

SK HYNIX, INC. AND SUBSIDIARIES

Condensed Consolidated Interim Financial Statements

June 30, 2019 and 2018

(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 June 30, 2019, the condensed consolidated statements of comprehensive income for the three and six-month periods ended June 30, 2019 and 2018, and changes in equity and cash flows for the six-month periods ended June 30, 2019 and 2018 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, 2018, 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 25, 2019, expressed an unqualified opinion. The accompanying condensed consolidated statement of financial position of the Group as of December 31, 2018, presented for comparative purposes, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

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.

KPMG Samjong Accounting Corp.
Seoul, Korea
August 12, 2019

This report is effective as of August 12, 2019, 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 June 30, 2019 and December 31, 2018
(Unaudited)

(In millions of won)

	Note	2019	2018
Assets			
Current assets			
Cash and cash equivalents	5,6 ₩	1,128,775	2,349,319
Short-term financial instruments	5,6,7	410,850	523,579
Short-term investment assets	5,6	1,570,090	5,496,452
Trade receivables, net	5,6,8,32	4,802,736	6,319,994
Loans and other receivables, net	5,6,8,32	21,744	18,392
Inventories, net	9	5,588,705	4,422,733
Current tax assets		2,516	22,252
Other current assets	10,32,33	717,334	741,425
		<u>14,242,750</u>	<u>19,894,146</u>
Non-current assets			
Investments in associates and joint ventures	11	702,669	562,194
Long-term investment assets	5,6,12	4,618,125	4,325,550
Loans and other receivables, net	5,6,8,32	101,020	68,514
Other financial assets	5,6,7	937	310
Property, plant and equipment, net	13,33	38,445,358	34,952,617
Right-of-use assets	3,14	1,100,430	-
Intangible assets, net	15	2,573,593	2,678,770
Investment property, net	16	1,369	1,400
Deferred tax assets		624,270	544,016
Employee benefit assets, net	20	-	5,164
Other non-current assets	10,32,33	621,743	625,654
		<u>48,789,514</u>	<u>43,764,189</u>
Total assets	₩	<u><u>63,032,264</u></u>	<u><u>63,658,335</u></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 June 30, 2019 and December 31, 2018
(Unaudited)

(In millions of won)

	Note	2019	2018
Liabilities			
Current liabilities			
Trade payables	5,6,32 ₩	1,036,169	1,096,380
Other payables	5,6,24,32	2,209,580	3,681,933
Other non-trade payables	5,6	1,221,314	1,879,520
Borrowings	5,6,17,33	2,078,321	1,614,303
Provisions	19	40,972	56,208
Current tax liabilities		569,746	4,555,670
Lease liabilities	3,5,6,14	210,425	-
Other current liabilities	18	146,244	147,838
		<u>7,512,771</u>	<u>13,031,852</u>
Non-current liabilities			
Other non-trade payables	5,6	18,130	15,231
Borrowings	5,6,17,33	6,668,898	3,667,634
Defined benefit liabilities, net	20	122,504	5,387
Deferred tax liabilities		5,831	6,597
Lease liabilities	3,5,6,14	910,900	-
Other non-current liabilities	18,33	82,443	79,303
		<u>7,808,706</u>	<u>3,774,152</u>
Total liabilities		<u>15,321,477</u>	<u>16,806,004</u>
Equity			
Equity attributable to owners of the Parent Company			
Capital stock	22	3,657,652	3,657,652
Capital surplus	22	4,143,736	4,143,736
Other equity	22,35	(2,505,663)	(2,506,451)
Accumulated other comprehensive loss	23	(230,062)	(482,819)
Retained earnings	24	42,634,568	42,033,601
Total equity attributable to owners of the Parent Company		<u>47,700,231</u>	<u>46,845,719</u>
Non-controlling interests		<u>10,556</u>	<u>6,612</u>
Total equity		<u>47,710,787</u>	<u>46,852,331</u>
Total liabilities and equity	₩	<u>63,032,264</u>	<u>63,658,335</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 six-month periods ended June 30, 2019 and 2018
(Unaudited)

(In millions of won, except per share information)

	<i>Note</i>	2019		2018	
		Three-month period	Six-month period	Three-month period	Six-month period
Revenue	4,25,32 ₩	6,452,201	13,224,856	10,370,507	19,090,197
Cost of sales	27,32	4,435,389	8,527,844	3,762,243	7,145,457
Gross profit		2,016,812	4,697,012	6,608,264	11,944,740
Selling and administrative expense	26,27,32	1,379,182	2,692,892	1,034,346	2,003,485
Operating profit		637,630	2,004,120	5,573,918	9,941,255
Finance income	28	530,061	888,407	763,220	1,003,355
Finance expenses	28	476,798	724,653	364,340	677,618
Share of profit of equity-accounted investees	11	5,627	10,053	3,946	8,472
Other income	29,32	24,692	49,382	10,168	17,234
Other expenses	29,32	45,198	71,748	83,437	98,414
Profit before income tax		676,014	2,155,561	5,903,475	10,194,284
Income tax expense	30	138,989	516,406	1,574,932	2,744,413
Profit for the period		537,025	1,639,155	4,328,543	7,449,871
Other comprehensive income (loss)					
Item that will never be reclassified to profit or loss:					
Remeasurements of defined benefit liability, net of tax	20	(5,401)	(11,312)	(7,055)	(14,095)
Items that are or may be reclassified to profit or loss:					
Foreign operations – foreign currency translation differences, net of tax	23	(1,323)	224,221	62,280	212,524
Equity-accounted investees – share of other comprehensive income, net of tax	11,23	11,291	28,889	15,129	13,890
Other comprehensive income for the period, net of tax		4,567	241,798	70,354	212,319
Total comprehensive income for the period	₩	541,592	1,880,953	4,398,897	7,662,190

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 six-month periods ended June 30, 2019 and 2018

(Unaudited)

(In millions of won, except per share information)

		2019		2018	
	<i>Note</i>	Three-month period	Six-month period	Three-month period	Six-month period
Profit (loss) attributable to:					
Owners of the Parent Company	₩	535,529	1,638,282	4,329,947	7,450,200
Non-controlling interests		1,496	873	(1,404)	(329)
Total comprehensive income					
(loss) attributable to:					
Owners of the Parent Company		539,925	1,879,727	4,399,579	7,661,853
Non-controlling interests		1,667	1,226	(682)	337
Earnings per share					
Basic earnings per share (in won)	31	783	2,395	6,133	10,553
Diluted earnings per share (in won)	31	783	2,395	6,132	10,551

See accompanying notes to the condensed consolidated interim financial statements.

SK HYNIX, INC. and Subsidiaries
Condensed Consolidated Statements of Changes in Equity
For the six-month periods ended June 30, 2019 and 2018
(Unaudited)

(In millions of won)

Note	Attributable to owners of the Parent Company						Non-controlling interests	Total equity
	Capital stock	Capital surplus	Other equity	Accumulated other comprehensive loss	Retained earnings	Total		
Balance at January 1, 2018	₩ 3,657,652	4,143,736	(771,100)	(491,529)	27,276,521	33,815,280	5,639	33,820,919
Total comprehensive income:								
Profit for the period	-	-	-	-	7,450,200	7,450,200	(329)	7,449,871
Remeasurements of defined benefit liability, net of tax	-	-	-	-	(14,095)	(14,095)	-	(14,095)
Other comprehensive income from joint venture and associate, net of tax	-	-	-	13,890	-	13,890	-	13,890
Foreign currency translation differences for foreign operations, net of tax	-	-	-	211,858	-	211,858	666	212,524
Total comprehensive income	-	-	-	225,748	7,436,105	7,661,853	337	7,662,190
Transactions with owners of the Parent Company:								
Dividends paid	-	-	-	-	(706,002)	(706,002)	-	(706,002)
Share-based payment transactions	-	-	569	-	-	569	-	569
Total transactions with owners of the Parent Company	-	-	569	-	(706,002)	(705,433)	-	(705,433)
Balance at June 30, 2018	₩ 3,657,652	4,143,736	(770,531)	(265,781)	34,006,624	40,771,700	5,976	40,777,676

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 six-month periods ended June 30, 2019 and 2018
(Unaudited)

(In millions of won)

Attributable to owners of the Parent Company							
			Accumulated				
Note	Capital stock	Capital surplus	Other equity	comprehensive other loss	Retained earnings	Total	Non-controlling interests
							Total equity
Balance at January 1, 2019	₩ 3,657,652	4,143,736	(2,506,451)	(482,819)	42,033,601	46,845,719	6,612
Total comprehensive income:							46,852,331
Profit for the period	-	-	-	-	-	1,638,282	873
Remeasurements of defined benefit liability, net of tax	-	-	-	-	(11,312)	(11,312)	-
Other comprehensive income from joint venture and associate, net of tax	-	-	-	-	-	-	(11,312)
Foreign currency translation differences for foreign operations, net of tax	-	-	-	28,889	-	28,889	-
Total comprehensive income	-	-	-	223,868	-	223,868	353
Transactions with owners of the Parent Company:	-	-	-	252,757	1,626,970	1,879,727	1,226
Increase of Non-controlling interests	-	-	-	-	-	-	2,718
Dividends paid	-	-	-	-	(1,026,003)	(1,026,003)	-
Share-based payment transactions	-	-	788	-	-	788	-
Total transactions with owners of the Parent Company					(1,026,003)	(1,025,215)	2,718
Balance at June 30, 2019	₩ 3,657,652	4,143,736	(2,505,663)	(230,062)	42,634,568	47,700,231	10,556
							47,710,787

See accompanying notes to the condensed consolidated interim financial statements.

SK HYNIX, INC. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
For the six-month periods ended June 30, 2019 and 2018
(Unaudited)

(In millions of won)

	<u>Note</u>	<u>2019</u>	<u>2018</u>
Cash flows from operating activities			
Cash generated from operating activities	34 ₩	6,015,232	10,551,029
Interest received		18,235	64,078
Interest paid		(93,743)	(58,974)
Dividends received		14,540	15,099
Income tax paid		(4,551,703)	(2,402,969)
Net cash provided by operating activities		<u>1,402,561</u>	<u>8,168,263</u>
Cash flows from investing activities			
Decrease in short-term financial instruments, net		112,749	3,957,414
Decrease (increase) in short-term investment assets, net		3,972,812	(1,516,642)
Collection of loans and other receivables		6,296	5,743
Increase in loans and other receivables		(38,850)	(25,236)
Proceeds from disposal of long-term investment assets		480	1,058
Acquisition of long-term investment assets		(39,196)	(3,932,470)
Decrease in other financial assets		-	101
Increase in other financial assets		(6)	(17)
Proceeds from disposal of property, plant and equipment		45,319	16,696
Acquisition of property, plant and equipment		(8,497,372)	(8,458,983)
Proceeds from disposal of intangible assets		183	2,532
Acquisition of intangible assets		(329,897)	(414,471)
Receipt of government grants		-	25
Acquisition of investments in associates		(116,001)	(430)
Net cash used in investing activities	₩	<u>(4,883,483)</u>	<u>(10,364,680)</u>

See accompanying notes to the condensed consolidated interim financial statements.

SK HYNIX, INC. and Subsidiaries
Condensed Consolidated Statements of Cash Flows, Continued
For the six-month periods ended June 30, 2019 and 2018
(Unaudited)

(In millions of won)

	Note	2019	2018
Cash flows from financing activities			
Proceeds from borrowings	34 ₩	5,864,012	2,063,692
Repayments of borrowings	34	(2,462,930)	(947,475)
Dividends paid	34	(1,026,003)	(706,002)
Repayments of lease liabilities	34	(136,032)	-
Increase of Non-controlling interests		2,718	-
Net cash provided by financing activities		2,241,765	410,215
Effect of movements in exchange rates on cash and cash equivalents		18,613	24,139
Net decrease in cash and cash equivalents		(1,220,544)	(1,762,063)
Cash and cash equivalents at beginning of the period		2,349,319	2,949,991
Cash and cash equivalents at end of the period	₩	1,128,775	1,187,928

See accompanying notes to the condensed consolidated interim financial statements.

SK HYNIX, INC. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2019 and 2018

(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, incorporated in October 15, 1949, is engaged in the manufactures, distribution and sales of 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 June 30, 2019, the shareholders of the Parent Company are as follows:

Shareholder	Number of shares	Percentage of ownership (%)
SK Telecom Co., Ltd.	146,100,000	20.07
National Pension Service and other investors	537,901,795	73.89
Treasury shares	44,000,570	6.04
	<u>728,002,365</u>	<u>100.00</u>

The Parent Company's common shares and depositary receipts (DRs) are listed on the Stock Market of Korea Exchange and the Luxembourg Stock Exchange.

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
June 30, 2019 and 2018
(Unaudited)

1. Reporting Entity, Continued

(2) Details of the Group's consolidated subsidiaries as of June 30, 2019 and December 31, 2018 are as follows:

Company	Location	Business	Ownership (%)	
			2019	2018
SK hyeng Inc.	Korea	Construction service	100.00	100.00
SK hystec Inc.	Korea	Business support service	100.00	100.00
Happymore Inc.	Korea	Manufacturing and cleaning cleanroom suits	100.00	100.00
SK hynix system ic Inc.	Korea	Semiconductor manufacturing and sales	100.00	100.00
HAPPYNARAE Co., Ltd.	Korea	Industrial material supply	100.00	100.00
SK hynix America Inc.	U.S.A.	Semiconductor sales	97.74	97.74
SK hynix Deutschland GmbH	Germany	Semiconductor sales	100.00	100.00
SK hynix Asia Pte. Ltd.	Singapore	Semiconductor sales	100.00	100.00
SK hynix Semiconductor Hong Kong Ltd.	Hong Kong	Semiconductor sales	100.00	100.00
SK hynix U.K. Ltd.	U.K.	Semiconductor sales	100.00	100.00
SK hynix Semiconductor Taiwan Inc.	Taiwan	Semiconductor sales	100.00	100.00
SK hynix Japan Inc.	Japan	Semiconductor sales	100.00	100.00
SK hynix Semiconductor (Shanghai) Co., Ltd.	China	Semiconductor sales	100.00	100.00
SK hynix Semiconductor India Private Ltd. ¹	India	Semiconductor sales	100.00	100.00
SK hynix (Wuxi) Semiconductor Sales Ltd.	China	Semiconductor sales	100.00	100.00
SK hynix Semiconductor (China) Ltd.	China	Semiconductor manufacturing	100.00	100.00
SK hynix Semiconductor (Chongqing) Ltd. ²	China	Semiconductor manufacturing	100.00	100.00
SK hynix Italy S.r.l	Italy	Semiconductor research and development	100.00	100.00
SK hynix memory solutions America Inc.	U.S.A.	Semiconductor research and development	100.00	100.00
SK hynix memory solutions Taiwan Ltd.	Taiwan	Semiconductor research and development	100.00	100.00
SK hynix memory solutions Eastern Europe LLC.	Belarus	Semiconductor research and development	100.00	100.00
SK APTECH Ltd.	Hong Kong	Overseas investment	100.00	100.00
SK hynix Ventures Hong Kong Limited	Hong Kong	Overseas investment	100.00	100.00
SK hynix (Wuxi) Investment Ltd. ³	China	Overseas investment	100.00	100.00
SK hynix (Wuxi) Industry Development Ltd. ⁴	China	Foreign hospital construction	100.00	100.00
SK hynix Happiness (Wuxi) Hospital Management Ltd. ⁴	China	Foreign hospital operation	100.00	100.00
SK hynix system ic (Wuxi) Co., Ltd. ⁵	China	Overseas Semiconductor manufacturing and sales	100.00	100.00
SK hynix cleaning (Wuxi) Ltd. ⁴	China	Building maintenance	100.00	100.00
SUZHOU HAPPYNARAE Co., Ltd. ⁶	China	Overseas industrial material supply	100.00	100.00
CHONGQING HAPPYNARAE Co., Ltd. ⁷	China	Overseas industrial material supply	100.00	100.00
SkyHigh Memory Limited ⁸	Hong Kong	Overseas manufacturing and sales of semiconductor	60.00	-
SK hynix (Wuxi) Education Technology Co., Ltd. ⁹	China	Education	100.00	-
MMT (Money Market Trust)	Korea	Money Market Trust	100.00	100.00

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
June 30, 2019 and 2018
(Unaudited)

1. Reporting Entity, Continued

(2) Details of the Group's consolidated subsidiaries as of June 30, 2019 and December 31, 2018 are as follows, Continued:

¹ Subsidiary of SK hynix Asia Pte. Ltd.

² Subsidiary of SK APTECH Ltd.

³ Subsidiary of SK hynix Semiconductor (China) Ltd.

⁴ Subsidiary of SK hynix (Wuxi) Investment Ltd.

⁵ Subsidiary of SK hynix system ic Inc.

⁶ Subsidiary of HAPPYNARAE Co., Ltd.

⁷ Subsidiary of SUZHOU HAPPYNARAE Co., Ltd.

⁸ SkyHigh Memory Limited was established during the six-month period ended June 30, 2019 and is a subsidiary of SK hynix system ic Inc.

⁹ SK hynix (Wuxi) Education Technology Co., Ltd. was established during the six-month period ended June 30, 2019 and is a subsidiary of SK hynix (Wuxi) Investment Ltd.

(3) Changes in the consolidated subsidiaries during the the six-month period ended June 30, 2019 are follows:

	Company	Description
Newly included	SkyHigh Memory Limited	Newly established
Newly included	SK hynix (Wuxi) Education Technology Co., Ltd.	Newly established

(4) Major subsidiaries' summarized separate statements of financial position as of June 30, 2019 and December 31, 2018 are as follows:

(In millions of won)

	2019			2018		
	Assets	Liabilities	Equity	Assets	Liabilities	Equity
SK hynix system ic Inc.	₩ 617,303	131,031	486,272	550,323	92,989	457,334
SK hynix America Inc.	2,250,135	1,924,624	325,511	3,013,637	2,707,732	305,905
SK hynix Deutschland GmbH	58,585	14,292	44,293	99,641	60,244	39,397
SK hynix Asia Pte. Ltd.	497,458	406,688	90,770	933,268	848,990	84,278
SK hynix Semiconductor Hong Kong Ltd.	257,490	110,020	147,470	347,109	204,622	142,487
SK hynix U.K. Ltd.	293,389	266,820	26,569	536,208	518,036	18,172
SK hynix Semiconductor Taiwan Inc.	196,840	176,894	19,946	449,054	427,498	21,556
SK hynix Japan Inc.	446,220	378,020	68,200	837,362	770,819	66,543
SK hynix Semiconductor (Shanghai) Co., Ltd.	118,159	26,013	92,146	1,199,602	1,116,282	83,320
SK hynix (Wuxi) Semiconductor Sales Ltd.	1,741,138	1,647,525	93,613	535,819	492,934	42,885
SK hynix Semiconductor (China) Ltd.	8,450,738	3,717,780	4,732,958	6,390,490	2,158,715	4,231,775
SK hynix Semiconductor (Chongqing) Ltd.	704,184	189,524	514,660	540,284	124,451	415,833

SK HYNIX, INC. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2019 and 2018

(Unaudited)

1. Reporting Entity, Continued

(5) Major subsidiaries' summarized separate statements of comprehensive income (loss) for the six-month periods ended June 30, 2019 and 2018 are as follows:

(In millions of won)

	2019			2018		
	Revenue	Profit (loss)	Total comprehensive income (loss)	Revenue	Profit	Total comprehensive income
SK hynix system ic Inc. ₩	314,533	28,962	28,938	261,047	40,776	40,776
SK hynix America Inc.	3,986,994	8,933	8,933	6,478,311	2,452	2,452
SK hynix Deutschland GmbH	125,366	3,729	3,729	274,095	1,303	1,303
SK hynix Asia Pte. Ltd.	846,356	3,559	3,559	1,644,741	1,973	1,973
SK hynix Semiconductor Hong Kong Ltd.	828,644	(244)	(244)	2,243,478	6,406	6,406
SK hynix U.K. Ltd.	515,719	7,695	7,695	629,196	843	843
SK hynix Semiconductor Taiwan Inc.	676,328	213	213	1,586,328	3,691	3,691
SK hynix Japan Inc.	341,477	(2,227)	(2,227)	584,773	1,341	1,341
SK hynix Semiconductor (Shanghai) Co., Ltd.	123,331	6,124	6,124	3,719,053	35,501	35,501
SK hynix (Wuxi) Semiconductor Sales Ltd.	5,355,115	49,493	49,493	1,436,806	10,363	10,363
SK hynix Semiconductor (China) Ltd.	1,508,963	18,433	18,433	1,204,212	78,631	78,631
SK hynix Semiconductor (Chongqing) Ltd.	195,188	16,983	16,983	200,022	10,006	10,006

(6) There are no significant non-controlling interests to the Group as of June 30, 2019 and December 31, 2018.

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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, 2018. These condensed consolidated interim financial statements do not include all of the disclosures required for full annual financial statements.

The Group applied K-IFRS No. 1116 'Leases' from 2019. Changes to significant accounting policies are described in Note 3.

(2) Use of estimates and judgments

(a) Critical judgments, assumptions and estimation uncertainties

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 if estimates and assumptions that are based on management's best judgment at the end of the interim reporting period differ from the actual environment.

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, 2018, except for new significant judgements and key sources of estimation uncertainty related to the adoption of K-IFRS No. 1116 *'Leases'*, which are described in Note 3.

(b) Fair value measurement

The Group establishes fair value measurement policies and procedures as its accounting policies and disclosures require fair value measurements for various financial and non-financial assets and liabilities. Such policies and procedures are executed by the valuation department, which is responsible for the review of significant fair value measurements including fair values classified as level 3 in the fair value hierarchy.

The valuation department regularly reviews unobservable significant inputs and valuation adjustments. If third party information such as prices available from an exchange, dealer, broker, industry group, pricing service or regulatory agency is used for fair value measurements, the valuation department reviews whether the valuation based on third party information includes classifications by levels within the fair value hierarchy and meets the requirements for the relevant standards.

The Group uses the best observable inputs in market when measuring fair values of assets or liabilities. Fair values are classified within the fair value hierarchy based on inputs used in valuation methods 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)

If various inputs used to measure fair value of assets or liabilities fall into different levels of the fair value hierarchy, the Group classifies the assets and liabilities at the lowest level of inputs among the fair value hierarchy which is significant to the entire measured value. The Group recognizes transfers between levels at the end of the reporting period of which such transfers occurred.

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3. Significant Accounting Policies

Except as described below, the accounting policies applied in these condensed consolidated interim financial statements are the same as those applied in the last annual financial statements. The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as of and for the year ending December 31, 2019.

The Group initially adopted K-IFRS No. 1116, '*Leases*' from January 1, 2019. A number of other new standards are effective from January 1, 2019, but they do not have a significant impact on the Group's condensed consolidated interim financial statements.

K-IFRS No. 1116 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognized right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

The Group recognized the cumulative effect of the initial application of K-IFRS No. 1116 in right-of-use assets and lease liabilities as of January 1, 2019 (the date of initial application). Accordingly, the comparative information presented for 2018 has not been restated - i.e. it is presented, as previously reported, under K-IFRS No. 1017 and related interpretations. Details of changes to the accounting policies are disclosed below.

(1) Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under K-IFRS Interpretation No. 2104, '*Determining Whether an Arrangement contains a Lease*'. The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under K-IFRS No. 1116, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for certain agreements in which it is a lessee, the Group has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

(2) As a lessee

The Group leases many assets, including production equipment. As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under K-IFRS No. 1116, the Group recognizes right-of-use assets and lease liabilities for most leases on the condensed consolidated statements of financial position.

However, as permitted in K-IFRS No. 1116, the Group has elected not to recognize right-of-use assets and lease liabilities for certain leases of low-value assets and short-term leases. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Group separately presents right-of-use assets that do not meet the definition of investment property in the statement of financial position. The carrying amounts of right-of-use assets are as below.

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3. Significant Accounting Policies, Continued

(2) As a lessee, Continued

(In millions of won)

		Properties	Structures	Vehicles	Machinery	Other property, plant and equipment	Total
Balance at							
January 1, 2019	₩	26,599	867,864	279,952	10,674	3,215	1,188,304
Balance at							
June 30, 2019	₩	32,268	851,833	200,007	14,708	1,614	1,100,430

(i) Significant Accounting Policies

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost and subsequently measured at cost less any accumulated depreciation and impairment losses, adjusted for certain remeasurement of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. The Group generally uses its incremental borrowing rate as a discount rate.

The lease liability is subsequently increased by the interest expense on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

(ii) Transition

Previously, the Group classified certain lease contracts for equipments and others as operating leases under K-IFRS No. 1017.

At transition, for leases classified as operating leases under K-IFRS No. 1017, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as of January 1, 2019. Right-of-use assets are measured at:

- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments

The Group used the following practical expedients when applying K-IFRS No. 1116 to leases previously classified as operating leases under K-IFRS No. 1017.

- Excluded initial direct costs from measuring the right-of-use assets at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

The Group leases a number of structures. Certain items were classified as finance leases under K-IFRS No. 1017. For these finance leases, the carrying amount of the right-of-use assets and the lease liability at January 1, 2019 were determined at the carrying amount of the lease asset and lease liability under K-IFRS No. 1017 immediately before that date.

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3. Significant Accounting Policies, Continued

(3) As a lessor

The Group leases out its investment property. The Group has classified these leases as operating leases. The accounting policies applicable to the Group as a lessor are not different from those under K-IFRS No. 1017.

The Group is not required to make any adjustments on transition to K-IFRS No. 1116 for leases in which it acts as a lessor. However, the Group has applied K-IFRS No. 1115, '*Revenue from Contracts with Customers*' to allocate consideration in the contract to each lease and non-lease component.

(4) Impacts on financial statements

(i) Impacts on transition

On transition to K-IFRS No. 1116, the Group recognized additional right-of-use assets and lease liabilities. The impact on transition is summarized as follows:

(In millions of won)

	January 1, 2019
Right-of-use assets	₩ 1,188,304
Property, plant and equipment	(73,069)
Lease liabilities	1,192,096
Borrowings	(68,158)
Other current liabilities	(8,703)

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted average incremental borrowing rate is 2.22%.

(In millions of won)

	Amount
Operating lease commitment at January 1, 2019	₩ 1,291,372
Discounted using the incremental borrowing rate at January 1, 2019	1,128,364
Finance lease liabilities recognized as of December 31, 2018	68,158
- Recognition exemption for leases of low-value assets	(835)
- Recognition exemption for leases of short-term leases	(3,591)
Lease liabilities recognized at January 1, 2019	₩ <u>1,192,096</u>

(ii) Impacts for the period

As a result of initially applying K-IFRS No. 1116, in relation to the leases that were previously classified as operating leases, the Group recognized ₩1,030,407 million of right-of-use assets (including investment property) and ₩1,057,345 million of lease liabilities as of June 30, 2019.

Also in relation to those leases under K-IFRS No. 1116, the Group has recognized depreciation and interest expense, instead of operating lease expense. During the six-month period ended June 30, 2019, the Group recognized ₩130,101 million of depreciation charges and ₩11,710 million of interest expense from these leases.

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4. Geographic and Customer Information

The Group has a single reportable segment that is engaged in the manufacture and sale of semiconductor products. The management of the Group reviews the operation result of the semiconductor business for reporting information used and reviewed when establishing the Group's business strategy.

- (1) The Group's non-current assets (excluding financial assets, loans and other receivables, equity-accounted investees and deferred tax assets) information by region based on the location of subsidiaries as of June 30, 2019 and December 31, 2018 are as follows:

(In millions of won)

	2019	2018
Korea	₩ 34,555,491	32,768,811
China	7,761,545	5,100,869
Taiwan	8,633	6,309
Asia (other than China and Taiwan)	14,783	1,401
U.S.A.	389,922	376,307
Europe	12,119	9,908
	<u>₩ 42,742,493</u>	<u>38,263,605</u>

- (2) Revenues from customers A and B that each constitutes more than 10% of the Group's consolidated revenue for the six-month period ended June 30, 2019 amount to ₩2,632,931 million (2018: ₩2,264,477 million) and ₩1,652,731 million (2018: ₩2,393,419 million), respectively.

SK HYNIX, INC. and Subsidiaries

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5. Categories of Financial Instruments

(1) Categories of financial assets as of June 30, 2019 and December 31, 2018 are as follows:

(In millions of won)

2019			
	Financial assets at fair value through profit or loss	Financial assets at amortized cost	Total
Cash and cash equivalents	₩ -	1,128,775	1,128,775
Short-term financial instruments	-	410,850	410,850
Short-term investment assets	1,570,090	-	1,570,090
Trade receivables	-	4,802,736	4,802,736
Loans and other receivables	-	122,764	122,764
Other financial assets	-	937	937
Long-term investment assets	4,618,125	-	4,618,125
	₩ 6,188,215	6,466,062	12,654,277

(In millions of won)

2018			
	Financial assets at fair value through profit or loss	Financial assets at amortized cost	Total
Cash and cash equivalents	₩ -	2,349,319	2,349,319
Short-term financial instruments	-	523,579	523,579
Short-term investment assets	5,496,452	-	5,496,452
Trade receivables	-	6,319,994	6,319,994
Loans and other receivables	-	86,906	86,906
Other financial assets	-	310	310
Long-term investment assets	4,325,550	-	4,325,550
	₩ 9,822,002	9,280,108	19,102,110

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5. Categories of Financial Instruments, Continued

(2) Categories of financial liabilities as of June 30, 2019 and December 31, 2018 are as follows:

(In millions of won)

2019			
	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Total
Trade payables	₩ -	1,036,169	1,036,169
Other payables	2,138	2,207,442	2,209,580
Other non-trade payables ¹	-	1,239,444	1,239,444
Borrowings	-	8,747,219	8,747,219
Lease liabilities	-	1,121,325	1,121,325
	₩ 2,138	14,351,599	14,353,737

(In millions of won)

2018	
	Financial liabilities measured at amortized cost
Trade payables	₩ 1,096,380
Other payables	3,681,933
Other non-trade payables ¹	1,894,751
Borrowings ²	5,281,937
	₩ 11,955,001

¹ Details of other non-trade payables as of June 30, 2019 and December 31, 2018 are as follows:

(In millions of won)

	2019	2018
Current		
Accrued expenses	₩ 1,221,314	1,879,520
Non-current		
Long-term accrued expenses	4,064	1,096
Rent deposit payables	14,066	14,135
	18,130	15,231
	₩ 1,239,444	1,894,751

² As of December 31, 2018, borrowings include finance lease liabilities amounting to ₩68,157 million in accordance with K-IFRS No. 1017. Meanwhile, as a result of the transition to K-IFRS No. 1116, lease liabilities are presented separately from borrowings in the consolidated statement of financial position as of June 30, 2019.

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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 and risk management department for the six-month period ended June 30, 2019.

(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 June 30, 2019 are as follows:

(In millions of won and millions of foreign currencies)

	Assets		Liabilities	
	Foreign currencies	Korean won equivalent	Foreign currencies	Korean won equivalent
USD	7,000	₩ 8,097,397	7,042	₩ 8,145,768
EUR	12	16,055	54	71,612
JPY	655	7,030	151,909	1,630,520

As of June 30, 2019, 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)

	If increased by 10%	If decreased by 10%
USD	₩ (4,837)	4,837
EUR	(5,556)	5,556
JPY	(162,349)	162,349

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6. Financial Risk Management, Continued

(1) Financial risk management, Continued

(a) Market risk, Continued

(ii) 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.

As of June 30, 2019, 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 six-month period would have been ₩25,067 million lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings and interest income on floating rate financial assets.

(iii) Price risk

The Group invests in equity and debt securities resulted from its business needs and the purpose of liquidity management. The Group's equity and debt securities are exposed to price risk as of June 30, 2019.

(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 June 30, 2019 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; short-term and long-term investment assets ; and 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 June 30, 2019 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 significant 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, 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 June 30, 2019 and December 31, 2018 are as follows:

(In millions of won)

	2019	2018
Total liabilities (A)	₩ 15,321,477	16,806,004
Total equity (B)	47,710,787	46,852,331
Cash and cash equivalents, short-term investment assets and short-term financial instruments (C)	3,109,715	8,369,350
Total borrowings (D) ¹	8,747,219	5,281,937
Debt-to-equity ratio (A/B)	32.11%	35.87%
Net borrowing ratio (D-C)/B ²	11.82%	-

¹ As of December 31, 2018, borrowings include finance lease liabilities amounting to ₩68,157 million in accordance with K-IFRS No. 1017. Meanwhile, as a result of the transition to K-IFRS No. 1116, lease liabilities are presented separately from borrowings in the consolidated statement of financial position as of June 30, 2019.

² Net borrowing ratio as of December 31, 2018 is not presented as the ratio was negative.

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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 June 30, 2019 and December 31, 2018:

(In millions of won)

		2019			
	Carrying amounts	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Short-term investment assets	₩ 1,570,090	-	1,570,090	-	1,570,090
Long-term investment assets	4,618,125	-	-	4,618,125	4,618,125
	6,188,215	-	1,570,090	4,618,125	6,188,215
Financial assets not measured at fair value					
Cash and cash equivalents ¹	1,128,775	-	-	-	-
Short-term financial instruments ¹	410,850	-	-	-	-
Trade receivables ¹	4,802,736	-	-	-	-
Loans and other receivables ¹	122,764	-	-	-	-
Other financial assets ¹	937	-	-	-	-
	6,466,062	-	-	-	-
Financial liabilities measured at fair value					
Other payables	2,138	-	-	2,138	2,138
Financial liabilities not measured at fair value					
Trade payables ¹	1,036,169	-	-	-	-
Other payables ¹	2,207,442	-	-	-	-
Other non-trade payables ¹	1,239,444	-	-	-	-
Borrowings	8,747,219	-	8,794,877	-	8,794,877
Lease liabilities	1,121,325	-	-	-	-
	₩ 14,351,599	-	8,794,877	-	8,794,877

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6. Financial Risk Management, Continued

(3) Fair value, Continued

(In millions of won)

		2018			
	Carrying amounts	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Short-term investment assets	₩ 5,496,452	-	5,496,452	-	5,496,452
Long-term investment assets	4,325,550	-	-	4,325,550	4,325,550
	9,822,002	-	5,496,452	4,325,550	9,822,002
Financial assets not measured at fair value					
Cash and cash equivalents ¹	2,349,319	-	-	-	-
Short-term financial instruments ¹	523,579	-	-	-	-
Trade receivables ¹	6,319,994	-	-	-	-
Loans and other receivables ¹	86,906	-	-	-	-
Other financial assets ¹	310	-	-	-	-
	9,280,108	-	-	-	-
Financial liabilities not measured at fair value					
Trade payables ¹	1,096,380	-	-	-	-
Other payables ¹	3,681,933	-	-	-	-
Other non-trade payables ¹	1,894,751	-	-	-	-
Borrowings ²	5,281,937	-	5,300,120	-	5,300,120
	₩ 11,955,001	-	5,300,120	-	5,300,120

¹ Do not include fair values of financial assets and liabilities of which fair values have not been measured as carrying amounts are considered to be a reasonable approximation of fair values.

² As of December 31, 2018, borrowings include finance lease liabilities in accordance with K-IFRS No.1017.

(b) The valuation techniques used to measure financial instruments with fair value level 2 and fair value level 3 are the same as those applied by the Group in its consolidated financial statements as of and for the year ended December 31, 2018.

(c) There was no transfer between fair value hierarchy levels for the six-month period ended June 30, 2019. The movements in financial assets and financial liabilities classified as level 3 fair value measurements during the six-month period ended June 30, 2019 are as follows:

(In millions of won)

	Beginning Balance	Acquisition	Disposal	Foreign exchange difference	Loss on valuation	Ending Balance
Financial assets						
Long-term investment assets	₩ 4,325,550	40,610	(480)	252,467	(22)	4,618,125
Financial liabilities						
Other payables	₩ -	3,208	-	-	(1,070)	2,138

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7. Restricted Financial Instruments

Details of restricted financial instruments as of June 30, 2019 and December 31, 2018 are as follows:

(In millions of won)

	2019	2018	Description
Short-term financial instruments	₩ 227,500	227,500	Restricted for supporting small businesses
	6,440	6,079	Pledged for consumption tax
	<u>233,940</u>	<u>233,579</u>	
Other financial assets	11	11	Bank overdraft guarantee deposit
	273	265	Others
	<u>284</u>	<u>276</u>	
	<u>₩ 234,224</u>	<u>233,855</u>	

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8. Trade Receivables and Loans and Other Receivables

(1) Details of loans and other receivables as of June 30, 2019 and December 31, 2018 are as follows:

(In millions of won)

	2019	2018
Current		
Other receivables	₩ 12,550	8,465
Accrued income	1,877	3,899
Short-term loans	5,521	4,807
Short-term guarantee and other deposits	1,796	1,221
	<u>21,744</u>	<u>18,392</u>
Non-current		
Long-term other receivables	2	54
Long-term loans	31,766	28,125
Guarantee deposits	69,024	40,117
Others	228	218
	<u>101,020</u>	<u>68,514</u>
	<u>₩ 122,764</u>	<u>86,906</u>

(2) Trade receivables and loans and other receivables, net of provision for impairment, as of June 30, 2019 and December 31, 2018 are as follows:

(In millions of won)

	2019	
	Gross amount	Provision for impairment
Trade receivables	₩ 4,802,785	(49)
Current loans and other receivables	23,025	(1,281)
Non-current loans and other receivables	102,172	(1,152)
	<u>₩ 4,927,982</u>	<u>(2,482)</u>
		<u>4,925,500</u>

(In millions of won)

	2018	
	Gross amount	Provision for impairment
Trade receivables	₩ 6,320,042	(48)
Current loans and other receivables	19,715	(1,323)
Non-current loans and other receivables	69,631	(1,117)
	<u>₩ 6,409,388</u>	<u>(2,488)</u>
		<u>6,406,900</u>

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8. Trade Receivables and Loans and Other Receivables, Continued

(3) Details of provision for impairment

Changes in the provision for impairment of trade receivables for the six-month periods ended June 30, 2019 and 2018 are as follows:

(In millions of won)

	2019	2018
Beginning balance	₩ 48	46
Foreign exchange difference	1	1
Ending balance	₩ 49	47

Changes in the provision for impairment of current loans and other receivables for the six-month periods ended June 30, 2019 and 2018 are as follows:

(In millions of won)

	2019	2018
Beginning balance	₩ 1,323	1,327
Reversal	(44)	(2)
Foreign exchange difference	2	2
Ending balance	₩ 1,281	1,327

Changes in the provision for impairment of non-current loans and other receivables for the six-month periods ended June 30, 2019 and 2018 are as follows:

(In millions of won)

	2019	2018
Beginning balance	₩ 1,117	1,087
Write-off	-	(985)
Foreign exchange difference	35	-
Ending balance	₩ 1,152	102

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9. Inventories

Details of inventories as of June 30, 2019 and December 31, 2018 are as follows:

(In millions of won)

		2019		
		Acquisition cost	Inventory valuation allowance	Carrying amount
Merchandise	₩	2,294	(11)	2,283
Finished goods		2,634,180	(413,289)	2,220,891
Work-in-process		2,568,992	(359,348)	2,209,644
Raw materials		587,139	(8,466)	578,673
Supplies		533,234	(22,142)	511,092
Goods in transit		66,122	-	66,122
	₩	6,391,961	(803,256)	5,588,705

(In millions of won)

		2018		
		Acquisition cost	Inventory valuation allowance	Carrying amount
Merchandise	₩	1,648	(14)	1,634
Finished goods		1,532,188	(127,749)	1,404,439
Work-in-process		2,327,178	(208,197)	2,118,981
Raw materials		486,436	(24,894)	461,542
Supplies		433,017	(17,138)	415,879
Goods in transit		20,258	-	20,258
	₩	4,800,725	(377,992)	4,422,733

10. Other Current and Non-current Assets

Details of other current and non-current assets as of June 30, 2019 and December 31, 2018 are as follows:

(In millions of won)

		2019	2018
Current			
Advance payments	₩	98,307	113,030
Prepaid expenses		265,255	260,064
Value added tax refundable		315,270	343,821
Contract assets		37,826	24,294
Others		676	216
		717,334	741,425
Non-current			
Long-term advance payments		69,659	96,817
Long-term prepaid expenses		552,084	528,837
		621,743	625,654
	₩	1,339,077	1,367,079

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11. Investments in Associates and Joint Ventures

(1) Details of investments in associates and joint ventures as of June 30, 2019 and December 31, 2018 are as follows:

(In millions of won)

Type	Investee	Location	Business	Owner-ship(%)	2019		2018	
					Net asset value	Carrying amount	Owner-ship(%)	Carrying amount
Associate	Stratio, Inc. ¹	U.S.A	Development and manufacturing semiconductor	9.12	₩ 77	2,077	9.12	₩ 2,079
	SK China Company Limited ¹	China	Consulting and investment	11.87	212,233	264,584	11.87	246,052
	Gemini Partners Pte. Ltd.	Singapore	Consulting	20.00	2,592	2,592	20.00	2,601
	TCL Fund ¹	China	Investment	11.06	3,561	3,561	11.06	3,464
	SK South East Asia Investment Pte. Ltd.	Singapore	Consulting and investment	20.00	232,239	232,239	20.00	111,810
	Hushan Xijiu (Chengdu) Venture Investment Center(Smartsources)	China	Venture Capital	39.06	5,796	5,746	46.30	3,241
	HITECH Semiconductor (Wuxi) Co., Ltd.	China	Manufacturing semiconductor parts	45.00	106,074	106,074	45.00	109,708
Joint venture	Hystars Semiconductor (Wuxi) Co., Ltd.	China	Foundry factory construction	50.10	84,377	85,796	50.10	83,239
					₩ 646,949	702,669	₩ 562,194	

¹ The Group is able to exercise significant influence through its right to appoint a director to the board of directors of each investee. Accordingly, the investments in these investees have been classified as associates.

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11. Investments in Associates and Joint Ventures, Continued

(2) Changes in investments in associates and joint ventures for the six-month periods ended June 30, 2019 and 2018 are as follows:

(In millions of won)

(in millions of won)

		2019					
		Beginning balance	Acquisition	Share of profit (loss)	Other equity movement	Dividend	Ending balance
Stratio, Inc.	₩	2,079	-	(5)	3	-	2,077
SK China Company Limited		246,052	-	2,660	15,872	-	264,584
Gemini Partners Pte. Ltd.		2,601	-	(117)	108	-	2,592
TCL Fund		3,464	-	(7)	113	(9)	3,561
SK South East Asia Investment Pte. Ltd.		111,810	113,470	543	6,416	-	232,239
Hushan Xinju (Chengdu) Venture Investment Center(Smartsource)		3,241	2,531	(82)	56	-	5,746
HITECH Semiconductor (Wuxi) Co., Ltd.		109,708	-	7,182	3,643	(14,459)	106,074
Hystars Semiconductor (Wuxi) Co., Ltd.		83,239	-	(121)	2,678	-	85,796
	₩	562,194	116,001	10,053	28,889	(14,468)	702,669

(In millions of won)

(In millions of won)

	2018					
	Beginning balance	Acquisition	Share of profit (loss)	Other equity movement	Dividend	Ending balance
Stratio, Inc.	₩ 2,105	-	(9)	4	-	2,100
SK China Company Limited	244,912	-	1,750	9,045	-	255,707
Gemini Partners Pte. Ltd.	4,003	-	(49)	54	-	4,008
TCL Fund	2,634	430	(7)	94	-	3,151
HITECH Semiconductor (Wuxi) Co., Ltd.	106,210	-	6,787	4,693	(13,120)	104,570
	₩ 359,864	430	8,472	13,890	(13,120)	369,536

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11. Investments in Associates and Joint Ventures, Continued

(3) Associates and joint ventures' summarized statements of financial position as of June 30, 2019 and December 31, 2018 are as follows:

(In millions of won)

	2019			
	Current assets	Non-current assets	Current liabilities	Non-current liabilities
Stratio, Inc.	₩ 226	778	163	-
SK China Company Limited	679,083	1,324,288	56,558	158,249
Gemini Partners Pte. Ltd.	5,557	7,476	69	-
TCL Fund	35,525	-	3,302	-
SK South East Asia Investment Pte. Ltd.	614,009	547,272	89	-
Hushan Xinju (Chengdu) Venture Investment Center(Smartsource)	6,348	8,493	-	-
HITECH Semiconductor (Wuxi) Co., Ltd.	268,799	418,560	109,668	341,972
Hystars Semiconductor (Wuxi) Co., Ltd.	175,647	118,536	55,171	70,594

(In millions of won)

	2018			
	Current assets	Non-current assets	Current liabilities	Non-current liabilities
Stratio, Inc.	₩ 403	617	159	-
SK China Company Limited	646,779	1,148,281	65,037	97,633
Gemini Partners Pte. Ltd.	5,357	7,649	-	-
TCL Fund	915	33,596	3,188	-
SK South East Asia Investment Pte. Ltd.	559,050	-	-	-
Hushan Xinju (Chengdu) Venture Investment Center(Smartsource)	6,187	814	-	-
HITECH Semiconductor (Wuxi) Co., Ltd.	211,273	376,266	114,756	228,987
Hystars Semiconductor (Wuxi) Co., Ltd.	145,509	19,295	1,490	-

(4) Associates and a joint ventures' summarized statements of comprehensive income (loss) for the six-month periods ended June 30, 2019 and 2018 are as follows:

(In millions of won)

	2019		2018	
	Revenue	Profit (loss) for the period	Revenue	Profit (loss) for the period
Stratio, Inc.	₩ 31	(52)	31	(100)
SK China Company Limited	71,659	22,414	22,831	14,744
Gemini Partners Pte. Ltd.	-	(583)	-	(245)
TCL Fund	-	(63)	-	(59)
SK South East Asia Investment Pte. Ltd.	3,726	2,714	-	-
Hushan Xinju (Chengdu) Venture Investment Center(Smartsource)	-	(188)	-	-
HITECH Semiconductor (Wuxi) Co., Ltd.	330,640	15,959	150,224	15,083
Hystars Semiconductor (Wuxi) Co., Ltd.	-	(241)	-	-

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12. Long-term Investment Assets

Changes in long-term investment assets for the six-month periods ended June 30, 2019 and 2018 are as follows:

(In millions of won)

	2019	2018
Beginning balance	₩ 4,325,550	43,226
Acquisition	40,610	3,932,470
Disposal	(480)	(810)
Foreign exchange difference	252,467	92,615
Valuation	(22)	-
Ending balance	₩ <u>4,618,125</u>	<u>4,067,501</u>

13. Property, Plant and Equipment

(1) Changes in property, plant and equipment for the six-month periods ended June 30, 2019 and 2018 are as follows:

(In millions of won)

	2019	2018
Beginning balance	₩ 34,952,617	24,062,601
Impacts on transition to K-IFRS No. 1116	(73,069)	-
Beginning balance after transition adjustments	<u>34,879,548</u>	<u>24,062,601</u>
Acquisition	7,006,594	7,969,804
Disposal and retirement	(35,058)	(57,125)
Depreciation	(3,567,500)	(2,763,821)
Foreign exchange difference	161,774	99,838
Ending balance	₩ <u>38,445,358</u>	<u>29,311,297</u>

(2) Certain property, plant and equipment are pledged as collaterals for borrowings of the Group as of June 30, 2019 (Note 33-(5)).

SK HYNIX, INC. and Subsidiaries
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14. Leases

(1) Changes in right-of-use assets for the six-month period ended June 30, 2019 are as follows:

(In millions of won)

	2019
Beginning balance	₩ -
Impacts on transition to K-IFRS No. 1116	1,188,304
Beginning balance after transition adjustments	1,188,304
Increase	31,489
Depreciation	(133,147)
Foreign exchange difference	13,784
Ending balance	₩ 1,100,430

(2) Changes in lease liabilities for the six-month period ended June 30, 2019 are as follows:

(In millions of won)

	2019
Beginning balance	₩ -
Impacts on transition to K-IFRS No. 1116	1,192,096
Beginning balance after transition adjustments	1,192,096
Increase	31,474
Interest	12,918
Payments	(137,332)
Foreign exchange difference	22,169
Ending balance	₩ 1,121,325

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15. Intangible Assets

(1) Changes in intangible assets for the six-month periods ended June 30, 2019 and 2018 are as follows:

(In millions of won)

	2019	2018
Beginning balance	₩ 2,678,770	2,247,290
Acquisition	329,897	414,471
Business combination	3,208	-
Disposal and retirement	(2,560)	(5,112)
Amortization	(448,013)	(259,590)
Impairment	(70)	(3,463)
Foreign exchange difference and others	12,361	14,695
Ending balance	₩ 2,573,593	2,408,291

(2) Among costs associated with development activities, ₩167,289 million that met capitalization criteria were capitalized as development cost for the six-month period ended June 30, 2019 (2018: ₩261,894 million). In addition, costs associated with research activities and other development expenditures that did not meet the criteria and amounted to ₩1,364,196 million were recognized as expenses for the six-month period ended June 30, 2019 (2018: ₩1,031,360 million).

16. Investment Property

(1) Changes in investment property during the six-month periods ended June 30, 2019 and 2018 are as follows:

(In millions of won)

	2019	2018
Beginning balance	₩ 1,400	2,468
Depreciation	(31)	(53)
Ending balance	₩ 1,369	2,415

(2) The depreciation expense of ₩31 million was charged to cost of sales for the six-month period ended June 30, 2019 (2018: ₩53 million).

(3) Rental income from investment property during the six-month period ended June 30, 2019 was ₩119 million (2018: ₩189 million).

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17. Borrowings

Details of borrowings as of June 30, 2019 and December 31, 2018 are as follows:

(In millions of won)

		2019	2018¹
Current			
Short-term borrowings	₩	1,284,200	585,788
Current portion of long-term borrowings ¹		794,121	578,665
Current portion of debentures		-	449,850
		<u>2,078,321</u>	<u>1,614,303</u>
Non-current			
Long-term borrowings ¹		4,186,016	2,161,566
Debentures		2,482,882	1,506,068
		<u>6,668,898</u>	<u>3,667,634</u>
	₩	<u><u>8,747,219</u></u>	<u><u>5,281,937</u></u>

¹ As of December 31, 2018, current portion of long-term borrowings and non-current long-term borrowings include finance lease liabilities amounting to ₩10,563 million and ₩57,594 million, respectively, in accordance with K-IFRS No. 1017. Meanwhile, as a result of the transition to K-IFRS No. 1116, the Group presents lease liabilities separately from borrowings in the consolidated statement of financial position as of June 30, 2019.

18. Other Current and Non-current Liabilities

Details of other current and non-current liabilities as of June 30, 2019 and December 31, 2018 are as follows:

(In millions of won)

		2019	2018
Current			
Advance receipts	₩	5,737	8,973
Unearned income		269	186
Withholdings		51,199	49,770
Deposits received		1,021	1,036
Contract liabilities		83,236	80,373
Others		4,782	7,500
		<u>146,244</u>	<u>147,838</u>
Non-current			
Other long-term employee benefits		77,543	74,403
Long-term advance receipts		4,900	4,900
		<u>82,443</u>	<u>79,303</u>
	₩	<u><u>228,687</u></u>	<u><u>227,141</u></u>

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19. Provisions

(1) Changes in provisions for the six-month periods ended June 30, 2019 and 2018 are as follows:

(In millions of won)

		2019			
		Beginning Balance	Increase	Utilization	Ending Balance
Warranty	₩	3,992	501	(1,124)	3,369
Legal claims		5,881	-	(5,881)	-
Emission allowances		46,335	-	-	37,603
	₩	56,208	501	(7,005)	40,972

(In millions of won)

		2018			
		Beginning Balance	Increase	Utilization /Transfer	Ending Balance
Warranty	₩	3,807	1,712	(1,908)	3,611
Legal claims		9,460	-	(9,460)	-
Emission allowances		37,412	-	-	26,528
	₩	50,679	1,712	(11,368)	30,139

(2) Provisions for warranty

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

(3) 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.

(4) 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.

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20. Defined Benefit Liabilities

(1) Details of defined benefit liabilities as of June 30, 2019 and December 31, 2018 are as follows:

(In millions of won)

	2019	2018
Present value of defined benefit obligations	₩ 1,729,633	1,609,055
Fair value of plan assets	(1,607,129)	(1,608,832)
Net defined benefit liabilities	₩ 122,504	223
Defined benefit liabilities	122,504	5,387
Employee benefit assets ¹	-	(5,164)

¹ The Parent Company and certain subsidiaries' fair value of plan assets in excess of the present value of defined benefit obligations, presented as employee benefit assets, amounted to ₩5,164 million as of December 31, 2018.

(2) Principal actuarial assumptions as of June 30, 2019 and December 31, 2018 are as follows:

	2019 (%)	2018 (%)
Discount rate for defined benefit obligations	1.90 ~ 3.78	2.64 ~ 3.78
Expected rate of salary increase	2.70 ~ 5.83	2.70 ~ 5.83

(3) Changes in defined benefit obligations for the six-month periods ended June 30, 2019 and 2018 are as follows:

(In millions of won)

	2019	2018
Beginning balance	₩ 1,609,055	1,330,559
Current service cost	108,967	84,915
Interest cost	29,820	28,232
Transferred from associates	2,251	1,113
Remeasurements:	240	-
Demographic assumption	77	-
Financial assumption	163	-
Benefits paid	(20,750)	(16,643)
Others	50	40
Ending balance	₩ 1,729,633	1,428,216

(4) Changes in plan assets for the six-month periods ended June 30, 2019 and 2018 are as follows:

(In millions of won)

	2019	2018
Beginning balance	₩ 1,608,832	1,337,848
Interest income	29,816	28,373
Contributions	1,570	91
Transferred from associates	3,173	1,099
Benefits paid	(25,136)	(23,755)
Remeasurements	(11,126)	(14,095)
Ending balance	₩ 1,607,129	1,329,561

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20. Defined Benefit Liabilities, Continued

(5) The amounts recognized in profit or loss for the three and six-month periods ended June 30, 2019 and 2018 are as follows:

(In millions of won)

	2019		2018	
	Three-month period	Six-month period	Three-month period	Six-month period
Current service cost	₩ 54,598	108,967	42,413	84,915
Net interest income	229	4	(72)	(141)
	<u>₩ 54,827</u>	<u>108,971</u>	<u>42,341</u>	<u>84,774</u>

(6) Details of plan assets as of June 30, 2019 and December 31, 2018 are as follows:

(In millions of won)

	2019	2018
Deposits	₩ 1,605,429	1,607,552
Others	1,700	1,280
	<u>₩ 1,607,129</u>	<u>1,608,832</u>

Actual return on plan assets for the six-month periods ended June 30, 2019 and 2018 amounted to ₩18,690 million and ₩14,277 million, respectively.

(7) Contributions to defined contribution plans amounting to ₩198 million (2018: ₩86 million) was recognized as cost of sales for the six-month period ended June 30, 2019.

21. Derivative Financial Instruments

(1) There were no derivative financial instruments as of June 30, 2019 and December 31, 2018.

(2) There were no gains or losses from derivative instruments for the six-month periods ended June 30, 2019 and 2018.

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22. Capital Stock, Capital Surplus and Other Equity

(1) The Parent Company has 9,000,000,000 authorized shares and the face value per share is ₩5,000 as of June 30, 2019. The number of shares issued, common stock, capital surplus and other capital as of June 30, 2019 and December 31, 2018, are as follows:

(In millions of won and thousands of shares)

	2019	2018
Issued shares ¹	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
	<u>4,143,736</u>	<u>4,143,736</u>
Other equity:		
Acquisition cost of treasury shares	(2,508,427)	(2,508,427)
Share options	2,764	1,976
	<u>₩ (2,505,663)</u>	<u>(2,506,451)</u>
Number of treasury shares	44,001	44,001

¹ As of June 30, 2019, the number of listed shares is 728,002 thousand shares, which differs from total issued shares due to stock retirement.

(2) As of June 30, 2019 and December 31, 2018, the number of outstanding shares, which deducted treasury shares held by Parent Company from listed shares, is 684,002 thousand shares, respectively.

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23. Accumulated Other Comprehensive Loss

(1) Details of accumulated other comprehensive loss as of June 30, 2019 and December 31, 2018 are as follows:

(In millions of won)

		2019	2018
Equity-accounted investees – share of other comprehensive income (loss)	₩	10,723	(18,166)
Foreign operations – foreign currency translation differences		(240,785)	(464,653)
	₩	<u>(230,062)</u>	<u>(482,819)</u>

(2) Changes in accumulated other comprehensive income (loss) for the six-month periods ended June 30, 2019 and 2018 are as follows:

(In millions of won)

			2019	
		Beginning	Change	Ending
Equity-accounted investees – share of other comprehensive income (loss)	₩	(18,166)	28,889	10,723
Foreign operations – foreign currency translation differences		(464,653)	223,868	(240,785)
	₩	<u>(482,819)</u>	<u>252,757</u>	<u>(230,062)</u>

(In millions of won)

			2018	
		Beginning	Change	Impacts on transition to K-IFRS No. 1109
Equity-accounted investees – share of other comprehensive income (loss)	₩	(20,442)	13,890	-
Loss on valuation of long-term investment assets		(10,735)	-	10,735
Foreign operations – foreign currency translation differences		(471,087)	211,858	-
	₩	<u>(502,264)</u>	<u>225,748</u>	<u>10,735</u>
				<u>(265,781)</u>

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24. Retained Earnings

Retained earnings as of June 30, 2019 and December 31, 2018 are as follows:

(In millions of won)

	2019	2018
Legal reserve ¹	₩ 281,555	178,954
Discretionary reserve ²	235,506	235,506
Unappropriated retained earnings ³	42,117,507	41,619,141
	₩ <u>42,634,568</u>	<u>42,033,601</u>

¹ The Commercial Code of the Republic of Korea requires the Parent 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.

² Discretionary reserve is the reserve for technology development.

³ Dividends in the amount of ₩1,026,003 million were approved at shareholders' meeting held on March 22, 2019 and paid during the six-month period ended June 30, 2019.

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25. Revenue

(1) Details of revenue for the three and six-month periods ended June 30, 2019 and 2018 are as follows:

(In millions of won)

		2019		2018	
		Three-month period	Six-month period	Three-month period	Six-month period
Sale of goods	₩	6,435,048	13,188,856	10,357,773	19,063,617
Providing services		17,153	36,000	12,734	26,580
	₩	6,452,201	13,224,856	10,370,507	19,090,197

(2) Details of revenue by product and service types for the three and six-month periods ended June 30, 2019 and 2018 are as follows:

(In millions of won)

		2019		2018	
		Three-month period	Six-month period	Three-month period	Six-month period
DRAM	₩	4,804,492	10,157,629	8,321,201	15,201,717
NAND Flash		1,255,088	2,410,404	1,869,713	3,563,552
Others		392,621	656,823	179,593	324,928
	₩	6,452,201	13,224,856	10,370,507	19,090,197

(3) Revenue information by region based on the location of selling entities for the three and six-month periods ended June 30, 2019 and 2018 are as follows:

(In millions of won)

		2019		2018	
		Three-month period	Six-month period	Three-month period	Six-month period
Korea	₩	407,328	616,826	218,088	526,129
China		3,124,349	6,282,417	4,113,386	7,372,141
Taiwan		349,268	677,186	825,063	1,584,131
Asia (other than China and Taiwan)		550,667	1,181,036	1,236,795	2,226,877
U.S.A.		1,770,768	3,868,441	3,511,043	6,506,129
Europe		249,821	598,950	466,132	874,790
	₩	6,452,201	13,224,856	10,370,507	19,090,197

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25. Revenue, Continued

(4) Details of revenue by the timing of revenue recognition during the three and six-month periods ended June 30, 2019 and 2018 are as follows:

(In millions of won)

	2019		2018	
	Three-month period	Six-month period	Three-month period	Six-month period
Performance obligations satisfied at a point in time	₩ 6,435,048	13,188,856	10,357,773	19,063,617
Performance obligations satisfied over time	17,153	36,000	12,734	26,580
	<u>₩ 6,452,201</u>	<u>13,224,856</u>	<u>10,370,507</u>	<u>19,090,197</u>

(5) Revenue recognition policies and performance obligation

Revenue is measured based on the consideration promised in the contract with customers. The Group recognizes revenue when control of goods or services is transferred to the customers.

Revenue recognition policies regarding the nature and timing of performance obligations satisfaction in the contract are as follows:

Sale of goods	Nature of goods or services and timing of performance obligation satisfaction. Revenue is recognized when (or as) goods are transferred to a customer and the customer obtains control of that asset, which is typically upon delivery or shipment depending on the terms of the contract.	Revenue recognition under K-IFRS No. 1115. Revenue is measured at the amount of consideration for the sale of goods, reflecting the expected amount of return estimated through historical information. The Group's right to recover products from customers on settling the refund liability is recognized as asset and Refund liability is recognized as well.
	When the good is defective, the customer has granted the right to return the defective goods in exchange for a functioning product or cash.	Settling a refund liability shall initially be measured by reference to the former carrying amount of the product less any expected costs to recover those products. Refund liability is included in other current liabilities (Note 18) and right to recover products from customers on settling the refund liability is included in other current assets (Note 10). The Group updates the measurement of the asset arising from changes in expectations about products to be returned at the end of each reporting period.

SK HYNIX, INC. and Subsidiaries

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26. Selling and Administrative Expenses

Selling and administrative expenses for the three and six-month periods ended June 30, 2019 and 2018 are as follows:

(In millions of won)

	2019		2018	
	Three-month period	Six-month period	Three- month period	Six-month period
Salaries	₩ 131,842	279,249	121,178	256,711
Defined benefit plan	11,882	23,334	7,908	15,510
Employee benefits	34,924	69,535	27,381	52,693
Commission	109,153	215,484	121,619	178,918
Depreciation	50,210	97,685	29,138	57,887
Amortization	200,818	397,602	109,960	220,922
Freight and custody charge	11,060	19,014	6,655	12,576
Legal cost	11,740	19,579	7,049	10,424
Rental	2,032	3,260	3,373	6,607
Taxes and dues	14,128	30,212	4,421	9,653
Training	10,235	22,107	6,307	13,371
Advertising	20,149	31,567	19,456	29,498
Utilities	2,497	5,921	2,304	5,895
Supplies	23,474	38,665	18,824	31,316
Repair	6,456	11,685	7,156	13,036
Travel and transportation	4,354	8,481	3,485	6,991
Sales promotion	13,807	30,528	16,587	33,462
Others	10,198	24,788	2,574	16,655
	<u>668,959</u>	<u>1,328,696</u>	<u>515,375</u>	<u>972,125</u>
Research and development:				
Expenditure on research and development	788,034	1,531,485	648,320	1,293,254
Development cost capitalized	(77,811)	(167,289)	(129,349)	(261,894)
	<u>710,223</u>	<u>1,364,196</u>	<u>518,971</u>	<u>1,031,360</u>
₩	<u>1,379,182</u>	<u>2,692,892</u>	<u>1,034,346</u>	<u>2,003,485</u>

SK HYNIX, INC. and Subsidiaries

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27. Expenses by Nature

Nature of expenses for the three and six-month periods ended June 30, 2019 and 2018 are as follows:

(In millions of won)

		2019		2018	
		Three-month period	Six-month period	Three-month period	Six-month period
Changes in finished goods and work-in-process	₩	(332,992)	(907,115)	(179,338)	(560,142)
Raw materials and consumables		1,406,163	2,916,933	1,354,606	2,558,826
Labor costs		947,271	1,885,169	781,170	1,624,341
Depreciation and amortization		2,029,791	4,042,903	1,544,550	2,962,076
Royalty		37,832	71,924	37,490	93,034
Commission		512,270	1,002,539	426,867	781,664
Utilities		327,230	651,206	257,543	521,722
Repair		553,809	817,112	230,942	456,229
Outsourcing		283,039	573,865	260,149	500,455
Others		50,158	166,200	82,610	210,737
Total ¹	₩	5,814,571	11,220,736	4,796,589	9,148,942

¹ Total expenses consist of cost of sales and selling and administrative expenses.

28. Finance Income and Expense

Finance income and expense for the three and six-month periods ended June 30, 2019 and 2018 are as follows:

(In millions of won)

	2019		2018	
	Three-month period	Six-month period	Three-month period	Six-month period
Finance income				
Interest income	₩ 6,290	17,596	15,911	43,193
Dividend income	40	82	1,633	1,979
Foreign exchange differences ¹	506,923	827,142	738,246	945,807
Gain on valuation of short-term investment assets	(14,774)	5,963	3,724	4,828
Gain on disposal of short-term investment assets	30,512	36,554	3,706	7,300
Gain on disposal of long-term investment assets	-	-	-	248
Gain on valuation of financial liabilities at fair value through profit or loss	1,070	1,070	-	-
	530,061	888,407	763,220	1,003,355
Finance expense				
Interest expenses	59,382	100,452	17,486	42,377
Foreign exchange differences	417,407	624,179	346,854	635,241
Loss on valuation of long-term investment assets	9	22	-	-
	476,798	724,653	364,340	677,618
Net finance income	₩ 53,263	163,754	398,880	325,737

¹ The foreign exchange differences of long-term investment assets amounting to ₩ 252,467 million are included.

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29. Other Income and Expenses

(1) Other income for the three and six-month periods ended June 30, 2019 and 2018 are as follows:

(In millions of won)

	2019		2018	
	Three-month period	Six-month period	Three-month period	Six-month period
Gain on disposal of property, plant and equipment	₩ 18,749	18,951	7,476	13,244
Others	5,943	30,431	2,692	3,990
	<u>₩ 24,692</u>	<u>49,382</u>	<u>10,168</u>	<u>17,234</u>

(2) Other expenses for the three and six-month periods ended June 30, 2019 and 2018 are as follows:

(In millions of won)

	2019		2018	
	Three-month period	Six-month period	Three-month period	Six-month period
Loss on disposal of property, plant and equipment	₩ 5,939	8,123	50,634	53,517
Loss on disposal of intangible assets	886	2,377	921	2,580
Impairment of intangible assets	-	70	-	3,463
Loss on disposal of trade receivables	2,414	4,023	1,414	3,649
Donation	33,128	37,685	26,946	27,993
Others	2,831	19,470	3,522	7,212
	<u>₩ 45,198</u>	<u>71,748</u>	<u>83,437</u>	<u>98,414</u>

30. 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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31. 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 six-month periods.

(1) Basic earnings per share for the three and six-month periods ended June 30, 2019 and 2018 are as follows:

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

	2019		2018	
	Three-month period	Six-month period	Three-month period	Six-month period
Profit attributable to ordinary shareholders of the Parent Company	₩ 535,529	1,638,282	4,329,947	7,450,200
Weighted average number of outstanding ordinary shares ¹	684,001,795	684,001,795	706,001,795	706,001,795
Basic earnings per share (in won)	₩ 783	2,395	6,133	10,553

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

(In shares)

	2019		2018	
	Three-month period	Six-month period	Three-month period	Six-month period
Outstanding ordinary shares	728,002,365	728,002,365	728,002,365	728,002,365
Treasury shares	(44,000,570)	(44,000,570)	(22,000,570)	(22,000,570)
Weighted average number of outstanding ordinary shares	684,001,795	684,001,795	706,001,795	706,001,795

(2) Diluted earnings per share for the three and six-month periods ended June 30, 2019 and 2018 are as follows:

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

	2019		2018	
	Three-month period	Six-month period	Three-month period	Six-month period
Profit attributable to ordinary shareholders of the Parent Company	₩ 535,529	1,638,282	4,329,947	7,450,200
Weighted average number of diluted outstanding ordinary shares ¹	684,076,654	684,072,776	706,101,731	706,091,750
Diluted earnings per share (in won)	₩ 783	2,395	6,132	10,551

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

(In share)

	2019		2018	
	Three-month period	Six-month period	Three-month period	Six-month period
Weighted average number of outstanding ordinary shares	₩ 684,001,795	684,001,795	706,001,795	706,001,795
Share options	74,859	70,981	99,936	89,955
Weighted average number of diluted outstanding ordinary shares	₩ 684,076,654	684,072,776	706,101,731	706,091,750

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32. Transactions with Related Parties and Others

(1) Details of related parties as of June 30, 2019 are as follows:

Type	Name of related parties
Associates	Stratio, Inc., SK China Company Limited, Gemini Partners Pte. Ltd., TCL Fund, SK South East Asia Investment Pte. Ltd., Hushan Xinju (Chengdu) Venture Investment Center(Smartsources)
Joint ventures	HITECH Semiconductor (Wuxi) Co., Ltd., Hystars 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

(2) Significant transactions for the three and six-month periods ended June 30, 2019 and 2018 are as follows:

(In millions of won)

For the three-month period ended June 30, 2019					
	Company	Operating revenue and others	Operating expense and others	Asset acquisition	Dividend received
Associate	SK China Company Limited	₩ 32	2,355	-	-
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	703	161,782	-	14,458
	Hystars Semiconductor (Wuxi) Co., Ltd.	51	-	-	-
Other related parties	SK Telecom Co., Ltd.	37,339	4,074	2,922	-
	SK Holdings Co., Ltd.	6,454	72,485	90,502	-
	ESSENCE Limited	221,865	-	-	-
	SK Engineering & Construction Co., Ltd.	16,944	-	502,576	-
	SK Energy Co., Ltd.	16,721	16,302	-	-
	SK Networks Co., Ltd.	3,335	3,435	-	-
	SKC solmics Co., Ltd.	156	21,408	282	-
	Chungcheong energy service Co., Ltd.	-	5,764	-	-
	SK Materials Co., Ltd.	1,070	19,932	-	-
	SK Siltron Co., Ltd.	8,207	112,630	-	-
	Others	35,860	141,027	5,290	-
		₩ 348,737	561,194	601,572	14,458

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32. Transactions with Related Parties and Others, Continued

(2) Significant transactions for the three and six-month periods ended June 30, 2019 and 2018 are as follows, Continued:

(In millions of won)

For the six-month period ended June 30, 2019					
	Company	Operating revenue and others	Operating expense and others	Asset acquisition	Dividend received
Associate	SK China Company Limited	₩ 36	4,636	-	-
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	1,803	330,282	-	14,458
	Hystars Semiconductor (Wuxi) Co., Ltd.	238	-	-	-
Other related parties	SK Telecom Co., Ltd. ¹	61,011	230,106	6,476	-
	SK Holdings Co., Ltd. ²	14,160	133,052	129,533	-
	ESSENCORE Limited	397,926	-	-	-
	SK Engineering & Construction Co., Ltd.	30,359	-	587,760	-
	SK Energy Co., Ltd.	24,298	41,201	-	-
	SK Networks Co., Ltd.	5,909	5,975	-	-
	SKC solmics Co., Ltd.	375	41,123	909	-
	Chungcheong energy service Co., Ltd.	6	16,482	-	-
	SK Materials Co., Ltd.	2,146	38,991	-	-
	SK Siltron Co., Ltd.	16,587	218,829	-	-
	Others	64,259	281,298	9,291	-
		₩ 619,113	1,341,975	733,969	14,458

¹ Operating expense and others include dividend payments of ₩219,200 million.

² For the six-month period ended June 30, 2019, royalty paid for the use of the SK brand amounted to ₩41,345 million.

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32. Transactions with Related Parties and Others, Continued

(2) Significant transactions for the three and six-month periods ended June 30, 2019 and 2018 are as follows, Continued:

(In millions of won)

For the three-month period ended June 30, 2018					
	Company	Operating revenue and others	Operating expense and others	Asset acquisition	Dividend received
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	₩ 684	152,184	-	-
Other related parties	SK Telecom Co., Ltd.	178	3,340	705	-
	SK Holdings Co., Ltd.	318	70,275	73,877	-
	ESSENCORE Limited	240,887	-	-	-
	SK Engineering & Construction Co., Ltd.	2,655	150	474,696	-
	SK Energy Co., Ltd.	1,253	3,403	-	-
	SK Networks Co., Ltd.	-	1,167	-	-
	SKC solmics Co., Ltd.	-	4,456	367	-
	Chungcheong energy service Co., Ltd.	-	539	203	-
	HAPPYNARAE Co., Ltd.	10	130,499	12,414	-
	SK Materials Co., Ltd.	-	16,812	-	-
	SK Siltron Co., Ltd.	1,301	80,223	-	-
	Others	81	75,942	9,975	-
		₩ 247,367	538,990	572,237	-

(In millions of won)

For the six-month period ended June 30, 2018					
	Company	Operating revenue and others	Operating expense and others	Asset acquisition	Dividend received
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	₩ 686	300,924	-	13,120
Other related parties	SK Telecom Co., Ltd. ¹	206	154,912	3,523	-
	SK Holdings Co., Ltd. ²	592	113,611	119,973	-
	ESSENCORE Limited	494,524	-	-	-
	SK Engineering & Construction Co., Ltd.	3,002	292	1,031,237	-
	SK Energy Co., Ltd.	2,636	37,748	-	-
	SK Networks Co., Ltd.	-	2,370	10,600	-
	SKC solmics Co., Ltd.	-	9,684	463	-
	Chungcheong energy service Co., Ltd.	-	9,178	203	-
	HAPPYNARAE Co., Ltd.	20	250,113	24,712	-
	SK Materials Co., Ltd.	-	31,640	-	-
	SK Siltron Co., Ltd.	2,109	148,284	-	-
	Others	163	131,433	16,065	-
		₩ 503,938	1,190,189	1,206,776	13,120

¹ Operating expense and others include dividend payments of ₩146,100 million.

² For the six-month period ended June 30, 2018, royalty paid for the use of the SK brand amounted to ₩30,977 million.

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32. Transactions with Related Parties and Others, Continued

(3) The balances of significant transactions as of June 30, 2019 and December 31, 2018 are as follows:

(In millions of won)

		2019	
	Company	Trade receivables and others	Other payables and others
Associate	SK China Company Limited	₩ 2	4,687
Joint ventures	HITECH Semiconductor (Wuxi) Co., Ltd.	319	103,104
	Hystars Semiconductor (Wuxi) Co., Ltd.	38	-
Other related parties	SK Telecom Co., Ltd.	1,145	3,327
	SK Holdings Co., Ltd.	3,500	202,938
	ESSEN CORE Limited	62,318	-
	SK Engineering & Construction Co., Ltd.	12,187	551,197
	SK Energy Co., Ltd.	1,268	3,899
	SK Networks Co., Ltd.	733	483
	SKC solmics Co., Ltd.	54	12,334
	Chungcheong energy service Co., Ltd.	-	1,165
	SK Materials Co., Ltd.	338	11,411
	SK Siltron Co., Ltd. ¹	126,828	60,730
	Others	12,880	90,378
		₩ 221,610	1,045,653

¹ Trade receivables and others include advanced payment related to the purchase of wafer that amounts to ₩123,108 million.(Note 33-(9))

(In millions of won)

		2018	
	Company	Trade receivables and others	Other payables and others
Associate	SK China Company Limited	₩ 1	9,060
Joint ventures	HITECH Semiconductor (Wuxi) Co., Ltd.	33	102,932
	Hystars Semiconductor (Wuxi) Co., Ltd.	19	-
Other related parties	SK Telecom Co., Ltd.	3,339	15,489
	SK Holdings Co., Ltd.	1,876	144,225
	ESSEN CORE Limited	71,673	-
	SK Engineering & Construction Co., Ltd.	12,910	744,935
	SK Energy Co., Ltd.	5,350	9,005
	SK Networks Co., Ltd.	790	1,452
	SKC solmics Co., Ltd.	57	8,113
	Chungcheong energy service Co., Ltd.	4	3,644
	SK Materials Co., Ltd.	443	18,214
	SK Siltron Co., Ltd.	156,023	37,070
	Others	14,918	120,955
		₩ 267,436	1,215,094

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32. Transactions with Related Parties and Others, Continued

(4) Key management compensation

The Group considers registered directors who have authority and responsibility for planning, directing and controlling the activities of the Group as key management. The compensation paid to key management for employee services for the three and six-month periods ended June 30, 2019 and 2018 are as follows:

(In millions of won)

	2019		2018	
	Three-month period	Six-month period	Three-month period	Six-month period
Salaries	₩ 925	2,857	756	1,550
Defined benefit plan	101	203	88	176
Share-based payment	300	347	16	17
	₩ 1,326	3,407	860	1,743

(5) The significant transactions between the Group and the companies that are in the same conglomerate group according to 'Fair Trade Law' for the three and six-month periods ended June 30, 2019 and 2018 are as follows. These entities are not related parties according to K-IFRS No. 1024, 'Related Party Disclosures'.

(In millions of won)

		2019			
	Company	Operating revenue and others		Operating expense and others	
		Three-month period	Six-month period	Three-month period	Six-month period
Companies in the Conglomerate	SK Chemicals Co., Ltd.	₩ 2,566	4,686	408	776
	SK Bioscience Co., Ltd.	1,471	2,427	22	23
	ANTS Co., Ltd.	2	4	45	3,379
	Others	1,003	1,336	-	-
		₩ 5,042	8,453	475	4,178

(In millions of won)

		2018			
	Company	Operating revenue and others		Operating expense and others	
		Three-month period	Six-month period	Three-month period	Six-month period
Company in the Conglomerate	SK Chemicals Co., Ltd.	₩ -	-	291	590

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32. Transactions with Related Parties and Others, Continued

(6) The balances of significant transactions between the Group and the companies that are in the same conglomerate group designated by 'Fair Trade Law'. The details of the balances as of June 30, 2019 and December 31, 2018 are as follows. These entities are not related parties according to K-IFRS No. 1024, 'Related Party Disclosures'.

(In millions of won)

		2019	
		Trade receivables and others	Other payables and others
Company			
Companies in the Conglomerate	SK Chemicals Co., Ltd.	₩ 861	200
	SK Bioscience Co., Ltd.	501	22
	ANTS Co., Ltd.	2	10
	Others	166	-
		₩ 1,530	232

(In millions of won)

		2018	
		Trade receivables and others	Other payables and others
Company			
Companies in the Conglomerate	SK Discovery Co., Ltd.	₩ 5	-
	SK Chemicals Co., Ltd.	1,253	331
	SK Bioscience Co., Ltd.	884	13
		₩ 2,142	344

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33. Commitments and Contingencies

(1) Significant pending litigations and claims of the Group as of June 30, 2019 are as follows:

(a) Lawsuit from Netlist, Inc.

Netlist, Inc. filed a lawsuit against the Parent Company and its subsidiaries including SK hynix America Inc. alleging infringement of multiple patents to the U.S. District Court for the Central District of California, on August 31, 2016 and June 14, 2017, to the U.S. International Trade Commission on September 1, 2016 and October 31, 2017 and to the German District Court of Munich and the Beijing Intellectual Property Court, respectively, on July 11, 2017. As of June 30, 2019, the patent infringement lawsuits filed by Netlist, Inc. in the U.S. have not been finalized and the final result cannot be predicted.

Meanwhile, the lawsuit filed to the U.S. International Trade Commission on September 1, 2016 was finalized on January 16, 2018 with the conclusion that the Parent Company and its subsidiaries did not infringe the patents of Netlist, Inc. Netlist, Inc. filed a petition on March 26, 2018.

In addition, regarding the lawsuit filed to the Beijing Intellectual Property Court on July 11, 2017, the Patent Reexamination Board ("PRB") determined that the patent was invalid on May 30, 2018. Accordingly, the patent infringement lawsuit was dismissed on June 26, 2018. Netlist, Inc. did not appeal PRB's decision that invalidated the patent and the decision was finalized.

With respect to the German litigation filed on July 11, 2017, the District Court of Munich rendered its decision finding no infringement of the utility model-in-suit by the Parent Company on January 31, 2019. Netlist, Inc. filed a notice of appeal against the decision to the Higher Regional Court of Munich on March 5. However, after the German Patent and Trademark Office's final decision invalidating all the claims of the utility model-in-suit on May 28, 2019, Netlist, Inc. withdrew the notice of appeal and the non-infringement decision of the District Court of Munich became the final and conclusive judgment on June 11, 2019.

(b) Price-fixing class-action lawsuits in North America

On April 27, 2018, a purported class-action lawsuit was filed against the Parent Company and its subsidiary, SK hynix America Inc. in the U.S. District Court for the Northern District of California asserting claims based on alleged price-fixing of DRAM products during the period from June 1, 2016 to February 1, 2018. Similar lawsuits were subsequently filed in federal court in the U.S., as well as in Canadian courts in British Columbia, Quebec and Ontario. As of June 30, 2019, the lawsuits filed have not been finalized and the Group is unable to predict the outcome of these matters and therefore cannot reliably estimate the range of possible loss.

(c) The antitrust investigation in China

The State Administration for Market Regulation of China initiated to investigate the violation of the antitrust law regarding on primary DRAM businesses' sales in China in May 2018. The pending case currently is under investigation. As of June 30, 2019, the Group is unable to predict the outcome of these matters and therefore cannot reliably estimate the range of possible loss.

(d) Other patent infringement claims and litigation

In addition to the above litigations, the Group has responded to various disputes related to intellectual property rights and has recognized a liability when it represents a present obligation as a result of past event and it is probable that an outflow of resources will arise and a loss can be reliably estimated.

(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 on 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.

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33. Commitments and Contingencies, Continued

(3) Contract for supply of industrial water

The Group has entered into a new contract with Veolia Water Industrial Development Co., Ltd. ("Veolia") under which the Group purchases industrial water from Veolia during period of June 2018 through May 2023. 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 Semiconductor (Wuxi) Co., Ltd.(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 June 30, 2019 are as follows:

(In millions of won and millions of foreign currencies)

	Book value		Pledged amount		Remark
	Currency	Amount	Currency	Amount	
Land and Buidings	₩	KRW	USD	54	Borrowings for equipment and others
		57,784		(KRW 62,442)	
			KRW	5,854	
Machinery		KRW	USD	2,381	
		4,089,735		(KRW 2,753,766)	
			KRW	600,000	
	₩	KRW	USD	2,435	
		4,147,519		(KRW 2,816,208)	
			KRW	605,854	

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

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33. Commitments and Contingencies, Continued

(6) Financing agreements

Details of credit lines with financial institutions as of June 30, 2019 are as follows:

(In millions of won and millions of foreign currencies)

	Financial Institution	Commitment	Currency	Amount
The Parent Company	KEB Hana Bank and others	Import finance including usance Comprehensive limit contract	USD	275
		for import and export	USD	1,060
		Overdrafts with banks	KRW	20,000
		Accounts receivable factoring contracts which have no right to recourse	KRW	140,000
SK hynix Semiconductor (China) Ltd.	Agricultural Bank of China and others	Import finance including usance	RMB	1,440
			USD	392
SK hynix America Inc. and other sales entities	Citibank and others	Accounts receivable factoring contracts which have no right to recourse	USD	238
Domestic subsidiaries	KEB Hana Bank and others	Import finance including bills bought	USD	45
		Finance secured by accounts receivables	KRW	55,020
		Agent agreement for payment of goods received	KRW	12,500

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33. Commitments and Contingencies, Continued

(7) Details of guarantees provided to others as of June 30, 2019 are as follows:

(In millions of U.S. dollars)

	Currency	Amount	Remark
Taiwan Semiconductor Manufacturing Company, Limited. ¹	USD	60	Guarantees for supply agreement

¹ The Group received a deposit of ₩1,000 million as collateral from ADTechnology Inc. regarding payment guarantee for Taiwan Semiconductor Manufacturing Company, Limited.

(8) Capital commitments

The Group's unrecorded commitments in relation to the capital expenditures on property, plant and equipment as of June 30, 2019 are ₩1,407,849 million (as of December 31, 2018: ₩1,857,092 million).

(9) Long-term purchase agreement for raw materials

The Group has entered into a procurement agreement with SK Siltron Co., Ltd. from 2019 to 2023 for a stable supply of wafer with an advanced payment of ₩150,000 million during the year ended December 31, 2017. The advanced payment used in connection with the purchase of wafer during the current period is ₩26,892 million, and the balance of the advance payment as of June 30, 2019 is ₩123,108 million. Meanwhile, SK Siltron Co., Ltd. has committed to providing a certain portion of its investment assets as collateral to secure the advanced payment.

(10) Investment in Toshiba Memory Corporation ("TMC")

In regards to the Group's interests in TMC through its investments in BCPE Pangea Intermediate holdings Cayman, L.P. ("SPC1") and BCPE Pangea Cayman2 Limited ("SPC2"), equity shares in TMC owned, directly or indirectly, by the Group are limited to a certain percentage during certain periods after the date of acquisition. In addition, during the periods, the Group does not have the right in appointing TMC's directors and is unable to exercise significant influence over decision-making for TMC's operation and management.

SK HYNIX, INC. and Subsidiaries
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34. Cash Flows

(1) Reconciliations between profit and net cash inflow from operating activities for the six-month periods ended June 30, 2019 and 2018 are as follows:

(In millions of won)

	2019	2018
Profit for the period	₩ 1,639,155	7,449,871
Adjustment		
Income tax expense	516,406	2,744,413
Interest expense	100,452	42,377
Interest income	(17,596)	(43,193)
Depreciation of property, plant and equipment	3,567,500	2,763,821
Depreciation of investment property	31	53
Amortization	448,013	259,590
Depreciation of right-of-use assets	133,147	-
Loss on disposal of property, plant and equipment	8,123	53,517
Loss on disposal of intangible assets	2,377	2,580
Impairment of intangible assets	70	3,463
Defined benefit plan	108,971	84,774
Compensation expense associated with stock option	788	569
Loss on foreign currency translation	246,537	276,398
Gain on disposal of property, plant and equipment	(18,951)	(13,244)
Gain on foreign currency translation	(309,218)	(442,996)
Gain on valuation of short-term investment assets	(5,963)	(4,828)
Gain on disposal of short-term investment assets	(36,554)	(7,300)
Loss on valuation of long-term investment assets	22	-
Gain on disposal of long-term investment assets	-	(248)
Gain on Financial liabilities measured at fair value	(1,070)	-
Gain on equity method investments, net	(10,053)	(8,472)
Others, net	3,842	1,787
Changes in operating assets and liabilities		
Decrease (increase) in trade receivables	1,714,414	(1,234,808)
Decrease in loans and other receivables	29,320	30,615
Increase in inventories	(1,138,054)	(714,232)
Decrease in other assets	36,835	16,691
Decrease in trade payables	(279,084)	(289,296)
Decrease in other payables	(42,119)	(40,573)
Decrease in other non-trade payables	(659,663)	(389,688)
Decrease in provisions	(15,217)	(51,758)
Increase (decrease) in other liabilities	(2,331)	69,428
Contributions to plan assets	(1,570)	(91)
Payment of defined benefit liabilities	(3,328)	(8,191)
Cash generated from operating activities	₩ 6,015,232	10,551,029

(2) There were no significant transactions without inflows and outflows of cash for the six-month periods ended June 30, 2019, and 2018 except for reclassifications between long-term and short-term balances.

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34. Cash Flows, Continued

(3) Changes in liabilities arising from financial activities during the years ended June 30, 2019 and 2018 are as follows:

(In millions of won)

	2019	2018
Beginning balance	₩ 5,281,937	4,171,270
Adjustment due to the transition to K-IFRS No.1116 ¹	1,123,937	-
Beginning balance after transition adjustments	6,405,874	4,171,270
Cash flows from financing activities		
Proceeds from borrowings	5,864,012	2,063,692
Repayments of borrowings	(2,462,930)	(947,475)
Repayments of lease liabilities	(136,032)	-
Foreign currency differences and others	185,115	126,774
Present value discount (interest expense)	13,806	809
Interest paid	(1,300)	-
Ending balance	₩ 9,868,545	5,415,070

¹ Lease liabilities are recognized additionally as the Group initially applied K-IFRS No. 1116 as of January 1, 2019.

35. Share-based Payment

(1) The Group accounts for share-based payment in which the Group has a choice of either cash-settled payment or equity-settled payment in accordance with its substance. The details of share options as of June 30, 2019 are as follows:

(In shares)

	Total numbers of share option granted	Exercised	Forfeited or Cancelled	Outstanding at June 30, 2019
1 st	99,600	-	-	99,600
2 nd	99,600	-	-	99,600
3 rd	99,600	-	-	99,600
4 th	7,747	-	-	7,747
5 th	7,223	-	-	7,223
6 th	8,171	-	-	8,171
7 th	61,487	-	-	61,487
8 th	61,487	-	-	61,487
9 th	61,487	-	-	61,487
	<u>506,402</u>	<u>-</u>	<u>-</u>	<u>506,402</u>

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35. Share-based Payment, Continued

(1) The Group accounts for share-based payment in which the Group has a choice of either cash-settled payment or equity-settled payment in accordance with its substance. The details of share options as of June 30, 2019 are as follows, Continued:

	Grant date	Service Period for Vesting	Exercisable Period	Exercise price (in won)
1 st	March 24, 2017	March 24, 2017 - March 24, 2019	March 25, 2019 - March 24, 2022	48,400
2 nd	March 24, 2017	March 24, 2017 - March 24, 2020	March 25, 2020 - March 24, 2023	52,280
3 rd	March 24, 2017	March 24, 2017 - March 24, 2021	March 25, 2021 - March 24, 2024	56,460
4 th	January 1, 2018	January 1, 2018 - December 31, 2019	January 1, 2020 - December 31, 2022	77,440
5 th	March 28, 2018	March 28, 2018 - March 28, 2020	March 29, 2020 - March 28, 2023	83,060
6 th	February 28, 2019	February 28, 2019 - February 28, 2021	March 1, 2021 - February 29, 2024	73,430
7 th	March 22, 2019	March 22, 2019 - March 22, 2021	March 23, 2021 - March 22, 2024	71,560
8 th	March 22, 2019	March 22, 2019 - March 22, 2022	March 23, 2022 - March 22, 2025	77,290
9 th	March 22, 2019	March 22, 2019 - March 22, 2023	March 23, 2023 - March 22, 2026	83,470

(2) Measurement of fair value

The compensation cost is calculated by applying a binomial option-pricing model in estimating the fair value of the option at grant date. The inputs used are as follows:

	1st	2nd	3rd	4th	5th	6th	7th	8th	9th
Expected volatility	23.23%	23.23%	23.23%	22.50%	25.30%	25.60%	26.20%	26.20%	26.20%
Estimated fair value of share options (in won)	10,026	9,613	9,296	16,687	18,362	16,505	17,744	16,888	16,093
Dividend yield ratio	1.20%	1.20%	1.20%	0.78%	1.23%	1.36%	1.32%	1.32%	1.32%
Risk free ratio	1.86%	1.95%	2.07%	2.38%	2.46%	1.89%	1.82%	1.88%	1.91%

(3) The compensation expense for the six-month period ended June 30, 2019 was ₩788 million (2018: ₩569 million).