00
Softaq Flash Solutions LLC.(SOFTEQ)	Belarus	Overseas R&D center	100.00	100.00
SK hynix Ventures Hong Kong Limited (SKH Ventures) <sup>4</sup>	Hong Kong	Overseas investment subsidiary	100.00	-
MMT (Money Market Trust)	Korea	Money Market Trust	100.00	100.00

<sup>1</sup> Subsidiary of SK hynix America Inc. Its liquidation process has been completed during the nine-month period ended September 30, 2016.

<sup>2</sup> Subsidiary of SK hynix Asia Pte. Ltd.

<sup>3</sup> Subsidiary of SK APTECH Ltd.

<sup>4</sup> Newly established during the nine-month period ended September 30, 2016.

(3) Changes in consolidated subsidiaries for the nine-month period ended September 30, 2016 are as follows.

	Company	Reason
Included	SK hynix Ventures Hong Kong Limited (SKH Ventures)	Newly established
Excluded	Hynix Semiconductor Manufacturing America Inc. (HSMA)	Liquidated

SK HYNIX, INC. and Subsidiaries  
Notes to the Condensed Consolidated Interim Financial Statements  
**September 30, 2016 and 2015**  
(Unaudited)

**1. Reporting Entity, Continued**

(4) Major subsidiaries' summarized separate statements of financial position as of September 30, 2016 and December 31, 2015 are as follows:

(In millions of won)

	<b>2016</b>			<b>2015</b>		
	<b>Assets</b>	<b>Liabilities</b>	<b>Equity</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Equity</b>
SK hynix America Inc.(SKHYA)	₩ 1,011,341	827,974	183,367	1,504,882	1,333,291	171,591
SK hynix Asia Pte. Ltd.(SKHYS)	299,670	223,050	76,620	269,286	190,155	79,131
SK hynix Semiconductor Hong Kong Ltd.(SKHYH)	622,870	513,734	109,136	529,095	431,074	98,021
SK hynix Japan Inc.(SKHYJ)	411,246	344,499	66,747	245,142	183,277	61,865
SK hynix Semiconductor Taiwan Inc.(SKHYT)	247,896	230,583	17,313	299,834	277,520	22,314
SK hynix Semiconductor (China) Ltd.(SKHYCL)	3,207,141	179,607	3,027,534	3,718,832	503,776	3,215,056
SK hynix Deutschland GmbH(SKHYD)	53,846	18,482	35,364	75,152	38,697	36,455
SK hynix U.K. Ltd.(SKHYU)	91,627	72,906	18,721	155,531	138,918	16,613
SK hynix Semiconductor (Chongqing) Ltd.(SKHYCQL)	325,843	154,174	171,669	406,552	224,672	181,880

(5) Major subsidiaries' summarized separate statements of comprehensive income (loss) for the nine-month periods ended September 30, 2016 and 2015 are as follows:

(In millions of won)

	<b>2016</b>			<b>2015</b>		
	<b>Revenue</b>	<b>Profit (loss)</b>	<b>Total comprehensive income (loss)</b>	<b>Revenue</b>	<b>Profit (loss)</b>	<b>Total comprehensive income (loss)</b>
SK hynix America Inc.(SKHYA)	₩ 3,446,475	24,221	24,221	5,870,126	20,309	20,309
SK hynix Asia Pte. Ltd.(SKHYS)	1,089,957	2,718	2,718	1,283,685	(206)	(206)
SK hynix Semiconductor Hong Kong Ltd.(SKHYH)	3,845,154	18,530	18,530	3,052,592	3,770	3,770
SK hynix Japan Inc.(SKHYJ)	518,388	(2,200)	(2,200)	724,095	1,961	1,961
SK hynix Semiconductor Taiwan Inc.(SKHYT)	1,290,825	546	546	1,528,428	115	115
SK hynix Semiconductor (China) Ltd.(SKHYCL)	1,611,836	79,377	79,377	1,611,514	84,481	84,481
SK hynix Deutschland GmbH(SKHYD)	225,617	355	355	324,746	1,240	1,240
SK hynix U.K. Ltd.(SKHYU)	368,620	3,371	3,371	567,916	(281)	(281)
SK hynix Semiconductor (Chongqing) Ltd.(SKHYCQL)	218,002	4,917	4,917	255,236	7,949	7,949

(6) There are no significant non-controlling interests to the Group as of September 30, 2016 and December 31, 2015.

# SK HYNIX, INC. and Subsidiaries

## Notes to the Condensed Consolidated Interim Financial Statements

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(Unaudited)

### **2. Basis of Preparation**

#### (1) Statement of compliance

The condensed consolidated interim financial statements have been prepared in accordance with Korean International Financial Reporting Standards ("K-IFRS"), as prescribed in the Act on External Audits of Stock Companies.

These condensed consolidated interim financial statements were prepared in accordance with K-IFRS No. 1034, 'Interim Financial Reporting' as part of the period covered by the Group's K-IFRS annual financial statements. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as of and for the year ended December 31, 2015. These condensed consolidated interim financial statements do not include all of the disclosures required for full annual financial statements.

#### (2) Use of estimates and judgments

The preparation of the condensed consolidated interim financial statements in conformity with K-IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as of and for the year ended December 31, 2015.

### **3. Significant Accounting Policies**

The accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as of and for the year ended December 31, 2015.



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**4. Geographic, Product and Customer Information**

The Group has a single reportable segment that is engaged in the manufacture and sale of semiconductor products.

(1) Details of the Group's revenue for the three and nine-month periods ended September 30, 2016 and 2015 are as follows:

(In millions of won)

		2016		2015 <sup>1</sup>	
		Three-month period	Nine-month period	Three-month period	Nine-month period
Sale of goods	₩	4,232,760	11,806,569	4,912,628	14,288,070
Sale of services		10,885	33,720	12,406	93,884
	₩	4,243,645	11,840,289	4,925,034	14,381,954

<sup>1</sup> Revenues for the three and nine-month period ended September 30, 2015 were reclassified to conform with the classification for the three and nine-month period ended September 30, 2016.

(2) Details of the Group's revenue by product and service types for the three and nine-month periods ended September 30, 2016 and 2015 are as follows:

(In millions of won)

		2016		2015	
		Three-month period	Nine-month period	Three-month period	Nine-month period
DRAM	₩	2,918,998	8,478,980	3,662,326	10,758,056
NAND Flash		1,191,994	2,997,327	1,091,558	3,187,415
Other		132,653	363,982	171,150	436,483
	₩	4,243,645	11,840,289	4,925,034	14,381,954

(3) The Group's revenue information by region based on the location of selling entities for the three and nine-month periods ended September 30, 2016 and 2015 are as follows:

(In millions of won)

		2016		2015	
		Three-month period	Nine-month period	Three-month period	Nine-month period
Korea	₩	263,559	812,892	308,517	837,148
China		1,426,879	4,107,324	1,246,283	3,299,118
Taiwan		420,706	1,282,725	425,476	1,515,618
Asia (other than China and Taiwan)		559,272	1,603,337	630,841	2,001,939
U.S.A.		1,384,577	3,442,420	2,031,755	5,839,266
Europe		188,652	591,591	282,162	888,865
	₩	4,243,645	11,840,289	4,925,034	14,381,954

# SK HYNIX, INC. and Subsidiaries

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### 4. Geographic, Product and Customer Information, Continued

(4) The Group's non-current assets (excluding financial assets, equity-accounted investees and deferred tax assets) information by region based on the location of subsidiaries as of September 30, 2016 and December 31, 2015 are as follows:

(In millions of won)		2016	2015
Korea	₩	17,121,762	15,648,779
China		2,764,651	3,208,908
Taiwan		6,391	7,007
Asia (other than China and Taiwan)		1,497	770
U.S.A.		331,329	365,024
Europe		8,908	8,874
	₩	20,234,538	19,239,362

(5) There is no customer that constitutes more than 10% of the Group's consolidated revenue for the nine-month period ended September 30, 2016. Revenues from customers "A" and "B" that each constitutes more than 10% of the Group's consolidated revenue for the nine-month period ended September 30, 2015 amount to ₩2,661,459 million and ₩1,725,309 million, respectively.

### 5. Categories of Financial Instruments

(1) Categories of financial assets as of September 30, 2016 and December 31, 2015 are as follows:

(In millions of won)		2016			
		Financial assets at fair value through profit or loss	Available-for- sale financial assets	Loans and receivables	Total
Cash and cash equivalents	₩	-	-	1,214,703	1,214,703
Short-term financial instruments		1,056,044	-	1,319,756	2,375,800
Trade receivables		-	-	2,313,000	2,313,000
Loans and other receivables		-	-	81,760	81,760
Other financial assets		-	-	421	421
Available-for-sale financial assets		-	145,137	-	145,137
	₩	1,056,044	145,137	4,929,640	6,130,821

(In millions of won)		2015			
		Financial assets at fair value through profit or loss	Available-for- sale financial assets	Loans and receivables	Total
Cash and cash equivalents	₩	-	-	1,175,719	1,175,719
Short-term financial instruments		1,047,277	-	2,568,277	3,615,554
Trade receivables		-	-	2,628,448	2,628,448
Loans and other receivables		-	-	124,532	124,532
Other financial assets		-	-	430	430
Available-for-sale financial assets		-	131,354	-	131,354
	₩	1,047,277	131,354	6,497,406	7,676,037

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**5. Categories of Financial Instruments, Continued**

(2) Categories of financial liabilities as of September 30, 2016 and December 31, 2015 are as follows:

(In millions of won)

		<b>2016</b>	
	<b>Financial liabilities at fair value through profit or loss</b>	<b>Financial liabilities measured at amortized cost</b>	<b>Total</b>
Trade payables	₩ -	643,112	643,112
Other payables	-	1,031,297	1,031,297
Other non-trade payables <sup>1</sup>	-	508,220	508,220
Borrowings	-	4,148,771	4,148,771
Other financial liabilities	435	-	435
₩	435	6,331,400	6,331,835

(In millions of won)

		<b>2015</b>	
	<b>Financial liabilities at fair value through profit or loss</b>	<b>Financial liabilities measured at amortized cost</b>	<b>Total</b>
Trade payables	₩ -	791,373	791,373
Other payables	-	1,337,803	1,337,803
Other non-trade payables <sup>1</sup>	-	1,091,062	1,091,062
Borrowings	-	3,818,595	3,818,595
Other financial liabilities	683	-	683
₩	683	7,038,833	7,039,516

<sup>1</sup> Details of other non-trade payables as of September 30, 2016 and December 31, 2015 are as follows:

(In millions of won)

	<b>2016</b>	<b>2015</b>
<b>Current</b>		
Accrued expenses	₩ 466,695	1,001,171
<b>Non-current</b>		
Rent deposit payables	2,190	2,855
Long-term other payables	39,335	87,036
	41,525	89,891
₩	508,220	1,091,062

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**6. Financial Risk Management**

(1) Financial risk management

The Group's activities are exposed to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The interim financial statements do not include all the financial risk management policies and disclosures that are required in the annual financial statements.

There is no significant change in risk management policies for the nine-month period ended September 30, 2016.

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

Monetary foreign currency assets and liabilities as of September 30, 2016 are as follows:

*(In millions of won and millions of foreign currencies)*

	<b>Assets</b>		<b>Liabilities</b>	
	<b>Foreign currencies</b>	<b>Korean won equivalent</b>	<b>Foreign currencies</b>	<b>Korean won equivalent</b>
USD	4,093	₩ 4,487,539	3,424	₩ 3,754,273
EUR	-	366	26	31,572
JPY	2,395	25,958	49,763	539,270

As of September 30, 2016, the impacts from foreign exchange risks on each monetary foreign currency assets and liabilities assuming change in exchange rate by 10% are as follows:

*(In millions of won)*

	<b>If increased by 10%</b>	<b>If decreased by 10%</b>
USD	₩ 73,327	(73,327)
EUR	(3,121)	3,121
JPY	(51,331)	51,331

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**6. Financial Risk Management, Continued**

(1) Financial risk management, Continued

(ii) Price risk

As of September 30, 2016, there are no available-for-sale equity securities measured at fair value held by the Group. Accordingly, the Group is not exposed to any equity securities price risk.

(iii) Interest rate risk

Interest rate risk of the Group is defined as the risk that the interest expenses arising from borrowings will fluctuate because of changes in future market interest rate. The interest rate risk mainly arises through floating rate borrowings, and is partially offset by interests received from floating rate financial assets.

The Group manages its interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Group raises long-term borrowings at floating rates and swaps them into fixed rates. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (primarily quarterly), the difference between interests of fixed rates and floating rates, which are calculated based on the agreed notional amounts.

As of September 30, 2016, the Group is partially exposed to the risk of fluctuation of net interest expenses arisen from change in interest rates. If interest rates on borrowings had been 100 basis points higher/lower with all other variables held constant, profit before income tax for the next nine-month period would have been ₩ 5,127 million lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings and interest income on floating rate financial assets.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises mainly from operating and investing activities. In order to manage credit risk, the Group periodically evaluates the credit worthiness of each customer or counterparty through the analysis of its financial information, historical transaction records and other factors, and establishes credit limits for each customer or counterparty.

(i) Trade and other receivables

For each new customer, the Group individually analyzes its credit worthiness before standard payment and delivery terms and conditions are offered. In addition, the Group is consistently managing trade and other receivables by reevaluating the customer's credit worthiness and securing collaterals in order to limit its credit risk exposure.

The Group reviews at the end of each reporting period whether trade and other receivables are impaired and maintains credit insurance policies to manage credit risk exposure from oversea customers. The maximum exposure to credit risk as of September 30, 2016 is the carrying amount of trade and other receivables.

(ii) Other financial assets

Credit risk also arises from other financial assets such as cash and cash equivalents; short-term financial instruments; and deposits with banks and financial institutions as well as short-term and long-term loans mainly due to the bankruptcy of each counterparty to those financial assets. The maximum exposure to credit risk as of September 30, 2016 is the carrying amount of those financial assets. The Group transacts only with banks and financial institutions with high credit ratings, and accordingly management does not expect any loss from non-performance by the counterparties.

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**6. Financial Risk Management, Continued**

(1) Financial risk management, Continued

(c) Liquidity risk

Liquidity risk is defined as the risk that the Group is unable to meet its short-term payment obligations on time due to deterioration of its business performance or inability to access financing. The Group forecasts its cash flow and liquidity status and sets action plans on a regular basis to manage liquidity risk proactively.

The Group invests surplus cash in interest-bearing current accounts, time deposits, demand deposits, marketable available-for-sale securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts.

(2) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends to shareholders, proceeds and repayments of borrowings, issue new shares or sell assets to reduce debt.

The debt-to-equity ratio and net borrowing ratio as of September 30, 2016 and December 31, 2015 are as follows:

*(In millions of won)*

	<b>2016</b>	<b>2015</b>
Total liabilities (A)	₩ 7,162,415	8,290,203
Total equity (B)	22,004,580	21,387,703
Cash and cash equivalents and short-term financial instruments (C)	3,590,503	4,791,273
Total borrowings (D)	4,148,771	3,818,595
Debt-to-equity ratio (A/B)	33%	39%
Net borrowing ratio (D-C)/B	3%	-5%

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**6. Financial Risk Management, Continued**

(3) Fair value

Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in valuation techniques as follows:

- Level 1: 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 (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(a) The following table presents the carrying amounts and fair values of financial instruments by categories, including their levels in the fair value hierarchy, as of September 30, 2016 and December 31, 2015:

(In millions of won)

(In millions of won)		2016			
	Carrying amounts	Level 1	Level 2	Level 3	Total
<b>Financial assets measured at fair value</b>					
Short-term financial instruments	₩ 1,056,044	-	1,056,044	-	1,056,044
	<u>1,056,044</u>	<u>-</u>	<u>1,056,044</u>	<u>-</u>	<u>1,056,044</u>
<b>Financial assets not measured at fair value</b>					
Cash and cash equivalents <sup>1</sup>	1,214,703	-	-	-	-
Short-term financial instruments <sup>1</sup>	1,319,756	-	-	-	-
Trade receivables <sup>1</sup>	2,313,000	-	-	-	-
Loans and other receivables <sup>1</sup>	81,760	-	-	-	-
Other financial assets <sup>1</sup>	421	-	-	-	-
Available-for-sale financial assets <sup>1,2</sup>	145,137	-	-	-	-
	<u>5,074,777</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Financial liabilities measured at fair value</b>					
Other financial liabilities	435	-	435	-	435
	<u>435</u>	<u>-</u>	<u>435</u>	<u>-</u>	<u>435</u>
<b>Financial liabilities not measured at fair value</b>					
Trade payables <sup>1</sup>	643,112	-	-	-	-
Other payables <sup>1</sup>	1,031,297	-	-	-	-
Other non-trade payables <sup>1</sup>	508,220	-	-	-	-
Borrowings	4,148,771	-	4,214,572	-	4,214,572
₩	<u>6,331,400</u>	<u>-</u>	<u>4,214,572</u>	<u>-</u>	<u>4,214,572</u>

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**6. Financial Risk Management, Continued**

(In millions of won)

(In millions of won)		2015			
	Carrying amounts	Level 1	Level 2	Level 3	Total
<b>Financial assets measured at fair value</b>					
Short-term financial instruments	₩ 1,047,277	-	1,047,277	-	1,047,277
	<u>1,047,277</u>	<u>-</u>	<u>1,047,277</u>	<u>-</u>	<u>1,047,277</u>
<b>Financial assets not measured at fair value</b>					
Cash and cash equivalents <sup>1</sup>	1,175,719	-	-	-	-
Short-term financial instruments <sup>1</sup>	2,568,277	-	-	-	-
Trade receivables <sup>1</sup>	2,628,448	-	-	-	-
Loans and other receivables <sup>1</sup>	124,532	-	-	-	-
Other financial assets <sup>1</sup>	430	-	-	-	-
Available-for-sale financial assets <sup>1,2</sup>	131,354	-	-	-	-
	<u>6,628,760</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Financial liabilities measured at fair value</b>					
Other financial liabilities	683	-	683	-	683
	<u>683</u>	<u>-</u>	<u>683</u>	<u>-</u>	<u>683</u>
<b>Financial liabilities not measured at fair value</b>					
Trade payables <sup>1</sup>	791,373	-	-	-	-
Other payables <sup>1</sup>	1,337,803	-	-	-	-
Other non-trade payables <sup>1</sup>	1,091,062	-	-	-	-
Borrowings	3,818,595	-	3,869,536	-	3,869,536
	₩ <u>7,038,833</u>	<u>-</u>	<u>3,869,536</u>	<u>-</u>	<u>3,869,536</u>

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

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

(b) The valuation techniques used to measure financial instruments with fair value level 2 are the same as those applied by the Group in its consolidated financial statements as of and for the year ended December 31, 2015.

(c) There was no transfer between fair value hierarchy levels for the nine-month period ended September 30, 2016.



SK HYNIX, INC. and Subsidiaries  
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**7. Restricted Financial Instruments**

Details of restricted financial instruments as of September 30, 2016 and December 31, 2015 are as follows:

(In millions of won)

	<b>2016</b>	<b>2015</b>	<b>Description</b>
Short-term financial instruments	₩ 77,500	77,500	Restricted for supporting small businesses
	-	22,190	Pledged for borrowings
	6,502	5,832	Pledged for consumption tax
	2,193	2,843	Deposit for import duties
	<u>86,195</u>	<u>108,365</u>	
Other financial assets	308	308	Pledged for borrowings
	12	12	Bank overdraft guarantee deposit
	101	110	Others
	<u>421</u>	<u>430</u>	
	<u>₩ 86,616</u>	<u>108,795</u>	

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**8. Trade Receivables and Loans and Other Receivables**

(1) Details of loans and other receivables as of September 30, 2016 and December 31, 2015 are as follows:

(In millions of won)

		<b>2016</b>	<b>2015</b>
<b>Current</b>			
Other receivables	₩	9,943	37,427
Accrued income		8,282	18,126
Short-term loans		3,248	3,786
Short-term guarantee and other deposits		818	2,274
		<u>22,291</u>	<u>61,613</u>
<b>Non-current</b>			
Long-term other receivables		18,721	22,921
Long-term loans		6,006	6,104
Guarantee deposits		34,502	33,637
Long-term deposits		240	257
		<u>59,469</u>	<u>62,919</u>
	₩	<u>81,760</u>	<u>124,532</u>

(2) Trade receivables and loans and other receivables, net of provision for impairment, as of September 30, 2016 and December 31, 2015 are as follows:

(In millions of won)

		<b>2016</b>	
		<b>Gross amount</b>	<b>Provision for impairment</b>
			<b>Carrying amount</b>
Trade receivables	₩	2,314,669	(1,669)
Current loans and other receivables		23,654	(1,363)
Non-current loans and other receivables		65,541	(6,072)
	₩	<u>2,403,864</u>	<u>(9,104)</u>

(In millions of won)

		<b>2015</b>	
		<b>Gross amount</b>	<b>Provision for impairment</b>
			<b>Carrying amount</b>
Trade receivables	₩	2,631,422	(2,974)
Current loans and other receivables		63,046	(1,433)
Non-current loans and other receivables		69,062	(6,143)
	₩	<u>2,763,530</u>	<u>(10,550)</u>

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**8. Trade Receivables and Loans and Other Receivables, Continued**

(3) Details of provision for impairment

Movements in the provision for impairment of trade receivables for the nine-month periods ended September 30, 2016 and 2015 are as follows:

(In millions of won)

	<b>2016</b>	<b>2015</b>
<b>Beginning balance</b>	₩ 2,974	2,919
Provision for receivables impairment	-	227
Unused amounts reversed	(1,282)	-
Foreign exchange difference	(23)	13
<b>Ending balance</b>	₩ 1,669	3,159

Movements in the provision for impairment of current loans and other receivables for the nine-month periods ended September 30, 2016 and 2015 are as follows:

(In millions of won)

	<b>2016</b>	<b>2015</b>
<b>Beginning balance</b>	₩ 1,433	1,668
Unused amounts reversed	(70)	(241)
<b>Ending balance</b>	₩ 1,363	1,427

Movements in the provision for impairment of non-current loans and other receivables for the nine-month periods ended September 30, 2016 and 2015 are as follows:

(In millions of won)

	<b>2016</b>	<b>2015</b>
<b>Beginning balance</b>	₩ 6,143	6,034
Provision for receivables impairment	51	39
Unused amounts reversed	(27)	(3)
Receivables written off during the period as uncollectible	-	(6)
Foreign exchange difference	(95)	82
<b>Ending balance</b>	₩ 6,072	6,146

# SK HYNIX, INC. and Subsidiaries

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### 9. Inventories

Details of inventories as of September 30, 2016 and December 31, 2015 are as follows:

(In millions of won)

	<b>2016</b>		
	<b>Acquisition cost</b>	<b>Inventory valuation allowance</b>	<b>Carrying amount</b>
Finished goods	₩ 399,999	(61,373)	338,626
Work-in-process	1,226,351	(52,975)	1,173,376
Raw materials	263,190	(4,970)	258,220
Supplies	184,663	(35)	184,628
Goods in transit	40,152	-	40,152
	₩ 2,114,355	(119,353)	1,995,002

(In millions of won)

	<b>2015</b>		
	<b>Acquisition cost</b>	<b>Inventory valuation allowance</b>	<b>Carrying amount</b>
Finished goods	₩ 667,060	(53,678)	613,382
Work-in-process	979,115	(130,916)	848,199
Raw materials	226,371	(3,629)	222,742
Supplies	164,179	(23)	164,156
Goods in transit	74,897	-	74,897
	₩ 2,111,622	(188,246)	1,923,376

### 10. Non-current assets held for sale

Changes in non-current assets held for sale for the nine-month periods ended September 30, 2016 and 2015 are as follows:

(In millions of won)

	<b>2016</b>	<b>2015</b>
<b>Beginning balance</b>	₩ -	27,661
Foreign exchange difference	-	2,399
<b>Ending balance</b>	₩ -	30,060

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

Details of other current and non-current assets as of September 30, 2016 and December 31, 2015 are as follows:

(In millions of won)

		<b>2016</b>	<b>2015</b>
<b>Current</b>			
Advance payments	₩	4,684	2,033
Prepaid expenses		200,155	212,766
Value added tax refundable		90,580	131,673
Others		11,149	7,454
		<u>306,568</u>	<u>353,926</u>
<b>Non-current</b>			
Long-term prepaid expenses		534,697	558,058
Others		2,992	7,475
		<u>537,689</u>	<u>565,533</u>
	₩	<u>844,257</u>	<u>919,459</u>

**12. Investments in Associates and Joint Ventures**

(1) Details of investments in associates and joint ventures as of September 30, 2016 and December 31, 2015 are as follows:

(In millions of won)

<b>Type</b>	<b>Investee</b>	<b>Ownership (%) in 2016</b>	<b>2016</b>		<b>2015</b>
			<b>Net asset value</b>	<b>Carrying amount</b>	<b>Carrying amount</b>
Associate	Stratio, Inc.	9.10	₩ 137	2,136	2,171
	Gemini Partners Pte. Ltd.	20.00	3,903	5,597	7,976
	TCL Fund <sup>1</sup>	11.06	2,092	2,042	-
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd. (HITECH)	45.00	103,882	103,882	112,462
			₩	<u>113,657</u>	<u>122,609</u>

<sup>1</sup> During the nine-month period ended September 30, 2016, the Parent Company acquired 11.06% of shares of TCL Fund. TCL Fund is classified as an associate because the Parent Company has significant influence over TCL Fund's financial and operating policies through its right to appoint a member of the board of directors.

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**12. Investments in Associates and Joint Ventures, Continued**

(2) Changes in investments in associates and joint ventures for the nine-month periods ended September 30, 2016 and 2015 are as follows:

(In millions of won)

		<b>2016</b>				
		<b>Beginning balance</b>	<b>Acquisition</b>	<b>Share of profit (loss)</b>	<b>Other equity movement</b>	<b>Ending balance</b>
Stratio, Inc.	₩	2,171	-	(24)	(11)	2,136
Gemini Partners Pte. Ltd.		7,976	-	(2,360)	(19)	5,597
TCL Fund		-	2,293	(8)	(243)	2,042
HITECH		112,462	-	18,992	(6,846)	103,882
	₩	<u>122,609</u>	<u>2,293</u>	<u>16,600</u>	<u>(7,119)</u>	<u>113,657</u>

(In millions of won)

		<b>2015</b>				
		<b>Beginning balance</b>	<b>Acquisition</b>	<b>Share of profit (loss)</b>	<b>Other equity movement</b>	<b>Ending balance</b>
Stratio, Inc.	₩	-	2,194	(34)	15	2,175
HITECH		97,090	-	18,544	8,446	108,299
	₩	<u>97,090</u>	<u>2,194</u>	<u>18,510</u>	<u>8,461</u>	<u>110,474</u>

(3) Condensed statements of financial position of associates and joint ventures as of September 30, 2016 and December 31, 2015 are as follows:

(In millions of won)

		<b>2016</b>			
		<b>Current assets</b>	<b>Non-current assets</b>	<b>Current liabilities</b>	<b>Non-current liabilities</b>
Stratio, Inc.	₩	905	622	25	-
Gemini Partners Pte. Ltd.		15,302	4,300	89	-
TCL Fund		15,443	3,779	312	-
HITECH		173,970	310,224	61,062	192,289

(In millions of won)

		<b>2015</b>			
		<b>Current assets</b>	<b>Non-current assets</b>	<b>Current liabilities</b>	<b>Non-current liabilities</b>
Stratio, Inc.	₩	962	921	-	1
Gemini Partners Pte. Ltd.		27,762	14,694	3,444	7,867
HITECH		270,959	314,464	89,034	246,478

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## 12. Investments in Associates and Joint Ventures, Continued

(4) Condensed statements of comprehensive income (loss) of associates and joint ventures for the nine-month periods ended September 30, 2016 and 2015 are as follows:

(In millions of won)

	2016		2015	
	Revenue	Profit (loss) for the period	Revenue	Profit (loss) for the period
Stratio, Inc.	₩ 4	(23)	-	(382)
Gemini Partners Pte. Ltd	-	(3,106)	-	-
TCL Fund	-	(76)	-	-
HITECH	426,948	42,221	513,270	41,208

## 13. Available-for-sale Financial Assets

Changes in the carrying amount of available-for-sale financial assets for the nine-month periods ended September 30, 2016 and 2015 are as follows:

(In millions of won)

	2016	2015
Beginning balance	₩ 131,354	127,314
Acquisition	16,077	4,051
Disposal	(2,294)	(745)
Ending balance	₩ 145,137	130,620

## 14. Property, Plant and Equipment

(1) Changes in property, plant and equipment for the nine-month periods ended September 30, 2016 and 2015 are as follows:

(In millions of won)

	2016	2015
Beginning balance	₩ 16,966,252	14,090,334
Acquisition	4,354,917	5,419,682
Disposal	(114,131)	(167,182)
Depreciation	(3,065,877)	(2,726,224)
Impairment	(3,746)	(22,055)
Transfer <sup>1</sup>	-	10,583
Foreign exchange difference and other	(248,832)	213,944
Ending balance	₩ 17,888,583	16,819,082

<sup>1</sup> Transferred to intangible assets and transferred from investment property for the nine-month period ended September 30, 2015 amount to ₩14,481 million and ₩25,064 million, respectively.

(2) Certain property, plant and equipment are pledged as collaterals for borrowings of the Group as of September 30, 2016 (Note 32).

(3) Finance lease and operating lease

The Group leases certain machinery and others from ME Semiconductor Rental First L.L.C. and other under finance lease agreements.

The book value of the machinery and others subject to finance lease agreement amounted to ₩82,333 million as of September 30, 2016 (as of December 31, 2015: ₩136,134 million). The machinery and others are pledged as collateral for the finance lease liabilities.

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**15. Intangible Assets**

(1) Changes in intangible assets for the nine-month periods ended September 30, 2016 and 2015 are as follows:

(In millions of won)

	<b>2016</b>	<b>2015</b>
<b>Beginning balance</b>	₩ 1,704,896	1,336,680
Acquisition	375,875	416,664
Disposal	(4,992)	(4,771)
Amortization	(247,027)	(170,803)
Impairment	(63)	(101)
Transfer <sup>1</sup>	-	14,481
Foreign exchange difference and other	(23,023)	26,354
<b>Ending balance</b>	₩ 1,805,666	1,618,504

<sup>1</sup> Transferred from property, plant, and equipment for the nine-month period ended September 30, 2015.

(2) Among costs associated with development activities, ₩253,286 million that met capitalization criteria were capitalized as development cost for the nine-month period ended September 30, 2016 (2015: ₩277,445 million). In addition, costs associated with research activities and other development expenditures that did not meet the criteria and amounted to ₩1,279,160 million were recognized as expenses for the nine-month period ended September 30, 2016 (2015: ₩1,208,131 million).



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## 16. Investment Property

(1) Changes in investment property during the nine-month periods ended September 30, 2016 and 2015 are as follows:

(In millions of won)

	<b>2016</b>	<b>2015</b>
<b>Beginning balance</b>	₩ 2,679	28,456
Depreciation	(79)	(687)
Transfer <sup>1</sup>	-	(25,064)
<b>Ending balance</b>	₩ 2,600	2,705

<sup>1</sup> Transferred to property, plant and equipment for the nine-month periods ended September 30, 2015.

(2) The depreciation expense of ₩79 million was charged to cost of sales for the nine-month period ended September 30, 2016 (2015: ₩687 million).

(3) Rental income from investment property during the nine-month period ended September 30, 2016 was ₩376 million (2015: ₩2,506 million).

## 17. Borrowings

(1) Details of borrowings as of September 30, 2016 and December 31, 2015 are as follows:

(In millions of won)

	<b>2016</b>	<b>2015</b>
<b>Current</b>		
Short-term borrowings	₩ 1,219	147,948
Current installments of long-term borrowings	367,901	465,561
Current installments of debentures	309,474	399,863
	678,594	1,013,372
<b>Non-current</b>		
Long-term borrowings	1,935,197	1,512,003
Debentures	1,534,980	1,293,220
	3,470,177	2,805,223
	₩ 4,148,771	3,818,595

(2) Changes in borrowings during the nine-month periods ended September 30, 2016 and 2015 are as follows:

(In millions of won)

	<b>2016</b>	<b>2015</b>
<b>Beginning balance</b>	₩ 3,818,595	4,174,759
Borrowings	2,081,562	3,502,025
Repayments	(1,593,315)	(3,563,291)
Other <sup>1</sup>	(158,071)	186,610
<b>Ending balance</b>	₩ 4,148,771	4,300,103

<sup>1</sup> Effect of changes in foreign exchange rates and unwinding of discount are included.

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

Details of other current and non-current liabilities as of September 30, 2016 and December 31, 2015 are as follows:

(In millions of won)

		<b>2016</b>	<b>2015</b>
<b>Current</b>			
Advance receipts	₩	5,045	2,867
Unearned income		264	374
Withholdings		30,808	35,938
Deposits received		1,417	1,256
Others		2,163	4,008
		<u>39,697</u>	<u>44,443</u>
<b>Non-current</b>			
Other long-term employee benefits		62,388	61,149
	₩	<u>102,085</u>	<u>105,592</u>

**19. Provisions**

(1) Changes in provisions for the nine-month periods ended September 30, 2016 and 2015 are as follows:

(In millions of won)

		<b>2016</b>			
		<b>Beginning Balance</b>	<b>Increase</b>	<b>Utilization</b>	<b>Reversal</b>
Warranty	₩	2,936	21,382	(21,130)	-
Sales returns		14,736	19,478	(22,735)	-
Legal claims		1,523	-	(1,097)	(426)
Emission allowances		6,081	14,016	(1,339)	-
	₩	<u>25,276</u>	<u>54,876</u>	<u>(46,301)</u>	<u>(426)</u>

(In millions of won)

		<b>2015</b>			
		<b>Beginning balance</b>	<b>Increase</b>	<b>Utilization</b>	<b>Others<sup>1</sup></b>
Warranty	₩	6,886	2,152	(3,139)	-
Sales returns		14,646	35,039	(33,893)	-
Legal claims		4,400	1,441	-	112
Emission allowances		-	3,876	-	-
	₩	<u>25,932</u>	<u>42,508</u>	<u>(37,032)</u>	<u>112</u>

<sup>1</sup> Others include foreign exchange rate differences.

(2) Provisions for warranty

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

# SK HYNIX, INC. and Subsidiaries

## Notes to the Condensed Consolidated Interim Financial Statements

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### 19. Provisions, Continued

#### (3) Provisions for sales returns

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

#### (4) Provisions for legal claims

The Group recognizes provisions for legal claims when the Group has a present legal or constructive obligation as a result of past events and an outflow of resources required to settle the obligation is probable and the amount can be reliably estimated.

#### (5) Provision for emission allowances

The Group recognizes estimated future payment for the number of emission certificates required to settle the Group's obligation exceeding the actual number of certificates on hand as emission allowances according to the Act on Allocation and Trading of Greenhouse Gas Emission Permits.

### 20. Defined Benefit Liabilities

(1) Details of defined benefit liabilities as of September 30, 2016 and December 31, 2015 are as follows:

(In millions of won)

		<b>2016</b>	<b>2015</b>
Present value of defined benefit obligations	₩	1,172,458	1,055,340
Fair value of plan assets		(563,971)	(570,363)
	₩	<u>608,487</u>	<u>484,977</u>

(2) Principal actuarial assumptions as of September 30, 2016 and December 31, 2015 are as follows:

	<b>2016</b>	<b>2015</b>
Discount rate for defined benefit obligations	2.89% ~ 4.10%	2.89% ~ 4.10%
Expected rate of salary increase	2.20% ~ 5.52%	2.20% ~ 5.52%

(3) Changes in defined benefit obligations for the nine-month periods ended September 30, 2016 and 2015 are as follows:

(In millions of won)

		<b>2016</b>	<b>2015</b>
<b>Beginning balance</b>	₩	1,055,340	887,277
Current service cost		111,909	100,670
Interest cost		31,151	29,468
Transferred from associates		(2,098)	322
Benefits paid		(23,885)	(15,456)
Others		41	62
<b>Ending balance</b>	₩	<u>1,172,458</u>	<u>1,002,343</u>

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**20. Defined Benefit Liabilities, Continued**

(4) Changes in plan assets for the nine-month periods ended September 30, 2016 and 2015 are as follows:

(In millions of won)

		<b>2016</b>	<b>2015</b>
<b>Beginning balance</b>	₩	570,363	421,927
Interest income		16,765	13,922
Contributions		120	1,589
Transferred from associates		(1,197)	43
Benefits paid		(15,644)	(14,268)
Remeasurements		(6,436)	(4,851)
<b>Ending balance</b>	₩	<u>563,971</u>	<u>418,362</u>

(5) The amounts recognized in profit or loss for the three and nine-month periods ended September 30, 2016 and 2015 are as follows:

(In millions of won)

(in millions of won)

		2016		2015	
		Three-month period	Nine-month period	Three-month period	Nine-month period
Current service cost	₩	35,643	111,909	33,558	100,670
Net interest cost		4,796	14,386	5,182	15,546
	₩	40,439	126,295	38,740	116,216

(6) Details of plan assets as of September 30, 2016 and December 31, 2015 are as follows:

(In millions of won)

		<b>2016</b>	<b>2015</b>
Deposits	₩	562,463	568,790
Other		1,508	1,573
	₩	<u>563,971</u>	<u>570,363</u>

Actual return on plan assets for the Nine-month periods ended September 30, 2016 and 2015 amounted to ₩10,330 million and ₩9,071 million, respectively.

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### 21. Derivative Financial Instruments

(1) The Group has managed financial risk including interest rate risk through interest rates swaps. Details of derivative financial assets and liabilities as of September 30, 2016 and December 31, 2015 are as follows:

(In millions of won)

#### Non-current

		<u>2016</u>	<u>2015</u>
Interest rates swap	₩	435	683

(2) Details of gains and losses from derivative instruments for the three and nine-month periods ended September 30, 2016 and 2015 are follows:

(In millions of won)

		<b>Gain on valuation</b>			
		<u>2016</u>		<u>2015</u>	
		<u>Three-month period</u>	<u>Nine-month period</u>	<u>Three-month period</u>	<u>Nine-month period</u>
Interest rates swap	₩	128	248	2	-

(In millions of won)

		<b>Loss on valuation</b>			
		<u>2016</u>		<u>2015</u>	
		<u>Three-month period</u>	<u>Nine-month period</u>	<u>Three-month period</u>	<u>Nine-month period</u>
Interest rates swap	₩	-	-	-	145

(In millions of won)

		<b>Gain on transaction</b>			
		<u>2016</u>		<u>2015</u>	
		<u>Three-month period</u>	<u>Nine-month period</u>	<u>Three-month period</u>	<u>Nine-month period</u>
Interest rates swap	₩	292	876	388	1,376

(In millions of won)

		<b>Loss on transaction</b>			
		<u>2016</u>		<u>2015</u>	
		<u>Three-month period</u>	<u>Nine-month period</u>	<u>Three-month period</u>	<u>Nine-month period</u>
Interest rates swap	₩	406	1,218	507	1,652

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**22. Capital Stock, Capital Surplus and Other Equity**

(1) Details of capital stock, capital surplus and other equity as of September 30, 2016 and December 31, 2015 are as follows:

(In millions of won and thousands of shares)

	<b>2016</b>	<b>2015</b>
Authorized shares	9,000,000	9,000,000
Issued shares <sup>1</sup>	731,530	731,530
Capital stock:		
Common stock	₩ 3,657,652	3,657,652
Capital surplus:		
Additional paid-in capital	3,625,797	3,625,797
Others	517,939	517,939
	₩ 4,143,736	4,143,736
Other equity:		
Acquisition cost of treasury shares	(771,913)	(771,913)
Number of treasury shares	22,000	22,000

<sup>1</sup> As of September 30, 2016, the number of outstanding shares is 728,002 thousand shares, which differs from total issued shares due to stock retirement.

(2) Changes in number of outstanding shares for the nine-month period ended September 30, 2016 and for the year ended December 31, 2015 are as follows:

(In thousands of shares)

	<b>2016</b>	<b>2015</b>
<b>Beginning</b>	706,002	728,002
Acquisition of treasury shares	-	(22,000)
<b>Ending</b>	706,002	706,002

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### 23. Accumulated Other Comprehensive Loss

(1) Details of accumulated other comprehensive loss as of September 30, 2016 and December 31, 2015 are as follows:

		<b>2016</b>	<b>2015</b>
(In millions of won)			
Equity-accounted investees – share of other comprehensive income	₩	(5,263)	1,856
Foreign operations – foreign currency translation differences		(350,238)	(3,456)
	₩	<u>(355,501)</u>	<u>(1,600)</u>

(2) Changes in accumulated other comprehensive income (loss) for the nine-month periods ended September 30, 2016 and 2015 are as follows:

		<b>2016</b>	
(In millions of won)			
		<b>Beginning</b>	<b>Change</b>
Equity-accounted investees – share of other comprehensive income	₩	1,856	(7,119)
Foreign operations – foreign currency translation differences		(3,456)	(346,782)
	₩	<u>(1,600)</u>	<u>(353,901)</u>

		<b>2015</b>	
(In millions of won)			
		<b>Beginning</b>	<b>Change</b>
Equity-accounted investees – share of other comprehensive loss	₩	(4,631)	8,461
Foreign operations – foreign currency translation differences		(37,184)	246,245
	₩	<u>(41,815)</u>	<u>254,706</u>

### 24. Retained Earnings

Retained earnings as of September 30, 2016 and December 31, 2015 are as follows:

		<b>2016</b>	<b>2015</b>
(In millions of won)			
Legal reserve <sup>1</sup>	₩	65,994	30,694
Discretionary reserve <sup>2</sup>		235,506	235,506
Unappropriated retained earnings <sup>3</sup>		15,025,160	14,092,788
	₩	<u>15,326,660</u>	<u>14,358,988</u>

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

<sup>2</sup> Discretionary reserve represents reserve for technology development.

<sup>3</sup> Dividends in the amount of ₩353,001 million were approved at shareholders' meeting held on March 18, 2016 and paid during the nine-month period ended September 30, 2016.

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## 25. Selling and Administrative Expenses

Selling and administrative expenses for the three and nine-month periods ended September 30, 2016 and 2015 are as follows:

(In millions of won)

	<b>2016</b>		<b>2015</b>	
	<b>Three-month period</b>	<b>Nine-month period</b>	<b>Three-month period</b>	<b>Nine-month period</b>
Salaries	₩ 90,069	245,218	98,902	304,253
Defined benefit plan	4,507	20,762	6,388	18,791
Employee benefits	20,841	64,037	20,537	57,809
Commission	55,039	166,152	57,666	150,677
Depreciation	19,232	60,505	23,288	64,331
Amortization	49,904	217,758	58,972	158,013
Research and development	407,557	1,279,160	409,852	1,208,131
Freight and custody charge	7,732	23,357	11,155	32,102
Legal cost	1,059	4,687	1,460	4,631
Rental	3,529	10,991	3,832	14,994
Taxes and dues	4,083	14,595	4,712	14,362
Training	3,254	13,544	3,602	14,858
Advertisements	14,663	30,562	10,280	34,775
Utility	3,449	10,718	3,290	10,202
Supplies	17,990	40,445	11,367	39,265
Repair	1,453	4,616	3,353	6,656
Travel	2,676	7,918	3,538	9,694
Sales promotional	8,748	29,309	11,923	36,824
Others	9,616	36,181	1,693	5,675
	<u>₩ 725,401</u>	<u>2,280,605</u>	<u>745,810</u>	<u>2,186,043</u>

## 26. Expenses by Nature

Nature of expenses for the three and nine-month periods ended September 30, 2016 and 2015 is as follows:

(In millions of won)

	<b>2016</b>		<b>2015<sup>2</sup></b>	
	<b>Three-month period</b>	<b>Nine-month period</b>	<b>Three-month period</b>	<b>Nine-month period</b>
Changes in finished goods and work-in-process	₩ 6,109	(50,421)	(13,098)	(146,117)
Raw materials and consumables	872,864	2,442,437	933,391	2,587,270
Labor costs	594,401	1,637,241	624,358	1,956,443
Depreciation and amortization	1,093,283	3,271,920	989,191	2,847,023
Royalty	57,159	172,607	52,830	152,879
Commission	254,818	721,569	206,655	578,675
Utilities	216,922	619,399	172,393	481,230
Repair	158,889	434,068	154,956	400,615
Outsourcing	190,801	565,456	248,009	751,205
Others	72,443	285,406	173,134	425,506
Total <sup>1</sup>	<u>₩ 3,517,689</u>	<u>10,099,682</u>	<u>3,541,819</u>	<u>10,034,729</u>

<sup>1</sup> Total expenses consist of cost of sales and selling and administrative expenses.

<sup>2</sup> Expenses for the three and nine-month periods ended September 30, 2015 were reclassified to conform with the classification for the three and nine-month periods ended September 30, 2016.



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**27. Finance Income and Expense**

Finance income and expense for the three and nine-month periods ended September 30, 2016 and 2015 are as follows:

(In millions of won)

	<b>2016</b>		<b>2015</b>	
	<b>Three-month period</b>	<b>Nine-month period</b>	<b>Three-month period</b>	<b>Nine-month period</b>
<b>Finance income</b>				
Interest income	₩ 6,987	26,185	11,867	29,554
Dividend income	-	18	55	1,056
Gain on disposal of financial assets at fair value through profit or loss	2,267	11,532	6,553	28,365
Foreign exchange differences	225,988	584,337	300,531	616,575
Gain from derivative instruments	420	1,124	390	1,376
Gain on valuation of financial assets at fair value through profit or loss	-	690	-	3,404
	<u>235,662</u>	<u>623,886</u>	<u>319,396</u>	<u>680,330</u>
<b>Finance expense</b>				
Interest expenses	32,095	96,836	33,014	85,931
Foreign exchange differences	210,473	592,097	331,180	598,769
Loss from derivative instruments	406	1,218	507	1,797
Loss on valuation of financial assets at fair value through profit or loss	242	-	-	-
	<u>243,216</u>	<u>690,151</u>	<u>364,701</u>	<u>686,497</u>
<b>Net finance expense</b>	₩ <u>(7,554)</u>	<u>(66,265)</u>	<u>(45,305)</u>	<u>(6,167)</u>

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**28. Other Income and Expenses**

(1) Other income for the three and nine-month periods ended September 30, 2016 and 2015 are as follows:

(In millions of won)

	<b>2016</b>		<b>2015</b>	
	<b>Three-month period</b>	<b>Nine-month period</b>	<b>Three-month period</b>	<b>Nine-month period</b>
Gain on disposal of property, plant and equipment	₩ 2,084	4,263	9,301	13,716
Others	8,785	20,606	3,967	13,402
	<u>₩ 10,869</u>	<u>24,869</u>	<u>13,268</u>	<u>27,118</u>

(2) Other expenses for the three and nine-month periods ended September 30, 2016 and 2015 are as follows:

(In millions of won)

	<b>2016</b>		<b>2015</b>	
	<b>Three-month period</b>	<b>Nine-month period</b>	<b>Three-month period</b>	<b>Nine-month period</b>
Loss on disposal of property, plant and equipment	₩ 906	5,765	14,460	17,358
Loss on disposal of intangible assets	1,719	3,415	1,074	4,339
Loss on disposal of trade receivables	904	1,521	418	1,099
Donation	20,793	24,897	2,721	24,377
Loss on impairment of property, plant and equipment	-	3,746	22,051	22,055
Loss on impairment of intangible assets	26	63	10	101
Other	3,178	31,042	7,022	25,366
	<u>₩ 27,526</u>	<u>70,449</u>	<u>47,756</u>	<u>94,695</u>

**29. Income Tax Expense**

Income tax expense is recognized based on management's best estimate of the annual effective income tax rate expected for the full financial year multiplied by the pre-tax income of the interim reporting period. Income tax expense includes current tax expense adjustments related to prior periods.

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### 30. Earnings per Share

Basic earnings per share is calculated by dividing the profit attributable to ordinary shareholders of the Parent Company by the weighted average number of outstanding ordinary shares during the three and nine-month periods.

(1) Basic earnings per share for the three and nine-month periods ended September 30, 2016 and 2015 are as follows:

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

	2016		2015	
	Three-month period	Nine-month period	Three-month period	Nine-month period
Profit attributable to ordinary shareholders	₩ 596,774	1,327,109	1,048,307	3,452,106
Weighted average number of outstanding ordinary shares <sup>1</sup>	706,001,795	706,001,795	718,824,052	724,908,931
<b>Basic earnings per share(in won)</b>	<b>₩ 845</b>	<b>1,880</b>	<b>1,458</b>	<b>4,762</b>

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

(In shares)

	2016		2015	
	Three-month period	Nine-month period	Three-month period	Nine-month period
Outstanding ordinary shares	728,002,365	728,002,365	728,002,365	728,002,365
Acquisition of treasury shares	(22,000,570)	(22,000,570)	(9,178,313)	(3,093,434)
<b>Weighted average number of outstanding common shares</b>	<b>706,001,795</b>	<b>706,001,795</b>	<b>718,824,052</b>	<b>724,908,931</b>

(2) There is no potential ordinary shares with dilutive effect during the three and nine-month periods ended September 30, 2016 and 2015. Accordingly, diluted earnings per share for the three and nine-month periods ended September 30, 2016 and 2015 are the same as basic earnings per share.

### 31. Related Party Transactions

(1) Details of related parties as of September 30, 2016 are as follows:

Type	Name of related parties
Associate	Stratio, Inc., Gemini Partners Pte. Ltd., TCL Fund
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.
Other related parties	SK Telecom Co., Ltd., which has significant influence over the Group, SK Holdings Co., Ltd., which has control over SK Telecom Co., Ltd., and their subsidiaries

# SK HYNIX, INC. and Subsidiaries

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### 31. Related Party Transactions, Continued

(2) Significant transactions for the three and nine-month periods ended September 30, 2016 and 2015 are as follows:

(In millions of won)

#### For the three-month period ended September 30, 2016

	Company	Operating revenue and others	Operating expense and others	Asset acquisition	Dividend income
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	₩ 127	135,902	-	-
Other related parties	SK Telecom Co., Ltd. <sup>1</sup>	9	1,974	5,569	-
	SK Holdings Co., Ltd. <sup>2,3</sup>	163	32,856	30,610	-
	ESSENCE Limited	146,720	-	-	-
	SK Engineering & Construction Co., Ltd.	219	816	59,371	-
	SK Energy Co., Ltd.	1,083	5,973	-	-
	SK Networks Co., Ltd.	-	1,061	-	-
	SK Materials Co., Ltd.	-	11,335	-	-
	SKC solmics Co., Ltd.	-	8,804	86	-
	Chungcheong energy service Co., Ltd.	-	1,540	-	-
	Happynarae Co., Ltd.	12	58,545	4,593	-
	Others	134	31,291	1,235	-
		₩ 148,467	290,097	101,464	-

(In millions of won)

#### For the nine-month period ended September 30, 2016

	Company	Operating revenue and others	Operating expense and others	Asset acquisition	Dividend income
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	₩ 416	427,099	17,864	20,726
Other related parties	SK Telecom Co., Ltd. <sup>1</sup>	216	78,816	9,824	-
	SK Holdings Co., Ltd. <sup>2,3</sup>	672	88,005	106,054	-
	ESSENCE Limited	383,413	-	-	-
	SK Engineering & Construction Co., Ltd.	452	21,253	188,758	-
	SK Energy Co., Ltd.	3,501	37,388	-	-
	SK Networks Co., Ltd.	-	3,117	-	-
	SK Materials Co., Ltd.	-	32,601	-	-
	SKC solmics Co., Ltd.	-	24,298	253	-
	Chungcheong energy service Co., Ltd.	-	12,804	-	-
	Happynarae Co., Ltd.	22	105,220	7,303	-
	Others	312	84,785	14,020	-
		₩ 389,004	915,386	344,076	20,726

<sup>1</sup> Operating expense and others include dividends of ₩73,050 million (2015: ₩43,830 million).

<sup>2</sup> The Group entered into a contract with SK Holdings Co., Ltd. under which the Group pays royalty for the use of SK brand in proportion to sales amount. For the nine-month period ended September 30, 2016, royalty on the use of the SK brand amounted to ₩28,415 million (2015: ₩25,948 million).

<sup>3</sup> On August 1, 2015, SK C&C merged with SK Holdings Co., Ltd. and changed its name to SK Holdings Co., Ltd.

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**31. Related Party Transactions, Continued**

(In millions of won)

**For the three-month period ended September 30, 2015**

	<b>Company</b>	<b>Operating revenue and others</b>	<b>Operating expense and others</b>	<b>Asset acquisition</b>	<b>Dividend income</b>
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	₩ 627	161,628	-	-
Other related parties	SK Telecom Co., Ltd.	36	2,201	1,146	-
	SK Holdings Co., Ltd.	52	25,815	32,786	-
	ESSEN CORE Limited	88,014	-	-	-
	SK Engineering & Construction Co., Ltd.	452	181	198,341	-
	SK Energy Co., Ltd.	1,295	5,159	-	-
	SK Networks Co., Ltd.	-	739	-	-
	Ko-one energy service Co., Ltd.	-	449	7	-
	SKC solmics Co., Ltd.	-	9,903	89	-
	Chungcheong energy service Co., Ltd.	-	2,522	-	-
	Happynarae Co., Ltd.	4	19,921	7,881	-
	Others	182	20,551	3,607	-
		₩ 90,662	249,069	243,857	-

(In millions of won)

**For the nine-month period ended September 30, 2015**

	<b>Company</b>	<b>Operating revenue and others</b>	<b>Operating expense and others</b>	<b>Asset acquisition</b>	<b>Dividend income</b>
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	₩ 1,364	511,738	-	15,780
Other related parties	SK Telecom Co., Ltd.	2,235	50,554	1,858	-
	SK Holdings Co., Ltd.	52	45,445	32,786	-
	ESSEN CORE Limited	88,014	-	-	-
	SK Engineering & Construction Co., Ltd.	627	473	872,623	-
	SK Energy Co., Ltd.	3,949	34,509	-	-
	SK Networks Co., Ltd.	-	2,040	-	-
	Ko-one energy service Co., Ltd.	-	2,109	7	-
	SKC solmics Co., Ltd.	-	26,581	233	-
	Chungcheong energy service Co., Ltd.	-	19,290	-	-
	Happynarae Co., Ltd.	14	54,003	9,602	-
	Others	333	40,692	11,487	-
		₩ 96,588	787,434	928,596	15,780

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**31. Related Party Transactions, Continued**

(3) The balances of significant transactions as of September 30, 2016 and December 31, 2015 are as follows:

(In millions of won)

		<b>2016</b>	
	<b>Company</b>	<b>Trade receivables and others</b>	<b>Other payables and others</b>
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	₩ -	87,603
Other related parties	SK Telecom Co., Ltd.	-	4,883
	SK Holdings Co., Ltd.	6,250	66,389
	ESSEN CORE Limited	46,272	-
	SK Engineering & Construction Co., Ltd.	88	82,889
	SK Energy Co., Ltd.	362	1,613
	SK Networks Co., Ltd.	-	247
	SK Materials Co., Ltd.	-	9,906
	SKC solmics Co., Ltd.	-	9,166
	Chungcheong energy service Co., Ltd.	-	502
	Happynarae Co., Ltd.	3	15,828
	Others	91	37,008
		₩ <u>53,066</u>	<u>316,034</u>

(In millions of won)

		<b>2015</b>	
	<b>Company</b>	<b>Trade receivables and others</b>	<b>Other payables and others</b>
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd. <sup>1</sup>	₩ 15,628	108,519
Other related parties	SK Telecom Co., Ltd.	155	2,797
	SK Holdings Co., Ltd.	103	98,798
	ESSEN CORE Limited	142	-
	SK Engineering & Construction Co., Ltd.	1,049	236,875
	SK Energy Co., Ltd.	474	5,962
	SK Networks Co., Ltd.	-	954
	SKC solmics Co., Ltd.	-	9,544
	Chungcheong energy service Co., Ltd.	-	1,425
	Happynarae Co., Ltd.	275	24,148
	Others	102	29,339
		₩ <u>17,928</u>	<u>518,361</u>

<sup>1</sup> The Parent Company repaid remaining balance of borrowings from HITECH Semiconductor(Wuxi) Co., Ltd. in the amount of ₩22,552 million during the year ended December 31, 2015.

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**31. Related Party Transactions, Continued**

(4) Key management compensation

Key management includes directors, members of the board of directors, chief financial officer and internal auditors. The compensation paid to key management for employee services for the three and nine-month periods ended September 30, 2016 and 2015 are as follows:

(In millions of won)

Details	2016		2015	
	Three-month period	Nine-month period	Three-month period	Nine-month period
Salaries	₩ 15,794	39,730	15,120	46,495
Defined benefit plan	2,059	6,176	1,690	5,071
Others	3	10	4	11
	₩ 17,856	45,916	16,814	51,577

**32. Commitments and Contingencies**

(1) Patent infringement claims and litigations

The Group is involved in various alleged patent infringement claims and litigations. No provisions have been made as the final outcome of these matters cannot be determined or predicted given that these claims and litigation are at their early stage as of September 30, 2016.

(2) Technology and patent license agreements

The Group has entered into a number of patent license agreements with several companies. The related royalties are paid in a lump-sum or running basis in accordance with the respective agreements. The lump-sum royalties are expensed over the contract period using the straight-line method.

(3) Contract for supply of industrial water

The Group has entered into a contract with Veolia Water Industrial Development Co., Ltd. ("VWID") under which the Group purchases industrial water by March 2018. According to the 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.

(4) Post-process service contract with HITECH

The Group has entered into an agreement with HITECH to be provided with post-process service by HITECH. The conditions of the service provided includes package, package test, modules and others. According to the agreement, the Group is liable to guarantee a certain level of margin to HITECH.

(5) Assets provided as collateral

Details of assets provided as collateral as of September 30, 2016 are as follows:

(In millions of won)

	Book value	Pledged amount	Remark
Land	₩ 43,612		
Buildings	104,442	1,698,185	Borrowings for equipment and others
Machinery	1,241,898		
	₩ 1,389,952	1,698,185	

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

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**32. Commitments and Contingencies, Continued**

(6) Financing agreements

Details of credit lines with financial institutions as of September 30, 2016 are as follows:

(In millions of won and millions of foreign currencies)

	<b>Financial Institution</b>	<b>Commitment</b>	<b>Currency</b>	<b>Amount</b>
The Parent Company	Shinhan Bank and others	Import finance including usance	USD	150
		Export finance including bills bought	USD	350
		Comprehensive limit contract for import and export	USD	1,205
SK hynix Semiconductor (China) Ltd. (SKHYCL)	Agricultural Bank of China and others	Import finance including usance	RMB	1,300
			USD	267
SK hynix America Inc. (SKHYA) and other sales entities	Citibank and others	Accounts receivable factoring contracts which have no right to recourse	USD	241
Domestic subsidiaries	KEB Hana Bank and others	Export finance including bills bought	KRW	2,000
		Guarantee	KRW	1,000
		Finance secured by accounts receivable	KRW	10,000
		Agency agreement for payment of goods received	KRW	8,000

The Group has entered into trade receivables discounting agreements with several financial institutions. There are outstanding trade receivables discounted amounting to ₩1,219 million as of September 30, 2016 (as of December 31, 2015: ₩3,076 million). The Group is obliged to redeem discounted receivables to financial institutions in case of the default of the counterparties and accordingly, accounted for the above transactions as collateralized borrowings.

(7) Details of guarantees provided to others as of September 30, 2016 are as follows:

(In millions of won)

	<b>Amount</b>	<b>Remark</b>
Employees	₩ 8	Guarantees for employees' borrowings relating to employee stock ownership

(8) Capital commitments

As of September 30, 2016, the Group has ₩859,776 million (as of December 31, 2015: ₩300,041 million) of commitments in relation to the capital expenditures on property, plant and equipment.



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**33. Cash Generated from Operating Activities**

(1) Reconciliations between profit and net cash inflow from operating activities for the nine-month periods ended September 30, 2016 and 2015 are as follows:

(In millions of won)

	<b>2016</b>	<b>2015</b>
<b>Profit for the period</b>	₩ 1,331,909	3,452,228
<b>Adjustment</b>		
Income tax expense	313,453	839,763
Defined benefit plan	126,295	116,216
Depreciation	3,065,877	2,726,224
Depreciation of investment property	79	687
Amortization	247,027	170,803
Loss on disposal of property, plant and equipment	5,765	17,358
Loss on disposal of intangible assets	3,415	4,339
Loss on impairment of property, plant, and equipment	3,746	22,055
Loss on impairment of intangible assets	63	101
Interest expense	96,836	85,931
Loss on foreign currency translation	77,408	210,792
Gain on equity method investments, net	(16,600)	(18,510)
Gain on disposal of property, plant and equipment	(4,263)	(13,716)
Gain on valuation of financial assets at fair value through profit or loss	(690)	(3,404)
Gain on disposal of financial assets at fair value through profit or loss	(11,532)	(28,365)
Loss on derivative instruments, net	94	421
Interest income	(26,185)	(29,554)
Gain on foreign currency translation	(188,256)	(80,959)
Others, net	3,367	1,776
<b>Changes in operating assets and liabilities</b>		
Decrease in trade receivables	112,708	708,965
Decrease in loans and other receivables	45,243	716,450
Increase in inventories	(97,105)	(305,211)
Decrease (increase) in other assets	79,783	(147,911)
Decrease in trade payables	(14,056)	(279,435)
Decrease in other payables	(100,605)	(59,288)
Decrease in other non-trade payables	(530,444)	(173,860)
Increase in provisions	8,169	3,786
Decrease in other liabilities	(3,349)	(36,903)
Contributions to plan assets	(120)	(348)
Payment of defined benefit liabilities	(15,717)	(6,485)
<b>Cash generated from operating activities</b>	₩ <u>4,512,315</u>	<u>7,893,946</u>

(2) There are no significant transactions without inflows and outflows of cash for the nine-month periods ended September 30, 2016 and 2015.