



# About This Report

## Features

This report is SK hynix's 10<sup>th</sup> annual sustainability report. SK hynix has been sharing its vision, performances, and activities for sustainability management with stakeholders by publishing annual sustainability reports since 2008. Stakeholders' opinions and feedbacks are unreservedly adopted to our sustainability management activities, through which we proactively meet their expectations and requirements.

We have focused on reporting the most significant issues for both internal and external stakeholders which were identified through the materiality analysis. The "Focus Areas" section covers those issues, helping stakeholders easily understand our sustainability performances and information.

In celebration of the 10th anniversary of sustainability report, SK hynix had time to review key sustainability performances over the past decade and discuss development directions of its sustainability management with professionals in the academia and industry. Presented subjects at the panel discussion and special conversation with experts were reported in the "Special Theme" section and will be adopted to our sustainability management policy and decision-making process.

## Reporting Principle

This report was prepared in accordance with the Core option of the GRI (Global Reporting Initiative) G4 guideline and the ISO 26000, the international standard on social responsibility. Financial information in this report was drawn up on the basis of K-IFRS (Korean International Financial Reporting Standards).

## Reporting Period

This report covers SK hynix's sustainability activities and performances from January 1 through December 31, 2016. To provide a better understanding of our quantitative results, data for the last three fiscal years from 2014 to 2016 were applied. And some crucial qualitative results spanned the period up to the first half of 2017.

## Reporting Scope and Boundary

The reporting scope extends to all overseas production sites including Wuxi Campus and Chongqing P&T in China, as well as all domestic production sites such as the headquarters of SK hynix Icheon Campus, Cheongju Campus and Seongnam Office. Financial information encompasses all affiliated companies in principle, while information with a different scope is specified separately.

## Assurance

The information of this sustainability report was verified by Korea Standards Association, an independent assurance agency. Safety, health, and environment performances at all worksites were reviewed on the basis of the report assurance principle of AA1000APS(2008). Please refer to page 110~111 for the result.

## Cover Story

The report cover was designed to feature the memory semiconductor package with the aim of celebrating its 10th anniversary and getting closer to stakeholders in a differentiated manner. It also symbolizes our commitment to creating higher social value based on memory semiconductor solutions and cutting-edge technologies.



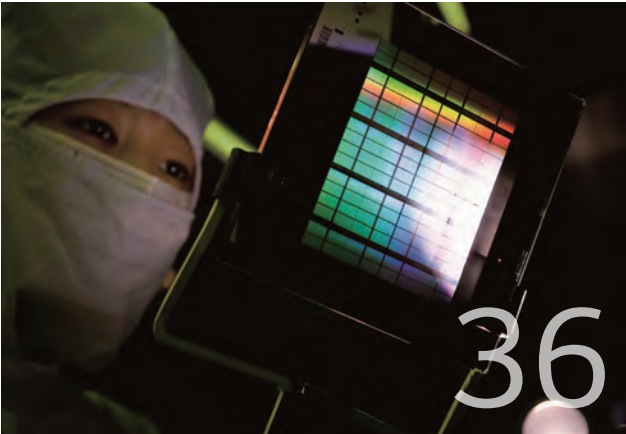


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## Focus Areas



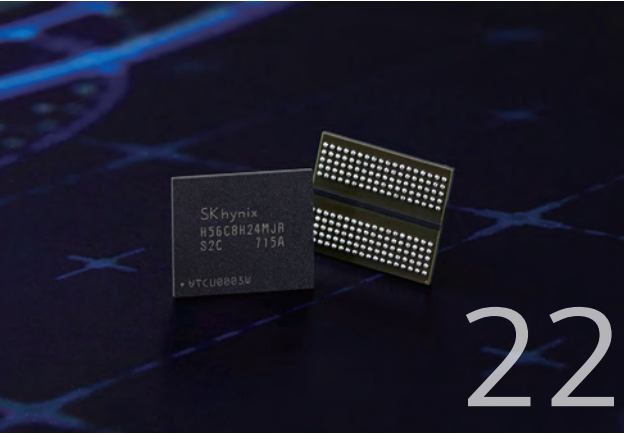
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“  
In celebration of the 10<sup>th</sup> anniversary of sustainability report,  
we pledge to evolve into the world’s best memory semiconductor  
solution company by pursuing the “Deep Change” aimed at developing  
new possibilities and solidifying the foundation for sustainable growth.  
”

Dear stakeholders,

I’m pleased to present SK hynix’s commitment to consistent challenges and changes through the 10th sustain-ability report.

For the past 10 years, our sustainability report has played a significant role in transparently delivering our ef-forts for fulfilling social responsibility and creating sustainable value as a leading global company. Since 2012 when the company joined SK Group, our sustainability management activities have become more comprehen-sive in accordance with SKMS (SK Management System), resulting in creating higher economic and social val-ues. Moreover, we promoted comprehensive supports for occupational disease issue in the semiconductor industry through the Occupational Health Verification Committee and operated the win-win wage-sharing program for suppliers in an effort to fulfill our social responsibility.

Moreover, SK hynix puts safety before everything else. As part of this, in 2016, we launched the SHE Manage-ment Committee and Advisory Committee consisting of the top management and external professionals to check pending safety issues on a regular basis and verify our SHE activities in an objective manner. We are also promoting the quantification and evaluation of social values deriving from all stages of our social contribu-tion activities.

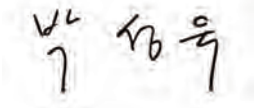
SK hynix pursues the “Deep Change” aimed at developing new possibilities and laying the foundation for sustainable growth to cultivate capabilities that can promptly respond to rapidly changing IT business environ-ment which is summarized as the Fourth Industrial Revolution. By doing so, we will solidify our leadership as a technology-driven semiconductor company and strengthen communication with customers to immediat-ely meet their various and complex requirements. All employees at SK hynix will continue to rise to a challenge armed with the SUPEX Spirit in order to provide sustainable value to all stakeholders including customers, suppliers, investors, local communities, and society.

Our experiences for the past three decades have allowed us to understand how business activities can trans-form the nation and society. With a mindset that sustainable growth with society can be realized when pursu-ing stakeholders’ happiness as well as economic growth, SK hynix will promote innovation to create both finan-cial and social values in a long-term and positive manner. We will also fulfill our responsibility as a corporate citizen beyond just solving piecemeal social issues by supporting global sustainability initiatives such as UN Global Compact, Universal Declaration of Human Rights, SDGs (Sustainable Development Goals), and EICC (Electronic Industry Citizenship Coalition).

SK hynix pledges to make concerted efforts to faithfully carry out our social responsibilities and roles with the state of mind we had when the first sustainability report was published in 2008. We will also continue to ex-pand communication with stakeholders in order to share our commitments and performances going for-ward.

Your lasting encouragement and support would be greatly appreciated as we work to reach the goal of sustain-ability management.

July 2017  
CEO of SK hynix **Park Sung-wook**





### Semiconductor that Drives the Growth of IT Business

Since 1984 when we became the first Korean company to produce 16 Kb SRAM, we have strengthened our technical leadership by introducing a series of semiconductors that are innovative in terms of their advancement, size, speed, and voltage. The demand for and area of semiconductors continue to expand as mobile and smart devices are becoming increasingly popular and automobile, medical equipment, and industrial machinery are being developed on the basis of the internet. In response to this trend, we are further strengthening our technological leadership while gaining competitive advantages in the high value-added premium semiconductor markets. Our focuses are especially on mobile device, server, and storage solution with growth potential. We are also preparing the next generation memory technologies required for PC RAM, STT-M RAM, and Re RAM.

Summarized company profile		(As of the end of December 2016)
Company name	SK hynix Inc.	
CEO	Park Sung-wook	
Establishment	February 1983	
Business domain	Manufacturing and sales of semiconductor devices	
Headquarters	2091, Gyeongchung-daero, Bubal-eup, Icheon-si, Gyeonggi-do, Korea	
Products and services	Memory semiconductor: DRAM, NAND Flash, MCP, etc. System semiconductor: CIS (CMOS Image Sensor), etc.	

- Production site
- R&D office
- Sales subsidiary
- Sales office



### SK hynix, a Leading Global Semiconductor Company

SK hynix has four production sites - Icheon and Cheongju in Korea, Wuxi and Chongqing in China - and sales subsidiaries in 10 countries - the U.S., Hong Kong, and China. The company also operates 4 R&D offices in the U.S., Italy, Taiwan, and Belarus. Based on our 30 years of extensive expertise and knowhow in the semiconductor business and consistent investments in R&D, we are demonstrating unrivaled technological prowess and cost competitiveness, thereby leading the global semiconductor market.

Major Financial Results		(Unit: KRW in billions)		
Item		2014	2015	2016
Income Sheet	Sales	17,126	18,798	17,198
	Gross profit	7,664	8,283	6,411
	Operating profit	5,109	5,336	3,277
	Profit before corporate tax	5,048	5,269	3,216
	Corporate tax	853	946	256
	Net profit	4,195	4,324	2,960
Balance Sheet	Total assets	26,883	29,678	32,216
	Total borrowings	4,175	3,819	4,336

Economic Value Creation		(Unit: KRW in millions)		
Item		2014	2015	2016
Employees	Wage	2,164,619	2,188,297	1,987,825
	Retirement allowance	143,432	150,932	210,774
	Welfare benefits	327,693	377,818	387,308
	Tax and dues	883,689	983,471	287,516
Local communities	Donations	16,111	55,131	51,629
	Raw materials	2,033,215	2,471,643	2,457,772
Suppliers	Consumables/repair	2,885,088	3,337,555	3,635,173
	Outsourcing	1,018,075	982,419	785,923
Company	Reserves value	3,976,769	3,970,593	2,536,880
Shareholders and investors	Interest costs	170,363	118,505	120,122
	Dividends	218,401	353,001	423,601

※ Percentage of tax and due by region: 63.7% in Korea, 33.5% in Asia, 2.8% in Americas/Europe

Social Value Creation*		(Unit: KRW in millions)	
Item		2016	Increase
Social effect	Investor value	543,723	+
	Support for suppliers	665	+
	Local communities	40,778	+
Environmental effect	Greenhouse gas	145,602	-
	Energy saving	37,980	+
	Air quality	140	-
	Water quality	420	-
	Waste	5,637	-

\* The figures were calculated by converting SK hynix's social and environmental indices into social value. We plan to supplement those in a more systematic manner.

# 2016 Highlights



## 1 Became first Korean company to enter the “Platinum Club,” the highest honor of CDP Korea

In October 2016, SK hynix became the first Korean company to enter the “Platinum Club,” the most prestigious Hall of Fame of the “Carbon Management Honors Club” selected by CDP Korea. CDP is a non-profit organization founded in England that is entrusted by financial investment companies around the world to conduct information analysis and issues reports for major companies. It is recognized as the top sustainability evaluation organization. SK hynix was included in the Global Leaders’ Club for five consecutive years from 2009 to 2013, and has first maintained the Hall of Fame for four consecutive years among Korean companies.

## 2 Reverse corporate activation program, “Find a Valuable Leader”

In April 2016, the “Find a Valuable Leader” program was conducted to create corporate culture that recognizes leaders and encourages colleagues to express their appreciation of each other. The program was conducted through recommendations on the company intranet. The recommendations were more than a simple click – the recommender had to write an anonymous e-mail in the form of a letter containing the reasons for the recommendation, which helped encourage each other. We hope this program make a chance to build stronger trust and camaraderie between junior and senior members.

## 3 First mass production of non-memory semiconductors at 300mm wafer factory

The company will start mass production of non-memory semiconductors at the 300mm wafer factory for the first time. The factory has only produced memory semiconductors such as DRAM or NAND Flash until now, while non-memory semiconductors have been mass produced at the 200mm wafer factory. It leads to a 50% increase in chip production volume per wafer. SK hynix started to produce 13 megapixel-CMOS image sensors (CIS) in 2017, for efficient use of the existing M10 factory, in step with the start of the new M14 factory in Icheon. This progress will expand the application of CIS to security camera and automotive components beyond PC and smartphone.

## 4 Launched Support and Compensation Committee for occupational emiconductor-related diseases

In January 2016, SK hynix started the Support and Compensation Committee, and decided to execute the process of support and compensation for current and former employees of both the company and suppliers who are doubtful about occupational disease due to working at semiconductor factory. This was the first step in creating a “comprehensive support and compensation system” as proposed by the Industrial Welfare Verification Committee in November 2016.

The Support and Compensation Committee deliberated on various elements based on the standard provided by the Industrial Welfare Verification Committee. SK hynix will actively accept the proposals of the two committees to create a healthier and safer workplace, and work hard on fulfilling our corporate social responsibility.

## 5 Conversation With the CEO, “Gonggam Talk Talk”

“I am often asked what the drive was that allowed SK hynix to overcome difficulties and become the world’s second largest memory semiconductor manufacturer. I always answer, ‘collaboration.’ All employees of our company work toward the same goal. This mind of cooperation is still in our DNA.” In June 2016, the CEO Park Sung-wook talked about a wide variety of topics at the Conversation with the CEO “Gonggam Talk Talk” held at the Cheongju Campus, from general themes including collaboration and meeting culture, to expectations for the memory semiconductor industry. This talk was a turning point that allowed employees to renew pride in the company as they shared their difficulties and were able to listen to the CEO’s management philosophy.



## 6 “SK hynix Academic Conference” to secure future semiconductor technology capabilities

The “4th SK hynix Academic Conference” was held at the SUPEX Hall in the Icheon Campus in September 2016. The aim of this event was to overcome limitations of technology development for DRAM and NAND Flash products, and secure high mass productivity within a short period. Around 500 academic articles were submitted. The first prize winner and excellent article winners of each field were awarded with a total of KRW 20 million worth of prize and the opportunity to participate in a major overseas conference. The CEO Park Sung-wook was the head of the conference, and major executives including the Academic Committee Chair and Future Technology Research Center Head (vice president) and DRAM Development Business Head (vice president) attended the event.

## 7 “Independence of Light and Sound” for men of national merit

In August 2016, the Hyejium, SK Training Center in Icheon, held the “Thank you Hyo Concert” for men of national merit, to celebrate 71 years of independence on National Liberation Day. Around 100 men of merits in the area attended the concert wearing the customized hearing aids they received through a hearing test held by the company in June. The event was part of the “100-Year Longevity of Veterans” program that provides men of national merit who are experiencing financial difficulties with visual and hearing medical services.



## 8 Global social contribution activities in Cambodia

In December 2016, 600 excellent employees were sent on a training program to Cambodia with the goal of conducting global social contribution activities and further developing their professional capacity. The social contribution activities were conducted over a course of 18 sessions, and focused on improving the poor environment of local orphanages and schools in Siem Reap and offering support for academic activities. The group went beyond simply providing supplies. They delivered new boats to low-income classes for better transport and living conditions, and collaborated with local volunteer organizations to provide children with food. SK hynix has given excellent employees a chance for overseas training since 2014 to help them feel a sense of pride in the company and the meaning of happiness sharing.

## 9 Free mobile medical clinic in China

A free mobile medical clinic called the “Happy Bus” has started operation for lower classes in Wuxi, China, where the SK hynix DRAM factory is located. The China subsidiary has grown as the biggest foreign company in the Jiangsu Province since the start of the factory in 2006. It established the Social Contribution Foundation in June 2016, to conduct useful and systematic social contribution activities. The “Wuxi SK hynix Happiness Public Interest Fund” opening was held to celebrate the start of the Happy Bus.



SK Hynix plans to raise around 5.5 million yuan each year to contribute to the local community through various social contribution activities in collaboration with the Wuxi government.

## 10 Start of men’s handball team, “SK Hawks”

The Chungcheongbuk-do men’s handball team “SK Hawks” officially started in February 2016. SK Hynix chose Chungcheongbuk-do province to be the home of the team because they had no professional team, but had a base for handball. The selection of the coaching staff and team members were conducted through an open process. The team plans to select additional excellent coaches and members and expand the number to 20 to operate a national-level team. The name “Hawks” means “Hoping for a giant leap in Korean men’s handball” and “Be progressive and fly high.”



# Value Creation Model

SK hynix has shown balanced performances in the aspects of economy, environment, and society by operating its value chain with various capitals in a sustainable manner.

Capital input

Financial Capital\*


SK hynix is listed on the KRX and Luxembourg Stock Exchange. We use financial capital provided by shareholders and investors for business and share economic performance with them through diverse ways including dividend.

Assets



KRW 32,216 billion

Equity




KRW 24,024 billion

Manufactured Capital\*


Manufacturing infrastructure is the core of SK hynix's business. We conduct efficient investments in global manufacturing infrastructure to enhance productivity and cost competitiveness.

Facilities & equipment



KRW 18,777 billion

Investments in facilities




KRW 6,292 billion

Human Capital


Recruiting and cultivating talents is the basis of our R&D competence. To this end, we are active in developing effective training programs and diverse support programs for securing talents.

Education expenditure



KRW 490 thousand per capita

Education hour



81 hours per capita

Intellectual Capital\*


SK hynix is well aware of the importance of technology patent and strive to maximize the capability of intellectual capital. We enhance internal competence by developing and acquiring patents and maximize the efficiency of intellectual capital through joint patent development and cross-license contracts.

R&D investment-to-sales



12.2%

Ownership of IP rights



11,784 cases (cumulative)

Relationship Capital


Based on trust with stakeholders, we strive to create shared values. To this end, we promote diverse activities with regard to EICC, social contribution, and shared growth.

Social contribution expenditure



KRW 151 billion

Supports for shared growth




KRW 128 billion

Natural Capital


We make our best effort to minimize environmental impact throughout business activities. As part of this, we continue to improve natural capital through introducing high-efficiency equipment, optimizing facility operation, and conducting GHG reduction tasks.

Energy intensity at all worksites



3.16 TOE/m<sup>2</sup>

Water resource use



67,065 thousand m<sup>3</sup>

\* Please refer to the FY2016 Business Report

Overview

CEO's Message  
Corporate Profile  
2016 Highlights  
**Value Creation Model**  
Business Domain

Special Theme

Corporate Governance

Focus Areas

Performance

Appendix

Outcome

Our profitability has been strengthened in the midst of continuously increasing demand for DRAM and highly efficient DRAM production capacity. We also boast differentiated competitiveness in the NAND Flash sector.

Stock price increase

45.4%

(As of the end of 2016, year-on-year comparison)

SK hynix ranked 3<sup>rd</sup> among global semiconductor makers as of sales in 2016 by achieving stable growth in all fields of DRAM, NAND Flash, and CIS.

Ranking in the global semiconductor industry

3<sup>rd</sup>

(IHS, as of 4Q 2016)

SK hynix produced KRW 12.05 trillion worth of products in 2016 and the average rate of operation maintained 100% during the same period.

Average rate of operation

100%

(As of the end of 2016)

We will invest in building new clean rooms at Cheongju plant to enhance competitiveness in the long run. (KRW 2.2 trillion from Aug. 2017 to Jun. 2019)

Investments in building clean rooms

2.2 trillion

(As of the budget between 2017 and 2019)

The average continuous service years have increased backed by our efforts for securing talents.

Average length of service

10.9 years

(As of the end of 2016)

The labor and management have closely collaborated under the spirit “We are one family,” creating workplace with no dispute for 34 years since the company establishment.

Workplace with no labor dispute

34 years

(As of the end of 2016)

We strive to secure “strong patents” in early stage and prevent disputes. Particularly, we pay attention to the expansion of patent rights in countries such as the US with high potential dispute.

No. of patents registered in the US

7,883 cases

(As of the end of 2016, accumulated)

R&D expenditure in 2016 increased 6.4% year-on-year, through which we implemented 23 research tasks in the fields of DRAM, NAND Flash, and CIS.

R&D performance

23 cases

(As of the end of 2016)

We estimated social value generated from entire Happy Sharing Fund projects in a quantitative manner to figure out the effects of social contribution activities.

Social value of the Happy Sharing Fund Project

226%

(compared with costs)

The Happiness Sharing Volunteer Group consisting of 97 units visits social welfare facilities regularly and conducts volunteer services that make the most of their characteristics.

Total volunteer hours of the Happiness Sharing Volunteer Group

22,298 hours

(As of the end of 2016)

SK hynix joined the Hall of Fame Platinum Club, the highest level of “Carbon Management Honors Club” hosted by CDP Korea, for the first time in Korea.

CDP

DRIVING SUSTAINABLE ECONOMIES

(As of 2016)

The Ministry of Environment certified that our 128GB SSD emits carbon of 12.1kg per unit.

Certification on carbon emission

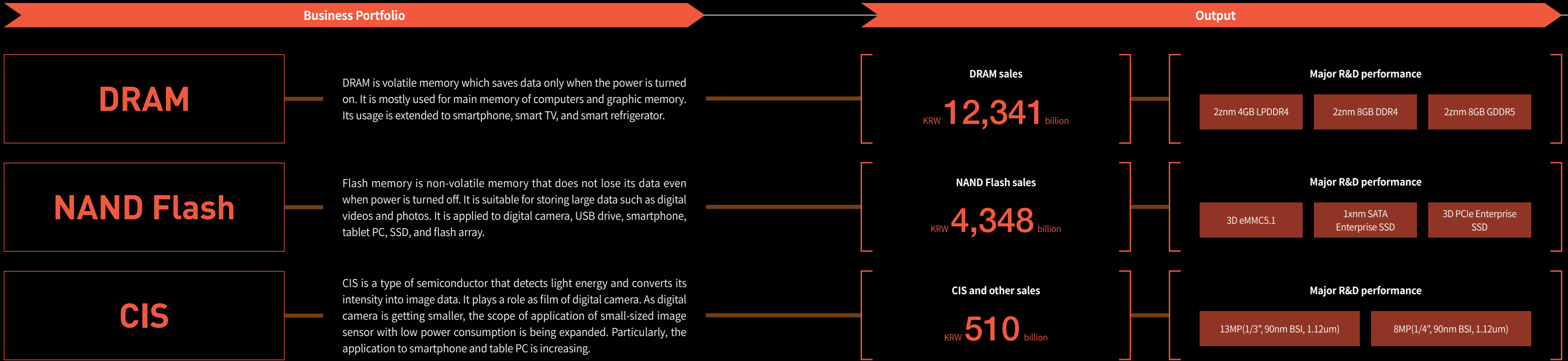
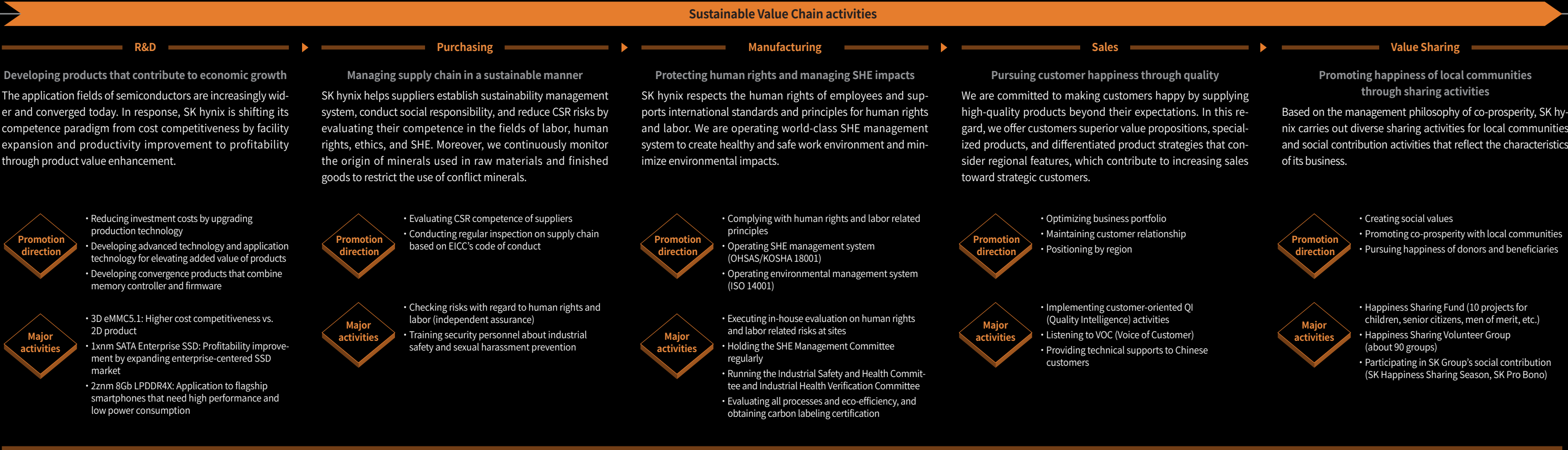
128GB SSD

Open here

SK hynix Sustainability Report 2017

12

13





# DEVELOPING TECHNOLOGY THAT MAKES CONSUMER AND DEVICES SMARTER

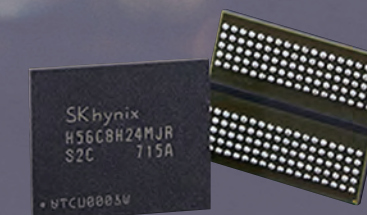
# DRAM

DRAM (Dynamic Random Access Memory) is volatile memory which saves data only when the power is turned on. It is mostly used for main memory of computers and graphic memory for videos and 3D games, and its usage is extended to various smart electronics such as TV, refrigerator, and printer backed by the digitalization of electronics.

Despite lower-than-expected demand for DRAM due to the sluggish PC market, increasing needs for mobility of PCs is creating new demands for laptop computers. The growing popularity of mobile devices drives the demand for DRAM and the capacity of DRAM required for smartphone and tablet PC is also on a rise.

## Brand New Product

## 20-nano 8Gb GDDR6 DRAM



768GB

Processing 768GB graphic  
data per second

×2

Doubling the speed compared  
with existing GDDR5 DRAM

10% ↓

Reducing 10% operating  
voltage consumption

## DRAM Market Share (IDC)

(As of March 2017, Unit: %)



\* GB (gigabyte) is the unit that measures data processing speed. 1GB is equivalent to 8Gb (gigabit).  
SK hynix's GDDR6 processes data with a speed of 16Gb/s per pin. It has 384 input/output pins.



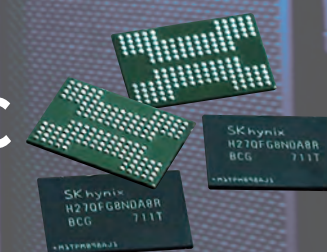
## MOVING MORE DATA, WITHOUT USING MORE ENERGY

Flash memory is non-volatile memory that does not lose its data even when power is turned off. There are two types of flash memory products: NOR and NAND. Our NAND Flash is suitable for storing large data such as digital videos and photos and widely used for mobile devices including tablet PC and smartphone as well as SSD (Solid State Drive), navigation system, USB memory, and digital camera.

According to the market forecast<sup>1)</sup>, the NAND Flash market is making steady growth as it expands the areas of storage applications such as mobile and SSD. This is mainly due to the increasing demand for mobile devices and SSD for PCs.

### Brand New Product

## 72-layer 256Gb TLC 3D NAND Flash



32GB

Realizing 32GB with one  
NAND Flash chip

4 billion

A technology to put about  
4 billion 72-story buildings on  
a 10-won coin

20% ↑

Increasing reading and writing  
performances by 20% based  
on high speed circuit design

\* 256GB TLC 3D NAND Flash contains 1.27 billion cells on a chip.  
The size of 10-won coin is equivalent to that of three chips or about 4 billion cells.

### NAND Flash Market Share (IDC)

(As of March 2017, Unit: %)





# MAKING YOUR LIFE MORE COMFORTABLE AND ENJOYABLE

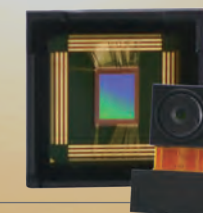
# CIS

CIS (CMOS Image Sensor) is a type of non-memory semiconductor that detects light energy and converts its intensity into image data. There are primarily two types of image sensors - CCD and CMOS - for digital cameras, depending on their manufacturing process and signal reading method. As CMOS image sensor technology is making rapid progress and digital camera is getting smaller, the areas of application for low-power consuming CMOS image sensor have expanded.

According to the market research and forecast, the image sensor market is expected to grow by 6.8% each year from 2016 to 2020. The CMOS market is projected to grow by 8.6% over the same period due to the increasing demand and expanding area of application.

## Brand New Product

## Hi-1333 CIS



### 13MP

Realizing 13 million pixel resolution with 1.12 micro meter technology

### BSI\*

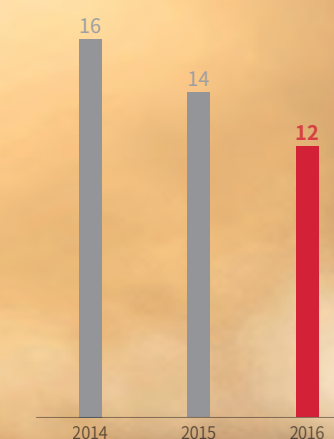
Acquiring high-quality image by minimizing lights loss through photodiode

### PDAF\*\*

Automatically focusing more rapidly than existing methods

## CIS Market Share (TSR)

(As of the end of 2016, Unit: %)



\* Back Side Illumination

\*\* Phase Detection Auto Focus



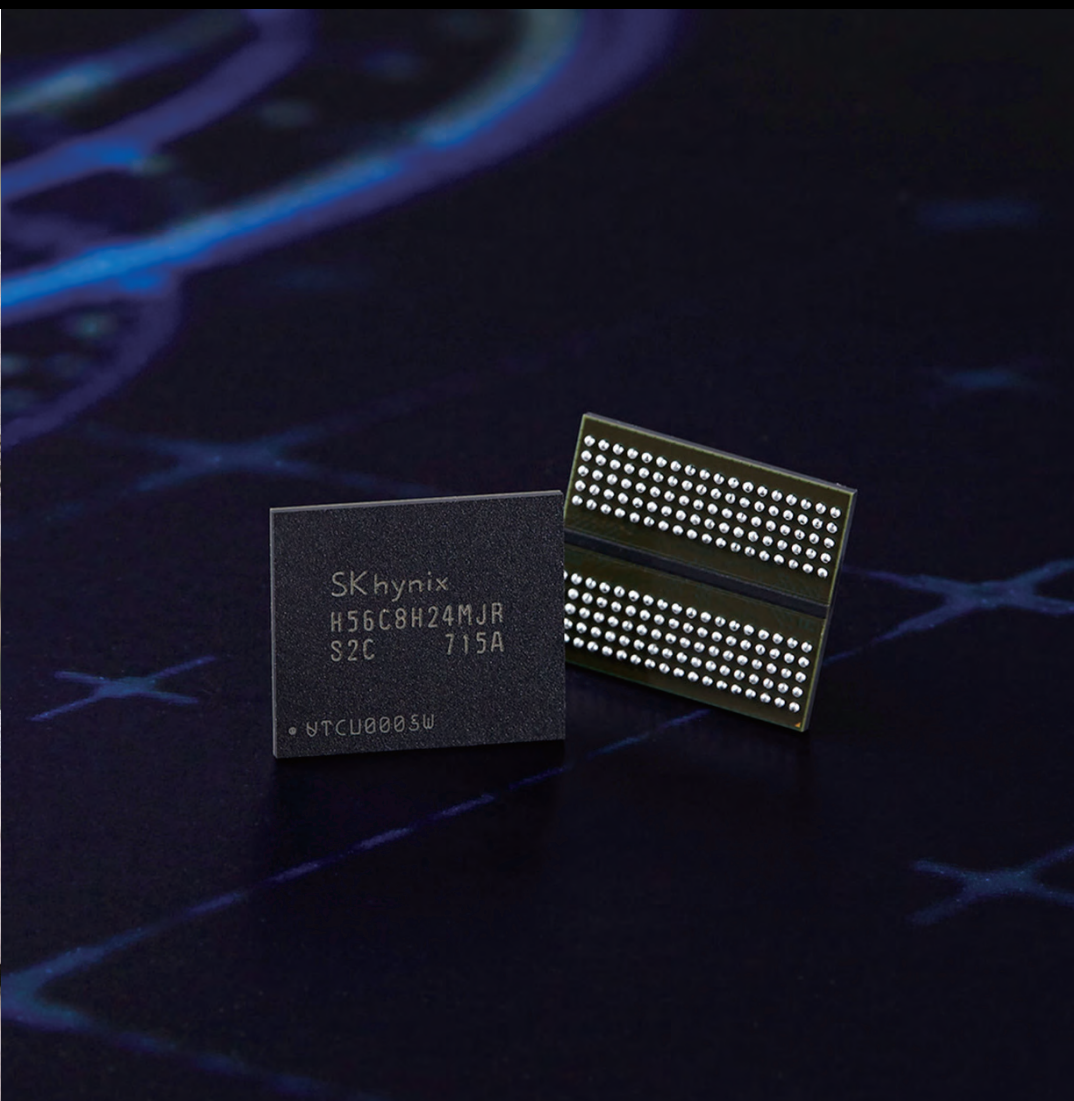
2008

Smarter World, Happier Future

SK hynix's 10-year Sustainability Management

2017

# USHERING IN MORE INNOVATIVE AND COMFORTABLE TOMORROW



SK hynix published its first sustainability report in 2008 when unfavorable business environment predominated all over the world. Since then, we have further devoted ourselves to creating economic, environmental, and social values in a balanced manner for the past decade. This effort has allowed SK hynix to be raised on the “best memory semiconductor solution company.”



# 10-year Track Records in Sustainability Management

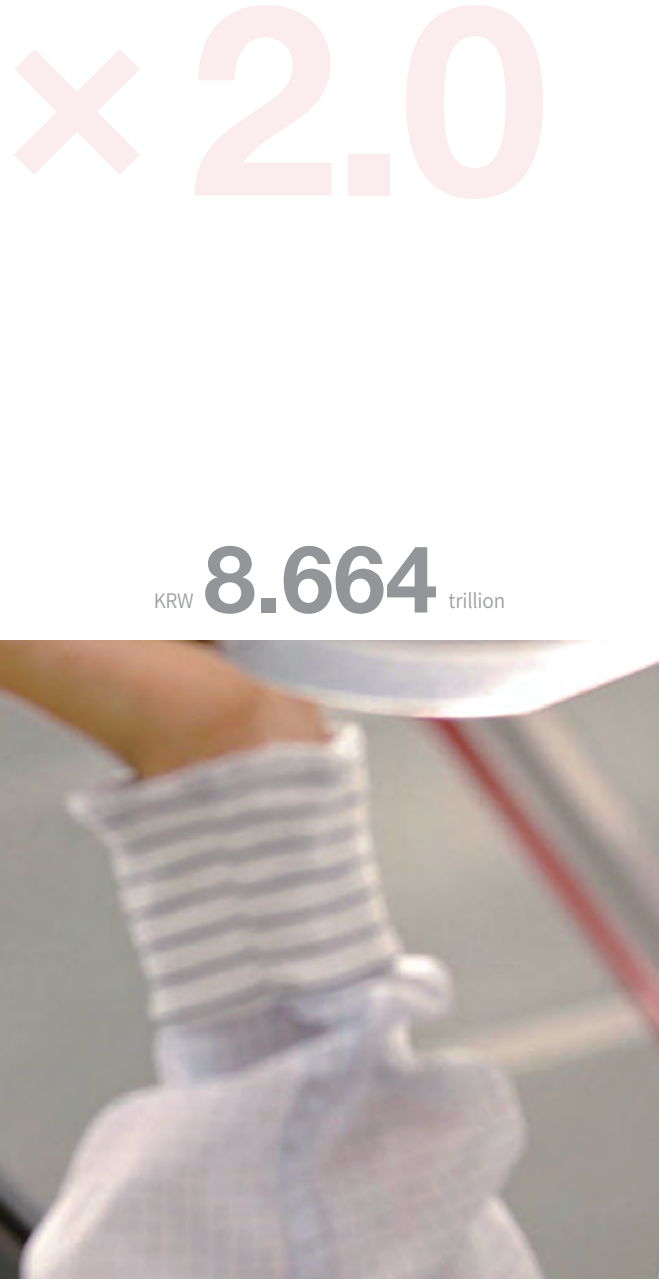
## Sales

(Consolidated)

SK hynix has experienced substantial changes for the past decade due to the expansion of volatility in the global economy. A fresh start as a member of the SK Group also triggered our innovation and progress. All employees at SK hynix have risen to these challenges and changes flexibly and worked together for a success. As a result, our sales in 2017 soared nearly twice compared with 2007 to KRW 17.20 trillion.

× 2.0

KRW **17.20** trillion



2007



2016

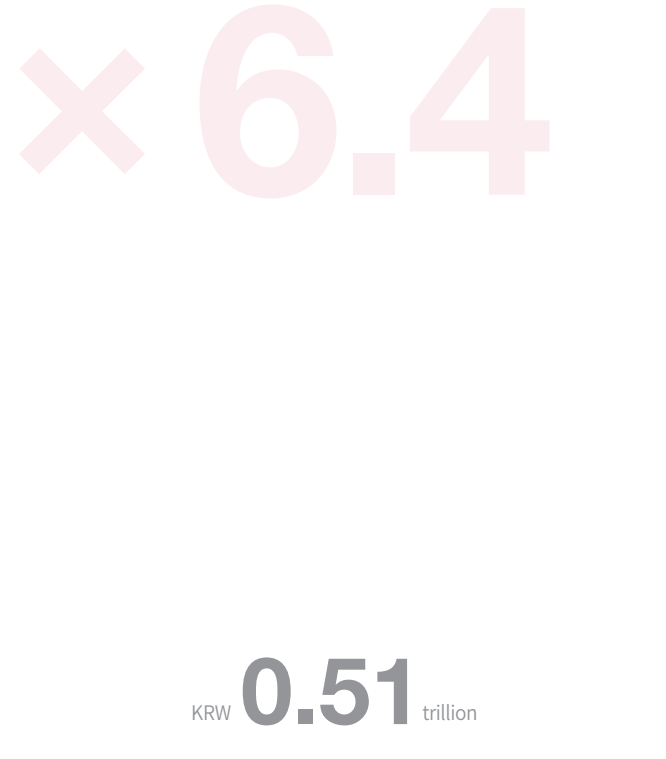
## Operating profit

(Consolidated)

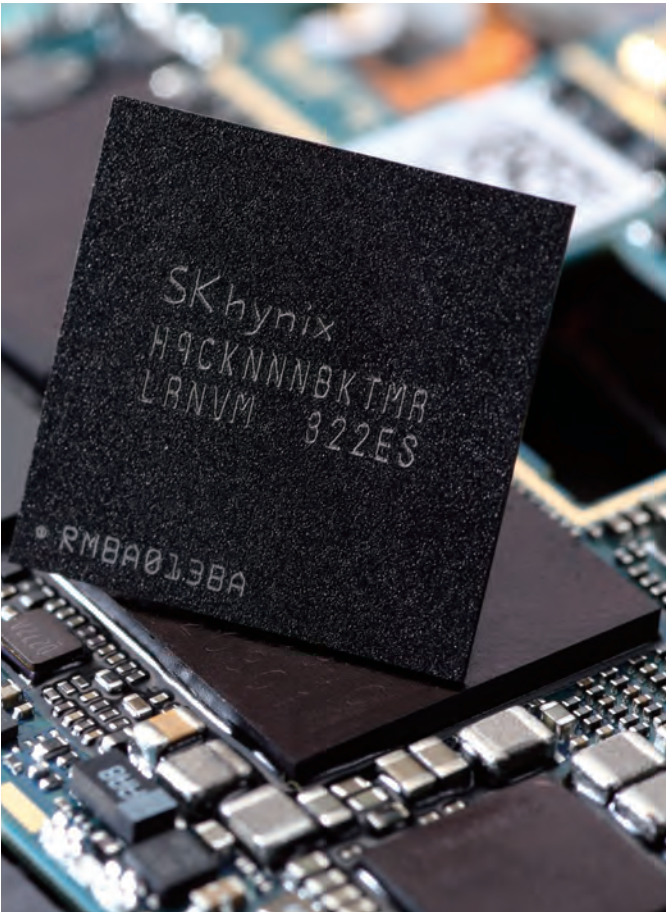
The memory semiconductor business had mainly focused on expanding production capacity and reducing costs in the past, while creation of added values through the advancement of production technology is a critical factor that determines competitive edge today. SK hynix has dedicated to meeting market requirements and conducting profitability-centered business, accomplishing KRW 3.28 trillion in operating profit on a consolidated basis in 2016.

× 6.4

KRW **3.28** trillion



2007



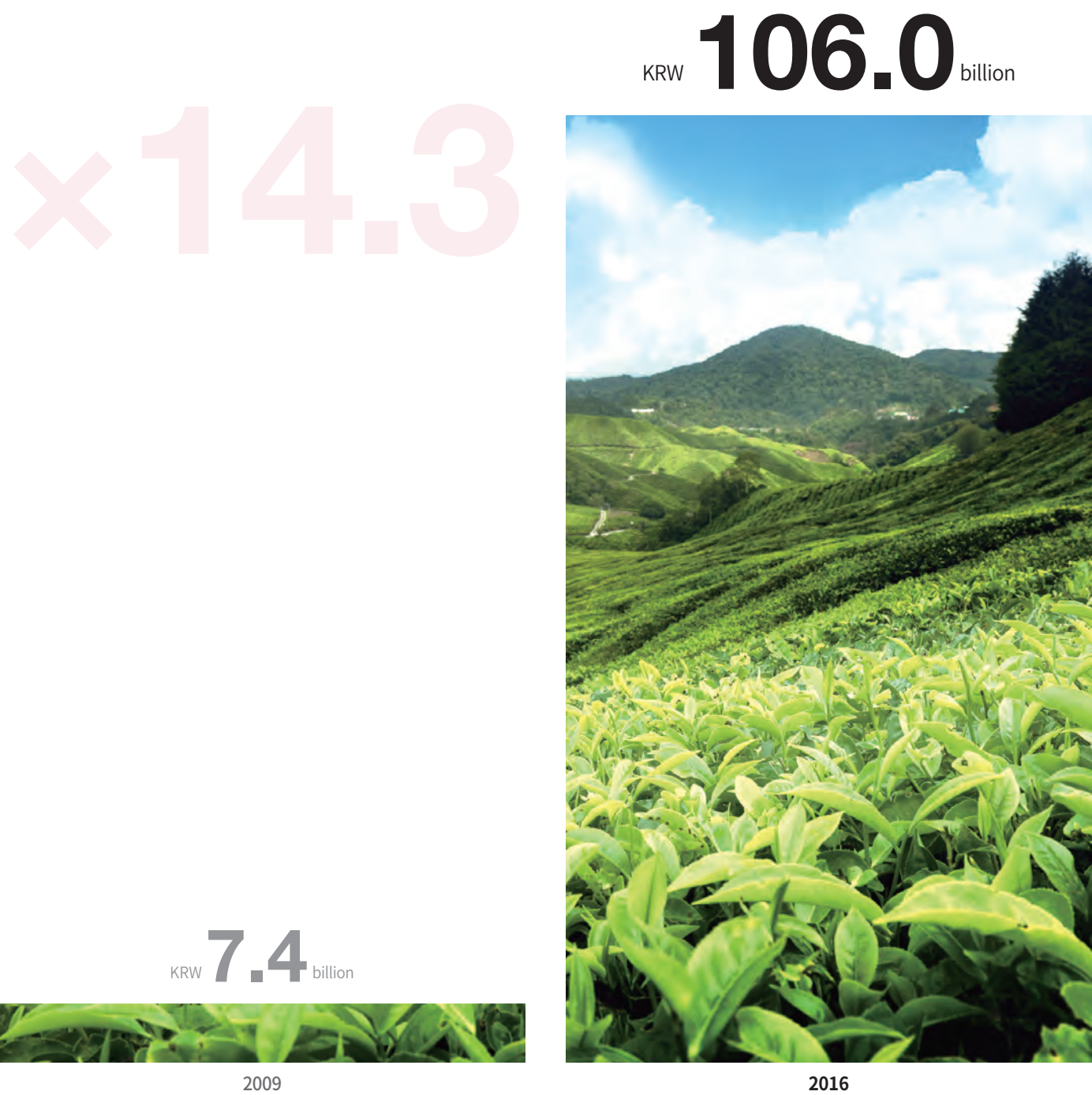
2016



# 10-year Track Records in Sustainability Management

## Investments in Safety, Health, and Environment

SK hynix has invested in SHE (safety, health, and environment) activities through a separate account since 2009 in recognition of the importance of SHE management. Investment volume has increased to maximize performances in SHE management, amounting to KRW 106.0 billion in 2016, approximately 14 times compared with 2009.



## Environmental Product Declaration

With the aim of joining global efforts for mitigating climate change and improving added values of products, SK hynix has expanded eco-friendly and energy-efficiency products. Our major products have obtained the certification on environmental product declaration since its launch in 2009. As of 2016, a total of 18 products have 19 domestic and overseas certifications. Going forward, we plan to expand the certification to more memory semiconductor products.

\* Including carbon emissions certification and low carbon product certification as well as certification on environmental product declaration.





# 10-year Track Records in Sustainability Management

## Employees

(Domestic and overseas)

Semiconductor technology has been behind the development of ICT industry. And our 27,488 employees at home and abroad have become the driving force behind SK hynix's progress into a global semiconductor maker. SK hynix is committed not only to increasing employee value through corporate culture innovation and human rights management but also to protecting human rights, labor rights, and diversity in the supply chain.

27,488 persons

+50.5%

18,266 persons



2007



2016

## Donation

SK hynix is proactive in solving social problems based on its management philosophy that pursues co-prosperity. In this regard, we have expanded supports for socially vulnerable class to create happiness together with local communities. Our social contribution is based on employees' voluntary participation and donation. Our donation increased 20.3 times compared to 2007 to KRW 50.6 billion in 2016.

KRW 50.6 billion

×20.3

KRW 2.5 billion



2007



2016



Sustainability Management Strategy



A

**Kim Dong-soo,**  
Head of Sustainability Management Center,  
Korea Productivity Center

Shared Growth



B

**Kim Ik-seung,**  
Professor, Dongduk Women's University

Environmental Impact



C

**Kim Jung-nam,**  
Director, Sustainability Division,  
Samjong KPMG

Climate Change



D

**Noh Jae-sung,**  
Head of Business Strategy Office,  
Business Institute for Sustainable Development

Corporate Culture



E

**Kim Jae-eun,**  
Professor, Seoul School of Integrated Sciences & Technologies

Presenter



**Jun Min-gu,**  
Director, BSI Group Korea

Panel Discussion



SK hynix held a CSR specialists’ discussion at the Management Support Building of the Icheon campus on April 6, 2017, with the goal to examine external views and expectations regarding sustainable management of the company, and seek directions for sustainable management development, in time for the 10th anniversary of sustainable management for the company. The discussion included presentations by experts in the fields of sustainable management strategy, joint growth, environmental issues, climate change, and corporate culture, and a Q&A session with the audience. The leaders of the SK hynix's Sustainable Management HQ, HR Office, HSE Office, and Labor-Management Office also attended the discussion.

Session 1 Evaluation of Sustainable Management by SK hynix

- A

The sustainable management strategy of SK hynix started with ethical and law-abiding management. Over the last ten years, it has fulfilled external demands, and gradually integrated environmental and social issues. From a maturity aspect, it can be said the strategy went through a process of converting from a passive stage to an active stage. The department in charge of sustainable management recently changed its name from External Cooperation Headquarters to Sustainable Management Headquarters, clearly showing the will of SK hynix to independently find its way to sustainability. However, the standard required of companies by our society is a more anticipative stage of sustainable management strategy.
- B

I believe it is exceptional that SK hynix is simultaneously pursuing sustainable management, and making efforts for communication with those involved. The growth it has achieved with partners over the past ten years is generally excellent. However, there is a difference in the meaning of joint growth, according to whether it is considered “support and guidance,” or a horizontal “partnership” relationship. SK hynix needs to actively communicate with cooperating companies, and make diverse proposals and excavate ideas, in order to use the partners as a key to technology innovation for the company. Thus, discussions on technological propositions should not only be made with preliminary partners, but even with partners on the second and third levels down the scale. Efforts should also be made to excavate new partner companies, to encourage the national economy.
- C

Environmental issues have a large effect on society. Therefore, one mistake can cause great impact. “Others” cannot be blamed for such issues. Fortunately, the environmental strategy, systems, and activities of SK hynix are managed at a global level. It is receiving positive external evaluations on sustainability through organizations by as CDP and DJSI. However, more caution is required on the method of revealing efforts to reduce environmental effects. The information needs to be presented in a way those related can easily understand, and with higher transparency.
- D

SK hynix’s efforts for and performances in sustainable management can be confirmed through external evaluations. The company has sufficient human and physical infrastructures to play a leading role in sustainable management in Korea. Meanwhile, you need to find out and define what SK hynix wants to ultimately achieve through sustainability management and where the level is located. Recently, SK hynix changed its management philosophy from the pursuit of profit to the pursuit of happiness of customers, employees, and society. In this regard, SK hynix needs not only to establish a strategy to reach the goal and a mid- to long-term road map for real actions but also to clearly present the goal-reaching process.
- E

A comparison of the first sustainability report issued in 2008, and SK hynix today, first of all shows that the range and number of interested parties have increased. There is also a change in method of counteracting to demands, and strategic direction. Business performance has noticeable improved, too. However, there is a need to look back at whether the company has grown socially and environmentally, too. SK hynix has followed leading domestic and international companies in terms of sustainability until now but now it must make its mark as a leader of global sustainability. This means instead of reacting to external evaluations, efforts must be made to integrate the key messages of indexes into internal corporate activities.

Session 2 Directions for Growth and Expectations

- A

**Sustainable Management Goals**  
SK hynix is exposed to diverse sustainability issues. There is particularly a need for active involvement in issues that could interfere with the company’s sustainability. To do this, the sustainability goals should be clearly set, together with prioritized activities.

**Role of the Sustainable Management Division**  
An internal activation process is necessary for establishment and operation of a sustainable management strategy. The Sustainable Management Division can play the role of a helper. It can manage internal sustainability issues, and provide insight in the process of solving problems.

**Governance**  
This is the first stage of internal activation. Without governance of sustainability issues, individual groups act inefficiently. For example, when conflict minerals rose as a global issue, the Korean industry only started acting two years after the issue surfaced. However, companies that had well-established sustainable management governance at the time were able to immediately establish a country of origin management system, and internal policy.
- B

**Regular Collection of External Opinions**  
Sustainable management needs to be pursued with a system and manual. Of the many issues surrounding the company, we must particularly be able to extract issues that have a high influence on business, and parties of interest are highly focused on. The most effective method would be to create a channel for regular collection of opinions, as part of the sustainable management system, and listen closely to the opinions of experts and parties of interest.

**Self-responsible Risk Management**  
The final goal of sustainable management is risk management. The company must not fall into any difficulty because of a predictable risk, and each member must have a sense of responsibility. From a corporate perspective, the vision and management philosophy of the company must be shared clearly so that any decisions of the Board of Directors or management can be executed smoothly by workers.
- C

**Improvement of Environmental Aspects and Communication**  
The traditional environmental load measuring unit used by SK hynix and most other companies has limitations in effectively explaining environmental management performance. Stopping at just quantitative performance presentation may lead to an unnecessary misunderstanding of being greenwashing. Instead of simply spending money, priority should be placed on work that shows the public the company is creating and contributing to social and environmental values. The future direction of environmental management will be to accurately measure values, and provide information in a smart way. The Sustainable Management Headquarters will need to be a faithful helper to the Environmental Management team, as they develop such communication methods.

**Measurement of Environmental Values**  
SK hynix has reported various issues through the Sustainability Report for the past ten years. There is especially a need to check whether there is a risk of damaging corporate values, the financial effects of certain issues, and social effects. SK hynix is already creating social value through diverse social contributions. However, it is producing negative environmental effects. The significance of a company can only be considered when the created value is greater than the damaged value. Therefore, we will need to actively prove that the created value of SK hynix is far greater, through monetary statistics.

- D

**Counteraction to Climate Change**  
SK hynix has focused on reduction of greenhouse gases to counteract to climate change until now, and has shown good performance. Effective action against climate change must simultaneously include adaption and reduction. The semiconductor industry in particular has potential issues that can actually affect business, such as heat waves and fine dust. Therefore, we must take an interest in areas of adaption in the future, too, and be thoroughly prepared for risk management.

**Application of Renewable Energy**  
Global companies have a greater interest in renewable energy than fossil fuel-based energy. It may be difficult for the semiconductor industry to choose renewable energy for all its fields of work. However, in order to fulfill the social role and responsibility of a company that consumes a lot of energy, the company must show leadership in application of renewable energy with long-term discernment.

**Specific Environmental Goals**  
More specific environmental goals must be set, and the significance of the goals should be communicated with the parties involved. The company is already conducting various activities in the right direction, such as environment-friendly product development, Environmental Product Declaration, and LCA. However, it is currently difficult to understand the significance of the goal number, and it does not take up a large percentage as of yet. A superficial goal cannot be evaluated properly by parties of interest. Therefore, we should be able to present leading and specific goals.
- E

**Respect for Social Minorities**  
The SK hynix Sustainability Report always includes women’s issues. However, the related results are slight. Many global companies have a CDO (Chief Diversity Officer) who makes sure 25% of executives are women, and make open efforts to reduce the salary difference between men and women, including contract employees. Activation of female human resources is an important issue that can help prepare for the next decade.

**Constant Human Rights Monitoring**  
Human rights regulations are being reinforced recently, focusing on North America and the EU. The human rights issue within the supply network in particular is a subject of risk management and mandatory area of public notification, making it that much more important. It also has a big effect on actual business operations. SK hynix already manages human rights issues related to working conditions in the process of counteracting to the EICC. I hope the company will establish a system to constantly monitor the internal human rights situation, before simply counteracting to external evaluations.

**Transparent Social Contributions**  
The social contributions of SK hynix receive positive external evaluations. However, there is a high chance it will be exposed to transparency issues in the future. There are social concerns that expenses of social contribution activities can be redirected for unethical corrupt activities of companies. Therefore, expenses of major social contribution activities should be accurately mapped and ready to show transparently when needed. The background, goals, and roadmap of the social contributions should be presented together.



# Special Conversation with Experts

SK hynix conducted a special conversation for discussing its sustainable growth with internal and external stakeholders beyond mere table discussion among responsible organizations. This conversation was prepared to take a fresh look at the value and future of sustainability management based on the insights of opinion leaders and deliver a meaningful message to the industry. Special conversation was conducted through e-mail and the contents are as follows.

**Q** The rising interest in environmental pollution is leading to increased social demands regarding CSR in the environmental field. What do you think is the most urgent and important environmental issue?

**A** The top global issues are climate change, depletion of resources, the energy problem, and new environmental issues following new technology. The energy and climate change problems are particularly linked, and are key issues that are related to a variety of areas, including international politics, and economics. Companies actually use the most energy and resources, and are the main agents that develop and apply new technology, to improve social efficiency. Therefore, companies not only cause environmental problems, but can only play the most important role related to management and solutions. A company cannot avoid public criticism if it stops at simply counteracting to environmental regulations. I believe the proper way to counteract to future environmental changes is to actively create new standards, establish solutions, and play a leading role with the issue.

**Q** The government uses a “carrot and stick” strategy to prevent environmental pollution through emission of pollutants by companies, where it sometimes applies restraints, and sometimes reinforces incentives. Which do you think is more effective?

**A** Regulations and incentives do not contradict one another. When a regulation is stronger, the incentive effect is greater. A company that fulfills strong regulations has an upper hand compared to competitors seeking to newly enter the market. Once regulations are made, incentives should be reinforced for improved effectiveness. Regulations can prevent environmental pollution up to a certain level, and reduce emission of pollutants. However, incentives can induce companies to achieve innovation. I believe the most effective method is to stimulate corporate innovation through appropriate use of regulations and incentives, and use both detailed adjustments and management for maximization of the competitiveness of domestic companies.

**Q** There are companies that lead the pursuit of environment-friendly management activities, such as participation in RE100. I wonder if the goal of such activities is improving social value, or reinforcing internal corporate capacity?

**A** As mentioned above, companies are already required to create and lead social values. This role of companies will grow as the power of political powers weakens in modern day society. In other words, a company must be able to simultaneously pursue internal capacity and social values for long-term survival. A company that disregards increased social value will not be able to develop internal capacity either. I do not think that a company can be a good company, or a great company, with just product manufacturing technology.



“  
**Sustainable company contributes to the sustainability of local communities, the nation, and the world as well as the creation of economic value.**  
”

**Chang Jae-yeon Professor,  
Medical School at Ajou University**

Joint CEO, Korean Federation for Environmental Movements  
Occupational Disease Deliberation Committee Member,  
Occupational Safety and Health Research Institute  
Former Industrial Health Verification Committee Chair, SK hynix

**Q** Demands for CSR have been increasing recently. Who should play the leading role, companies or the government? What is the role of companies?

**A** The ultimate goal of a company is not maximization of short-term profits, but sustainable long-term growth. Therefore, voluntary CSR is compulsory for a company to aid healthy development of a society. However, there are limitations to voluntary corporate activities. Large-scale activities are hard to pursue because of the cost, and it is difficult to independently judge the scale of the activities. I believe the government or public organizations should provide rational guidelines, and companies should actively pursue CSR within the range possible for them, to provide an ecosystem where companies and society can grow together.

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**Q** What is the relationship between CSR activities and financial performance of a company? I wonder what conclusion you reached after working in the industry.

**A** Cost follows social responsibility, and it is true the companies will be passive if times are hard for the industry. However, in the long-term, companies often end up reducing future problem-solving cost when they are voluntarily socially responsible. For example, if a company disregards environmental issues for short-term profits, it can end up spending an astronomical amount to pay for after-measures. A company must actively contribute to social welfare to increase market demand and profit. It is my judgment that there is a correlation there, even if they do not seem closely related.

**Q** As you mentioned, CSR costs money. Would that be translated as consumption expenses or long-term investments?

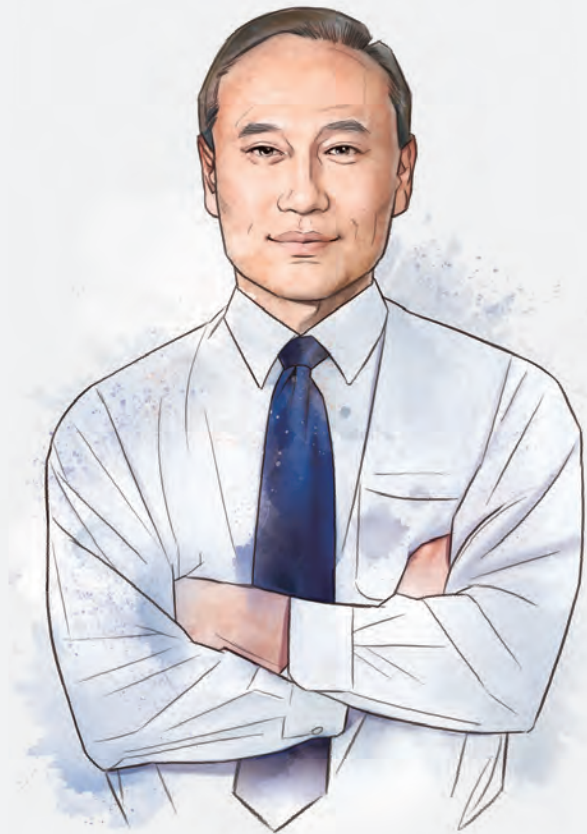
**A** CSR activities stimulate social development in the long-term, and can lead to demands throughout society. Social development is the foundation for corporate development. Therefore, costs related to CSR should be considered long-term investments, not consumption expenses.

**Q** If a company were to pursue CSR activities when the internal resources are limited, which should be the selected areas of concentration?

**A** Improved national health and expansion of welfare are necessary for a society to develop. Therefore, companies should focus on environmental protection and employment. Next is education for society members. Companies should make efforts for education and creation of jobs to relieve the biggest social issue of polarization, and make sure social conflicts do not lead to corporate risks.

**Q** What should the future of a sustainable company look like?

**A** Sustainable management not only helps companies, but all those involved in the industrial ecosystem. Companies should focus on R&D and invest in growth industries to maximize sales and profits. Close relations should be maintained with the government and international society, and CSR activities should be pursued voluntarily. In sum, a sustainable company is one that raises social welfare levels to pursue expansion of demands in general, and endeavors to grow together with other parties involved.



“  
**Sustainable company pursues increasing demand by providing better social welfare benefits and growing together with stakeholders.**  
”

**Kim Du-kyung  
Non-executive Director of SK hynix**

Former Professional Advisory Professor of Korea Banking Institute  
Former Executive Director of Korea Federation of Banks



# Special Conversation with Experts

Q What rules should be established for a B2B company like SK hynix to simultaneously pursue economic and social values?

A B2B companies are just like B2C companies in that they ultimately contribute to improving quality of life of consumers. B2B companies need a CSR strategy that makes sure the products and services they provide maximize the economic benefits of the final customer. A few rules need to be applied for SK hynix to continue balance socio-economic growth. First, all parties involved must be able to make decisions based on the CSR philosophy and vision of the company. Strategies related to human resources, capital, products, and supply networks, must be in unison with CSR priorities, and the corporate governance and operation system need to be integrated. Furthermore, social media should be used actively to increase participation of parties. Actions should not stop at those demanded by client companies, but partnerships should be expanded to social organizations and initiatives to create social value and improve CSR performance throughout the supply network.

Q An integration of management strategy and CSR will make activities with a higher level of sincerity possible. What kind of advice do you have for a company that has this goal?

A I have to stress that the management strategy should not aim for short-term profits, but predict macroscopic environmental changes, and counteract in a more forward-looking way. This should also apply to the CSR strategy. The company should not conduct simple volunteer activities that divide profits, or conduct passive contributions due to social pressure. It is the view of economists that it is better to strategically pursue CSR. However, considering the social and environmental effects on depletion of resources, environmental destruction, imbalanced distribution, and an unfair social structure, the CSR strategy cannot be the same as any other general management strategy. A CSR strategy cannot succeed if it is not supported by self-reflection of society, a sense of responsibility, and a will to solve problems. This is why CEOs of successful companies emphasize management values and sincerity. Parties involved should not be used for a strategy. A corporate culture where they are respected must be stabilized to achieve sincerity.

Q I am curious about the results of your recent research on the correlation between CSR activities and financial performance of a company. What are the implications for the industry?

A The relationship between CSR activities and financial performance is also related to CSR and sustainability, and has been an important topic of research since the 1980s. If CSR activities are linked to financial performance, it can create a paradigm where it fundamentally solves social structural problems. However, despite many studies and case studies, the relationship between the two is unclear. Many studies claim level of CSR activities lead to financial performance such as profits, stock prices, and corporate value. However, there are studies that claim they worsen the performance. The core of the problem is whether the cost invested in CSR activities counterbalance economic benefits and leave profits, too. Generally, the economic value of CSR activities appears in the long-term. Therefore, it would be better to continuously manage the non-financial performance of CSR activities rather than focus too much on the short-term financial performance.

Q Lastly, what is your idea of an ideal sustainable company of the future?

A Sustainability means continuous growth of the human race and society. This was born through a sense of crisis that the human race will not be able to survive with the current social structure and economic system. I believe a true sustainable company is not one that uses a market economy logic that social value should be created for economic performance, but one that has conviction that social value is directly linked to corporate development, and pursues strategic direction and methods.

Q Significant Issues for the Supply Chain Management in Electronics Industry?

A The majority of recent issues are related to supply network, and they are important. The number one priority in the electronics industry in particular is the eradication of forced labor, and responsible procurement of raw materials. The EICC (Electronic Industry Citizenship Coalition) is making diverse efforts to solve these problems. We are focusing a lot of our energy on developing programs, tools, and education programs for our member companies.

Q How should sustainable management be pursued?

A Companies today cannot be free from the pressures of other parties related throughout the world, including governments, customers, stockholders, and civil organizations. They want to understand the issues arising in supply networks, and demand companies to reveal information in a transparent way, and solve problems. Taking social responsibility in a clear way is no longer a choice. It is a mandatory part of almost all business and supply networks of companies. The best way for a company to express its will for CSR activities, is first, to raise visibility of the supply network; second, to discover problems through risk evaluations and audits and establish correctional measures if necessary; and third, to provide a management system and program that can continuously focus on improvements through education. Lastly, the effects of the company's business should be measured and reported in the most transparent way possible, in the process of opening CSR performance.

Q What is your idea of an ideal sustainable company of the future?

A This is my idea of a sustainable company. It works hard to improve the quality of life of members, makes sure the supply network does not have a negative effect on the environment or local society, does not settle for the way things are, and always endeavors to improve the social, ethical, and environmental conditions of corporate operations and partner companies. It may seem hard for some companies, but there is no need to feel pressured to do it alone. You can partner with organizations like EICC to learn through the experience and cases of other companies, and use programs, tools and education systems needed for sustainable management of your company and your partners. By working together, we can create a bigger, more positive effect than any company or organization working alone.



An ideal sustainable company is one that is committed to improve the social, ethical and environmental conditions related to its operations and those of its suppliers.

Rob Lederer  
Executive Director of the EICC





# PURSuing RESPONSIBLE BUSINESS AND INTEGRITY

## CORPORATE GOVERNANCE

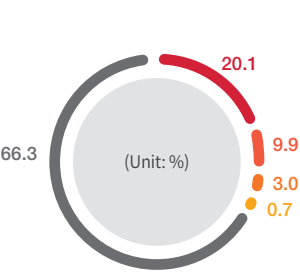
SK hynix pursues sustainable growth by devoting its capability to fulfilling responsibility as a global corporate citizen as well as enhancing corporate value through changes and innovation. Our advanced corporate culture, transparent corporate governance, and commitment to fair trade and business ethics help further strengthen our global competitiveness. And preemptive risk management activities contribute to ensuring solid growth foundation which is undisturbed by external impacts.

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- 46 Ethics Management



Corporate Governance

Share ownership



Shareholders

Total number of listed shares of SK hynix is 728,002,365, all of which are common shares.

(Unit: common shares, as of the end of 2016)

SK Telecom*	146,127,532
National Pension Service	72,338,677
Treasury shares	22,000,570
KEB Hana Bank	5,092,500
Others	482,443,086
Total	728,002,365

\* Including 27,532 common shares owned by affiliated persons

Composition of the BOD

As the supreme decision-making body at SK hynix, the Board of Directors (BOD) engages in establishing core business goals and basic management principles of the company, contributing to maximizing shareholder interest and corporate value. The BOD consists of four executive directors and six non-executive directors. Non-executive directors account for 60% of the BOD, which ensures the independence of the BOD and practical check and supervision over the management. In addition, two subcommittees – Audit Committee and Non-executive Director Candidate Recommendation Committee – are operated under the BOD to secure professionalism in the decision-making process and enhance the independent supervision function of the BOD.

Executive Directors

(As of July 2017)

Name	Gender	Major Career	Date of Appointment	Position
Park Sung-wook	Male	• [Current] CEO, SK hynix • President & CEO, SK hynix	Mar. 20, 2015 (reappointed)	Chairman of the BOD Non-executive Director Candidate Recommendation Committee
Kim Joon-ho	Male	• [Currnet] CEO, SK hynix Systme IC • President of Management Support Div., SK hynix	Mar. 18, 2016 (reappointed)	-
Lee Seok-hui	Male	• [Current] President of Overall Business & Management Support Div., SK hynix • Associate Professor of Electrical Engineering, KAIST	Mar. 24, 2017 (newly appointed)	-
Park Jung-ho	Male	• [Current] President & CEO, SK Group • President & CEO, SK C&C	Mar. 24, 2017 (newly appointed)	-

Non-executive Directors

(As of July 2017)

Name	Gender	Major Career	Date of Appointment	Position
Kim Du-kyung	Male	• Advisory Professor, Korea Banking Institute • Managing Director, Korea Federation of Banks	Mar. 20, 2015 (reappointed)	Chairman of the Audit Committee
Park Young-jun	Male	• [Current] Professor of Electrical Eng., Seoul National University • Senior Researcher, Gold Star Semiconductor	Mar. 20, 2015 (reappointed)	Chairman of the Non-executive Director Candidate Recommendation Committee
Kim Dai-il	Male	• [Current] Professor of Economics, Seoul National University • Researcher, Korea Development Institute	Mar. 20, 2015 (reappointed)	Member of the Audit Committee
Lee Chang-yang	Male	• [Current] Professor, KAIST Business School • Head of Industrial Policy Div., Ministry of Commerce, Industry and Energy	Mar. 20, 2015 (reappointed)	Member of the Audit Committee
Choi Jong-won	Male	• [Current] Professor at Graduate School of Public Administration, Seoul National University • President of Graduate School of Public Administration, Seoul National University	Mar. 24, 2017 (reappointed)	Member of the Audit Committee Non-executive Director Candidate Recommendation Committee
Shin Chang-hwan	Male	• [Current] Professor of Electronic Engineering, University of Seoul • IBM Micro Electronics	Mar. 24, 2017 (newly appointed)0	Member of the Audit Committee

Subcommittees under the BOD

(As of December 2016)

Audit Committee

Four non-executive directors\*

Authority and responsibility

Audit of accounting and business activities, appointment of independent auditors, etc.

Major agendas treated

• Held 10 meetings

• Inspection on the operation of internal accounting management system and accounting audit results

• Internal audit results

\* The number of the Audit Committee members increased from 4 to 5 non-executive directors as of March 2017.

Non-executive Director Candidate Recommendation Committee

Two non-executive directors and one executive director

Authority and responsibility

Recommendation, screening, and appointment of non-executive director candidates in accordance with relevant regulations, articles of association, and the BOD rule

Operation of the BOD

The BOD deliberates and decides major management agendas stipulated in relevant regulations, articles of association, the BOD rule by convoking regular meetings and temporary meetings if necessary. In 2016, the BOD convoked meetings eight times to deliberate and conclude 17 agendas. The attendance rate of non-executive directors was 97.6%. The BOD meeting is convoked by the Chairman or members in accordance with the BOD rule. Decision is made by the attendance of a majority of directors and a majority vote. We also pursue IT-based advanced BOD operation. Directors can join the BOD meeting or perform their works by capitalizing on digital devices offered by the company, security-rich network, and video conference system anytime, anywhere. Moreover, information on the BOD activities such as subcommittees, meetings, and major conclusions is transparently disclosed through corporate website. We not only disclose annual business report, quarterly report, and semi-annual report regularly but also announce legal disclosures and major critical information to stakeholders as rapid and accurate as possible.

Non-executive Directors Committee

SK hynix operates the Non-executive Directors Committee consisting of only non-executive directors. This committee carries out in-depth deliberations on relevant issues regarding the proposed agendas before the BOD meeting, contributing to right decision-making of the management. Other key roles of the committee include ensuring fairness, objectivity, and legitimacy in the transactions with affiliates of the Group by checking the contents and procedure of transactions in advance.

Remuneration of Directors

(Unit: KRW in millions, as of the end of 2016)

Classification	Target (persons)	Total remuneration	Remunerating per capita
Executive director	4	2,852	767
Non-executive director	5	390	78

Appointment of Directors

Directors are appointed at the shareholders’ meeting after strict examination and recommendation by the BOD or Non-executive Director Candidate Recommendation Committee. They are required to satisfy the qualifications set by relevant regulations and articles of association, have healthy sense of business ethics and occupation, and pursue better stakeholder value in a long-term and balanced manner. The company assigns their duties in consideration of their professionalism and diversity in each field to ensure efficient supervision on and advices to the management. Therefore, SK hynix appoints non-executive directors who have no conflict of interest and can make decisions independently.

Supports for the BOD Activities

SK hynix runs the BOD-dedicated website (BOD.skhynix.com) for the advancement of the BOD operation system. The website provides diverse management information including the BOD agendas, financial materials, and business conditions, helping regular information exchange between directors and the company. We also offer non-executive directors the latest business trends and major management issues on a regular basis to enhance their professionalism and understanding of our business. In April and November 2016, we held workshops to share the NAND Flash solution development issue, outlook for ICT market, and so on.

Evaluation and Compensation

Remuneration of directors is paid in accordance with regulations via the conclusion of the shareholders’ meeting in a fair and transparent manner, and the results are disclosed to the public.

Annual Rate of Compensation

(Unit: KRW in millions)

Classification	2014	2015	2016
Highest compensation (A)	1,361	1,549	1,649
Average employee wage (B)	75	90	96
Rate (A/B, multiples)	18.1	17.2	17.2

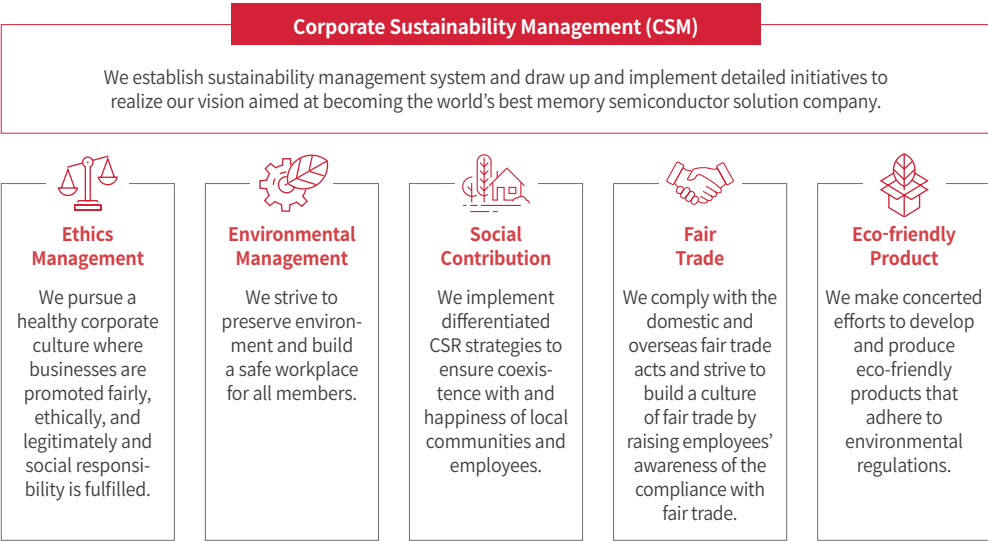


# Sustainability Management Governance

## Sustainability Management Principles

SK hynix has been committed to carrying out sustainability management activities based on SKMS (SK Management System), SK Group's management execution principle, despite rapidly-changing business environment. Our commitment to sustainable growth aims at the happiness of all stakeholders including customers, employees, shareholders, and society, contribution to the development of national economy, and eventually the happiness of humankind.

## Sustainability Management System





## Governance

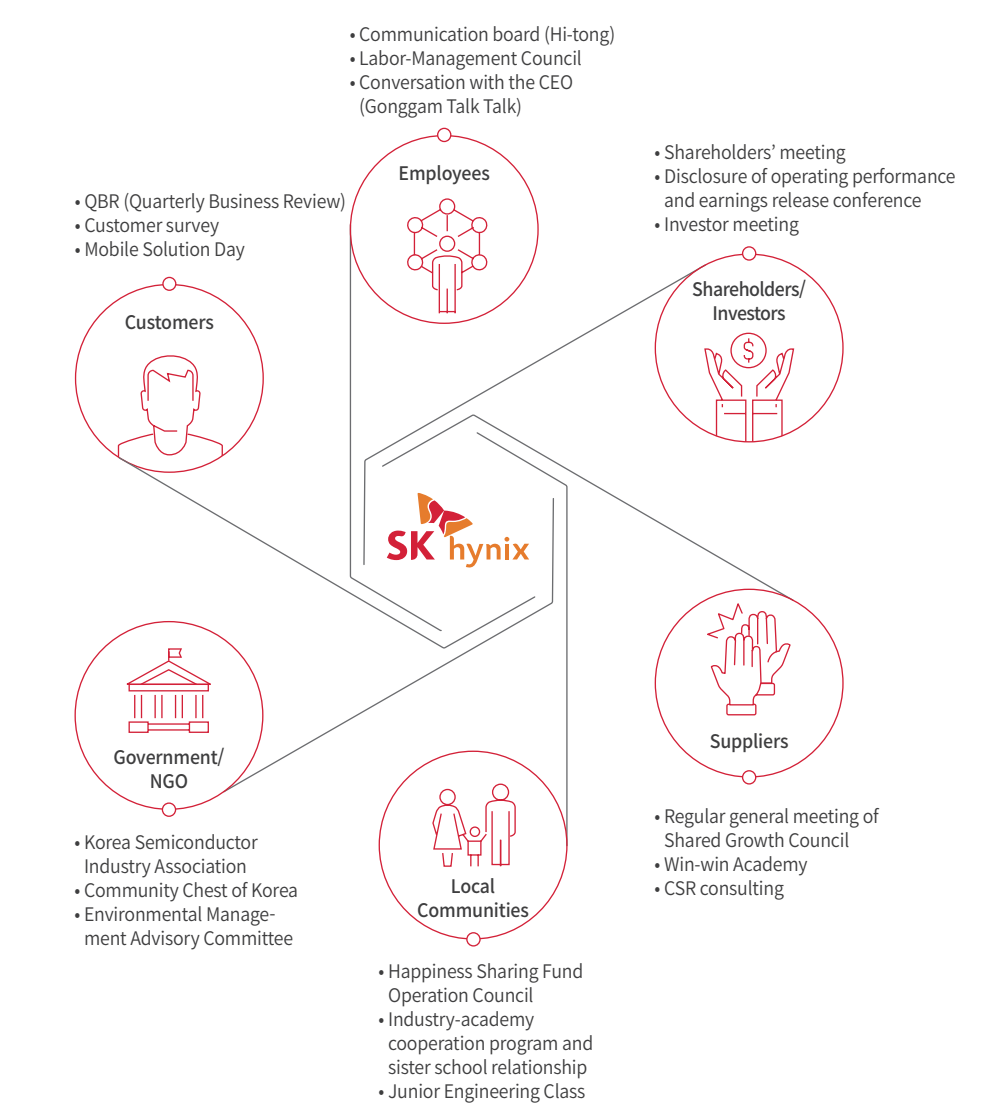
The Sustainability Management Division, former Corporate Relations Division before 2017, is in charge of SK hynix's sustainability management activities. This division supports the establishment of sustainability management strategies based on SKMS and international standards such as UNGC, EICC Code, UN SDGs, and ISO 26000, and promotes practical activities in collaboration with each division. Other major role is to report global CSM issues to executives with the aim of integrating CSR principles into company-wide management strategies.



<http://blog.skhynix.com>  
<https://www.facebook.com/SKhynix>

## Communication with Stakeholders

We believe more communication with stakeholders ensures better sustainability performances. We also define the essence of sustainability management as efforts for continuously improving our sustainability management system to swiftly respond to changing requirements of stakeholders. In response, SK hynix promotes communication with stakeholders through diverse channels. Particularly, our sustainability report,  blogs, and  SNS contributes to enhancing mutual communication with external stakeholders.



# Global Compliance

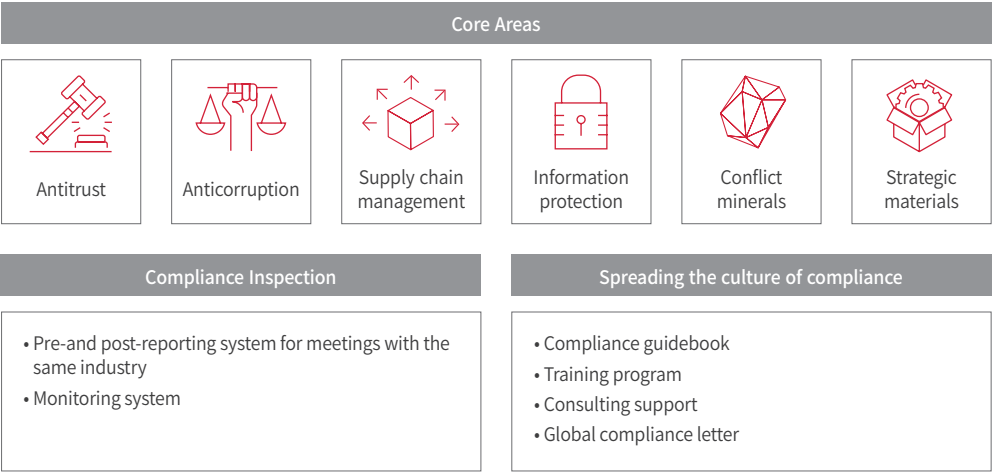
## Compliance Policy

At SK hynix, the compliance activity will be a foundation for solidifying its leadership and pursuing sustainable growth. To that end, we have established a compliance program, thereby complying with fair trade and eventually enhancing competitiveness through fair competition.

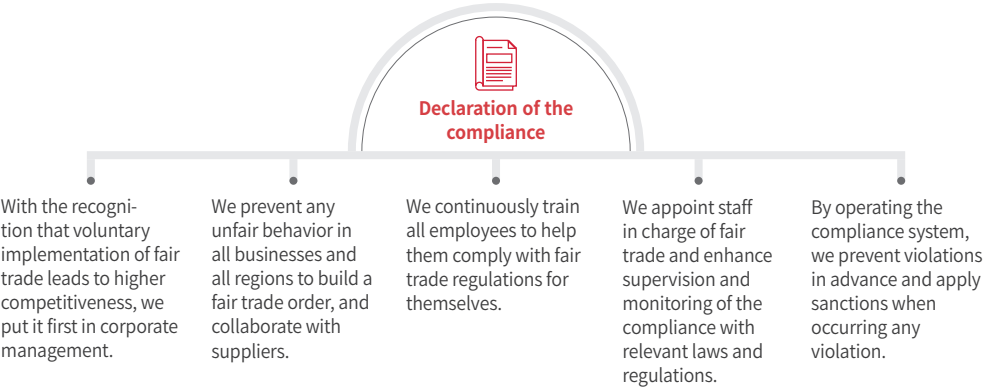
## Global Compliance Program

The global compliance program (GCP) is regularly operated to control core issues such as antitrust, anticorruption, supply chain management, information protection, conflict minerals, and strategic materials. The Global Compliance Team is in charge of eliminating potential compliance risks and tightening risk management system through regular training for relevant departments and risk monitoring activity.

### Global Compliance Program Promotion System



### Declaration of the Compliance



## Training on Antitrust

SK hynix inspects fair trade procedure and results of major sales subsidiaries every year and train them about the compaliance with antitrust policy. Particularly, our sales subsidiaries hold the Compliance Day event every month from February 2017 to share major precedents and up-to-date regulation trends with employees.

## Anticorruption Activities

Our activities to prevent corruption include upgrade of company rule, training, promotion, and monitoring system. In response to the enforcement of the Improper Solicitation and Graft Act in 2016, we upgraded our anticorruption compliance system. For example, the Code of Ethics, ethics practice guidelines, and expense related rules were amended and we share core articles with all employees. Moreover, they conducted a pledge on compliance with the amended company rules and the Act. Going forward, SK hynix will continue to enhance anticorruption activities at home and abroad to fulfill its responsibility as a global company.



### Tax Strategy

#### 1. Ensuring global compliance

SK hynix abides by the compliance principles of each country where its business is operated. We faithfully perform all our duties of reporting and paying taxes in accordance with local tax laws and submit proof data to taxation authorities when they require.

#### 2. Transparent trade

SK hynix is committed to trading at normal prices based on the function and risk of contracts even in the transactions with domestic and foreign affiliated parties in accordance with our transfer pricing policy wich was set up on the basis of OECD's transfer pricing guide and the Adjustment of International Taxes Act.

#### 3. Preparation of documentation to prevent BEPS

As the documentation policy aimed at preventing BEPS (Base Erosion and Profit Shifting) was added to the OECD guideline, SK hynix is striving for standardization of tax information by each country and response to their requirements.



### AEO certification

SK hynix introduced the AEO (Authorized Economic Operator) system that the Korea Customs Service examines trade-related companies about their compliance with laws and safety control level, establishing and optimizing a work system to ensure import and export safety for our domestic worksites. And then, the AEO system has been adopted to overseas worksites to upgrade their import and export safety competence to the level of domestic worksites. Moreover, SK hynix won the grand prize at the Best AEO Practice Award hosted by the Korea Customs Service in November 2016 in recognition of our efforts for maximizing the certification effect. We are maintaining AAA grade, the highest among companies with the excellent AEO certification.

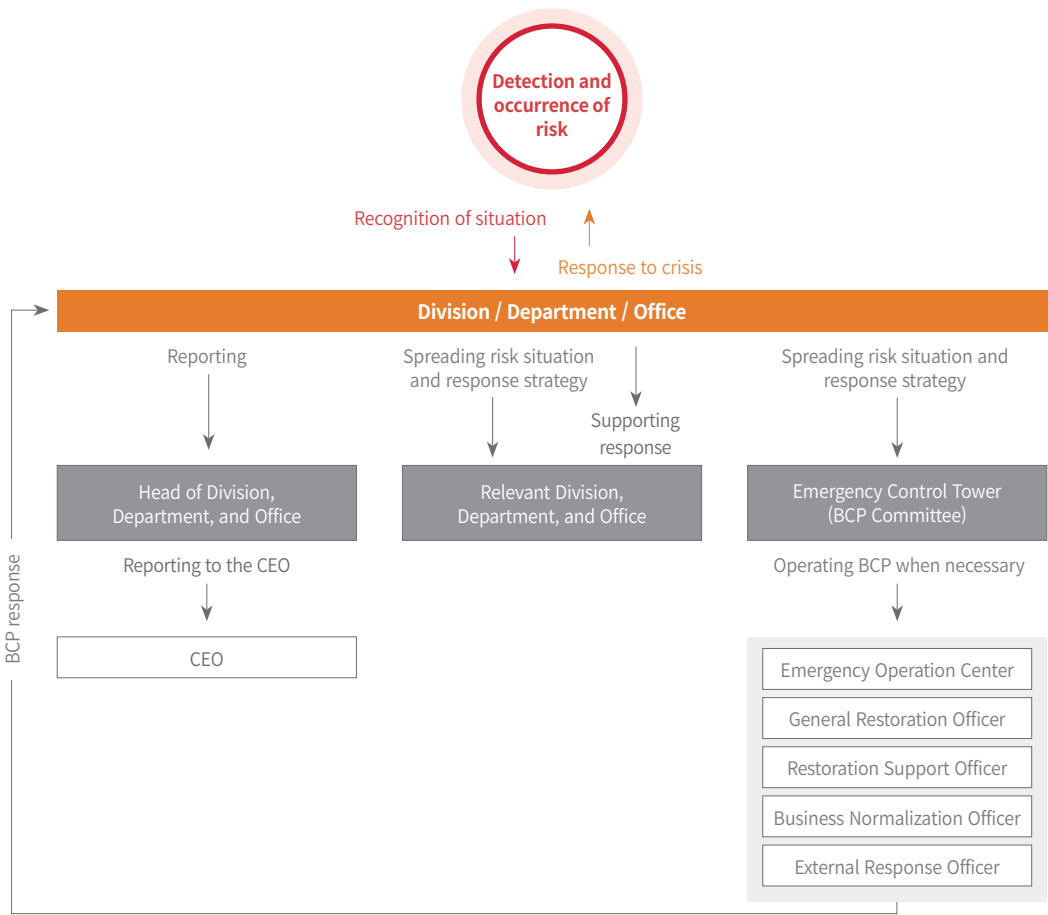


Risk Management

ERM (Enterprise Risk Management)

SK hynix dedicates best efforts to methodically control diverse risks from business activities to prevent risks and lay the foundation for sustainable growth. We minimize potential risks by preemptively figuring out and systematically manage financial and non-financial risks that may be obstructive of achieving our business goals. Recognition and spreading of risks, establishment of response strategy, and execution are led by organizations responsible for each risk. Relevant departments are proactive in supporting the organizations in accordance with the predefined risk management process. Going forward, SK hynix will not only preemptively prevent risks based on the strict risk management system but also enhance business continuity by swiftly responding to emergencies and taking follow-up measures.

Risk Management System



Business Continuity Planning System

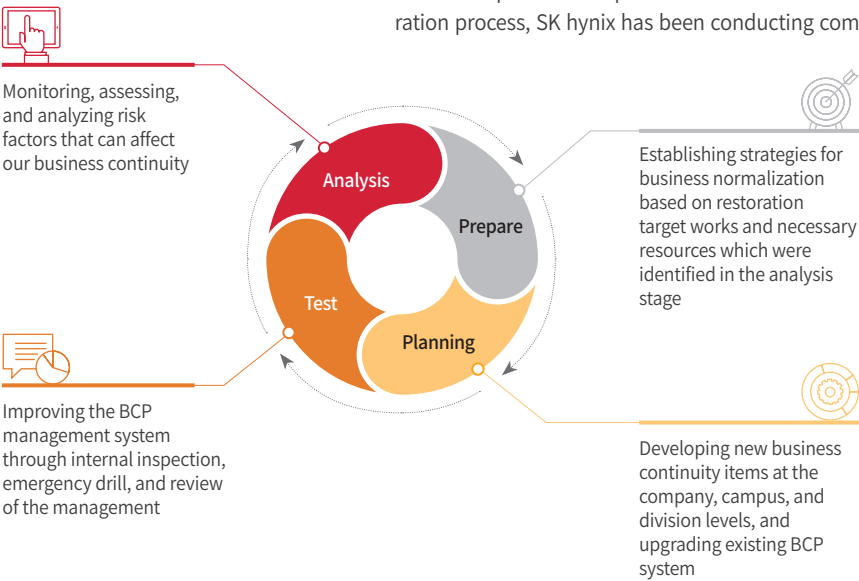
The global-level systematic BCP (Business Continuity Planning) is promoted to protect employees from accidents and emergencies and ensure sustainable business operation. Icheon Campus and Cheongju Campus obtained the ISO 22301 certification on the BCP system in 2014, and Wuxi Campus in China also obtained it in 2015. They have maintained the certification through evaluation every year. The BCP system allows SK hynix to stably operate its business based on ready-made manuals.

BCP Framework

Our BCP activity is implemented by four stages of analysis, preparation, planning, and test. Each process is conducted at least once a year.

Emergency Drill for the BCP System

To ensure practical response to crisis and restoration process, SK hynix has been conducting com

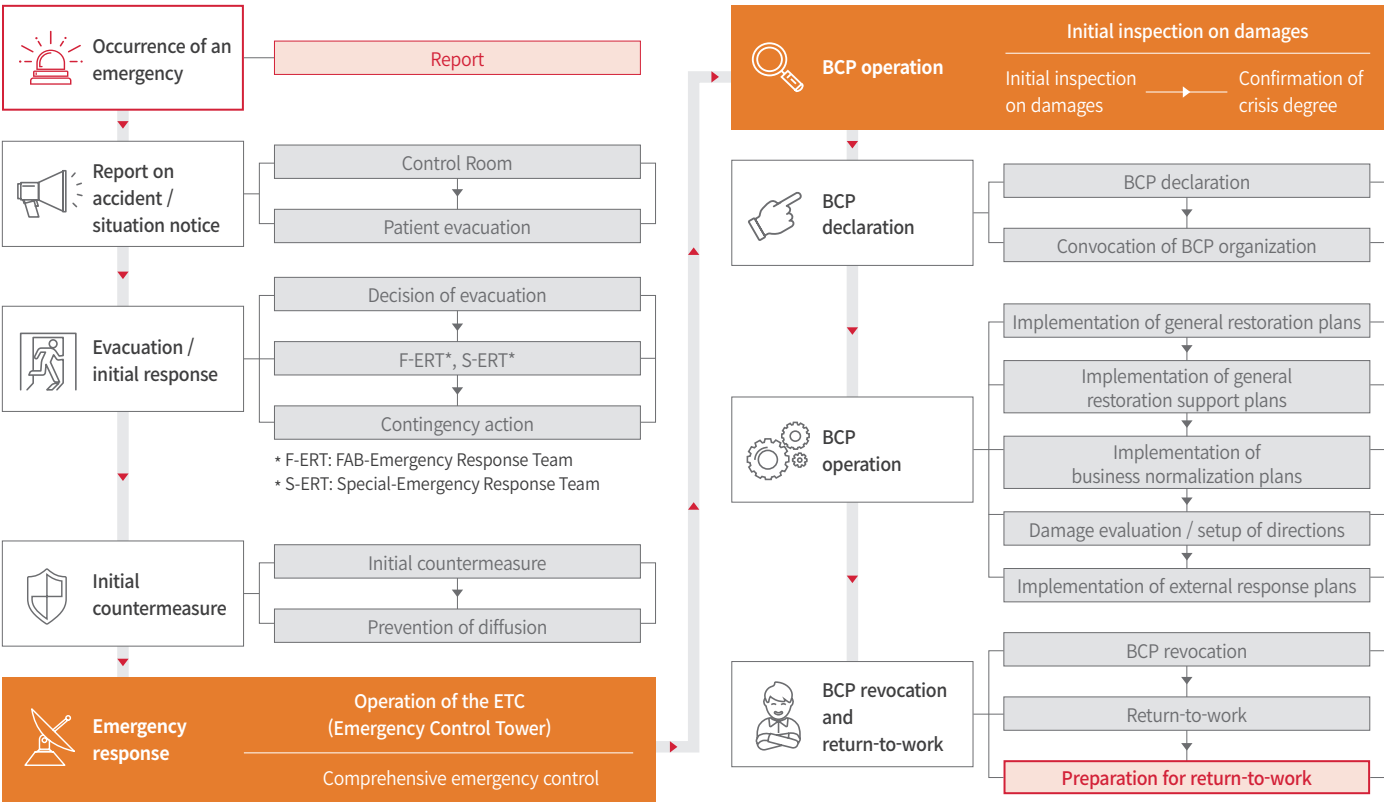


pany-wide regular emergency drill every year. The emergency drill helps check capabilities to handle unforeseeable circumstances, restoration system, and follow-up measures, through which we check the company-wide BCP system, identify improvement tasks, and eventually enhance the effectiveness. In 2016, we added the earthquake issue in the Korean Peninsula to the BCP system.

BCP System Operation Process

In case of an accident, the SHE Office leads emergency response activities such as evacuation and initial countermeasure. And then, professional workforce of each division investigates damages and the BCP system is operated in accordance with damage degree. If necessary, the BCP organization and ready-made action plans are executed immediately. For example, as concerns had been serious due to the fast spread of the MERS since May 2015, SK hynix initiated the BCP system in June 2015 to encourage prevention activities and prepare for response, restoration, and normalization process against the occurrence of MERS patients. It was completed in June 2016.

BCP System Operation Process





# Ethics Management

## Pledge to Ethics Practice

All employees of SK hynix are active in practicing business ethics based on high-level ethical thinking, which helps the company build solid customer trust. They take the pledge to ethics practice every year, understanding the importance and necessity of ethics management and resolve to practice business ethics. The pledge encourages leaders to take the initiative in and staff to voluntary practice of business ethics. Moreover, unethical behaviors are specified in the pledge to help them comply with the Code of Ethics.

## Amendment of the Code of Ethics (10<sup>th</sup>)

The company has established the Code of Ethics based on the SKMS (SK Management System) which is SK Group's management philosophy. The Code of Ethics consists of the declaration of ethics management, principles of ethics, and practice guidelines, and has been amended in accordance with changes in ethics trend at home and abroad and the Group's guidelines to help transparent and rational decision-making. The 10th amendment in 2016 presented distinct guidelines on bribery, entertainment, convenience, offering of jobs, and so on to comply with the Improper Solicitation and Graft Act. We also reorganized the compliance mandate of the Code of Ethics, informant protection criteria, etc. in accordance with the Group's tightened Code of Ethics, and improved systems which were unsatisfied with ethics practice identified through survey, consulting, and reporting process. Particularly, a guidebook titled "Ethics Management Practice FAQ" was published to help employees make ethical decisions in cases of conflict of interest and ethical dilemma. Containing diverse case studies, the guidebook will give employees actual help for voluntarily conducting business ethics.

## Education on Ethics Management

Educations on ethics management are offered to all employees with the aim of raising their awareness of ethics and eliminate unethical behaviors. Online education is mandatory to all employees and both division heads and their staff participate in offline collective education programs. Employees receive online education consisting of video contents about comprehensive ethics management through PCs and mobile devices. In 2016, 99.3% of employees joined online education for 10 weeks since June. We plan to offer online education to employees working at overseas worksites by translating the contents into English and Chinese languages. Offline education is requested and hosted by the head of each division, and in-depth education programs are provided in accordance with the characteristics of the division and employees' position, duty, and job. The organization leaders have responsibility to help their employees and job-related stakeholders understand our ethics guidelines correctly and to support and manage their ethics practices. Thus, in 2016, we launched the "Ethics Practice Workshop" hosted by executives such as division heads, office heads, and project managers and attended by team managers, project leaders, and staff members in order to further foster ethics practice at the division level. The "Ethics Practice Workshop" gave a good chance to intensively discuss ethical dilemmas that can occur within organizations. Moreover, the "Visiting Ethics Class," a tailored ethics education program, provides employees with essential ethics education contents by analyzing ethical risks of each organization in advance.

Time Spent on Ethics Education (Unit: hours)			
Classification	2014	2015	2016
Time spent on ethics education per capita	0.40	1.05	0.72

Ethics Education Results in 2016					
Classification		Target	Education (times)	Participants (persons)	Education hours (hours)
Collective education (off-line)	Entry-level education		10	446	10
	Visiting Ethics Class	Domestic	125	6,803	125
		Overseas	8	400	20
	Ethics Practice Workshop		110	994	165
On-line education		All domestic employees	1	20,291	0.5

## Operation of the Ethics Management Portal

Since April, 2016, SK hynix has been running an integrated ethics management portal (EthicsPlus), an internal ethics control system. The EthicsPlus ensures IT-based control of HR, cost, purchasing/BP, and facility issues, thereby allowing us to prevent potential ethical risks through field-based autonomous inspection on and regular monitoring of business ethics. We also conduct the "Ethics Survey" for self-diagnosis of ethics practice on a regular basis, inspecting the level of ethics management of organization and identifying improvement directions. In 2016, we surveyed a total of 15,695 employees from worksites of six countries – Korea, China, US, Japan, Taiwan, Germany, and Singapore – to check their awareness of ethics and the level of ethics practice internalization. Survey results are being used for the establishment of more efficient ethics systems and improvement activities.

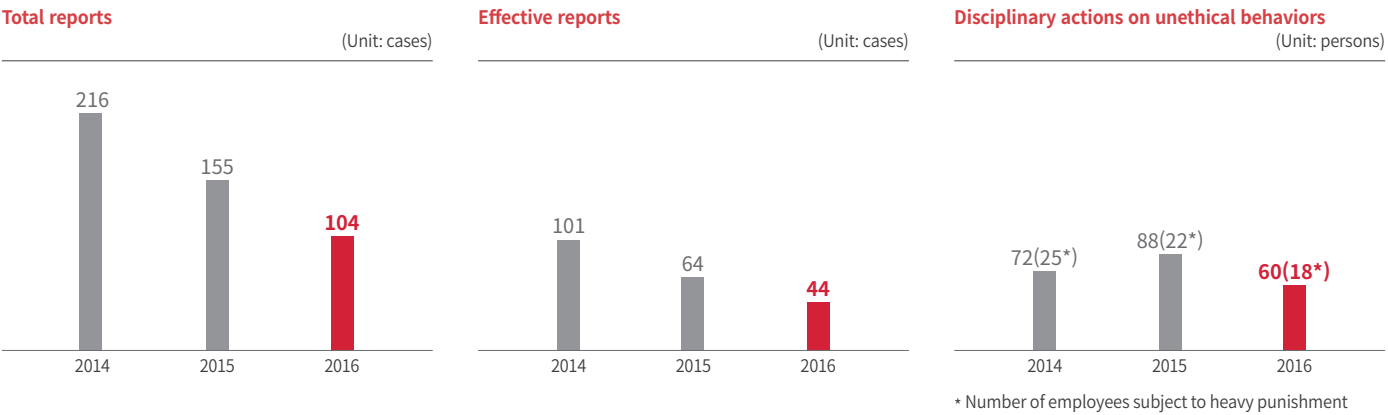
## Consulting and Reporting System

SK hynix is operating an online reporting system via its official website so that all stakeholders can report or seek consultation about ethical issues. All reported contents and identity of informants are treated with confidentiality in accordance with security procedures and informant protection program. Particularly, the amendment of the Code of Ethics in 2016 included stepped-up "informant protection" and "prohibition of retaliation and disadvantage" articles and specified regular inspection through follow-up monitoring of the organization dedicated to ethics management. In 2016, a total of 104 cases were reported, 44 of which were inspected in depth, and 60 employees received disciplinary measures.

## Dissemination of Ethics Management

Practice of ethics management takes more than just participation of our employees. To disseminate ethics management to suppliers, SK hynix has encouraged them to join the pledge to ethics practice and shares its ethics management guideline. In January 2016, a total of 675 suppliers signed the pledge to comply with the rule that specifies sanctions on unethical behaviors, through which we shared our ethics policy and systems with them. In addition, we are carrying out a campaign aimed at prohibiting bribery between suppliers and our employees and are operating the "Gift Return Center." In 2016, a total of 23 gifts were delivered to the company, all of which were returned to gift providers or used for our social responsibility activity. Meanwhile, Wuxi Campus and Chongqing P&T appointed global staff as the ethics management officer to practice business ethics meeting local culture and sentiment. Moreover, Wuxi Campus held the Ethics Management Practice Competition and Chongqing P&T published an ethics management practice guidebook in 2016.

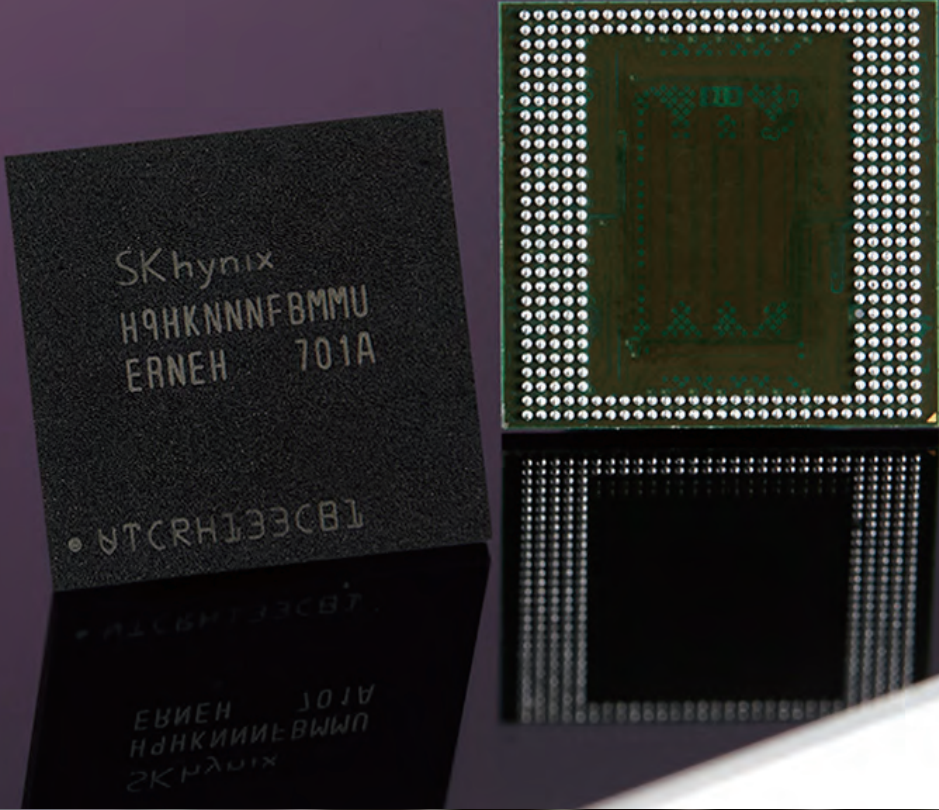
### Consultation and Report on Ethics Management







# UNDERSTANDING AND SHARING WHAT OUR STAKEHOLDERS VALUE



## FOCUS AREAS

SK hynix is proactive not only in responding to sustainability issues raised by both internal and external stakeholders but also in engaging in various activities for co-prosperity with them. As part of this, the company reports its core issues and response activities in the aspects of economy, environment, and society in a detailed and systematic manner, helping stakeholders understand its sustainability management and expanding communication opportunities.

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# Safety and Health

ISSUE 01



Importance of the Issue

Considering the nature of the semiconductor business, safety and health issues have both financial and nonfinancial impact on the company. Regulations and inspections on safety have been tightening in Korea and China. Local communities’ recognition of health and safety and customers’ requirement on information disclosure are increasing as well. Therefore, more practical and effective response is needed.

Management Approach

SK hynix has introduced the highest SHE standards to embed safety in corporate culture. We have acquired the OHSAS 18001 (Safety and Health Management System) and KOSHA 18001 (Safety and Health Management System) certifications to ensure objectivity in our safety and health practice while maximizing the benefit. In addition, we monitor impacts from our business by cultivating professional examiners for safety and health management system and formed a dedicated organization to efficiently control safety and health. SK hynix is committed to building safe and healthy workplaces by continuously improving safety and health issues.

Responsible Organization and Role

SHE Office

└─ SHE Steering Council

- SHE Office: Identifying and improving safety and health tasks
- Communication Office: External communication
- Legal Affairs Office: Support for compliance

Future Plan

We do not often find our problems for ourselves. In case of solving safety and health issues at worksite, it is often necessary to borrow a fresh perspective and approach of external stakeholders. SK hynix has been well aware of the importance of objective opinions by operating a verification committee consisting of external experts. We will continue to listen to the voice of external stakeholders to gain a deep insight into safety and health issues and prepare rational solutions.

Major Activities and Performances in 2016

Investments in SHE  
KRW 106.0 billion



Average safety index at the company level

96.1 points



Pledge on safety

113 in-house suppliers



On-site Interview

Safety Team at Icheon Campus conducts a variety of duties related to the safety at worksite, including work authorization, safety supervision, prevention checks, fire safety equipment checks, emergency training and education support, and accident investigations. The solution to safety and health problems lies in the field and the members working in the field. SK hynix is reinforcing education and training of members and suppliers’ employees for field-focused safety and health management. SK hynix employees with a high awareness of safety and welfare will be the best asset for maintaining happiness in the workplace. SK hynix announced a comprehensive solution in 2016 to be reborn as a company that prioritizes safety and health. Particularly, we built a more systematic and efficient SHE management system by integrating existing environment, safety, and health organizations with individual management systems. In addition, the subjects of safety and health activities are not limited to within the workplace, but expanded to the supply chain and local communities, as part of our effort to faithfully fulfill our corporate social responsibility.

Cho Jae-hyun, Head of Safety and Health Team

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# Safety and Health



## 01-1 SHE Management System

### Establishment of SHE\* Management Strategy

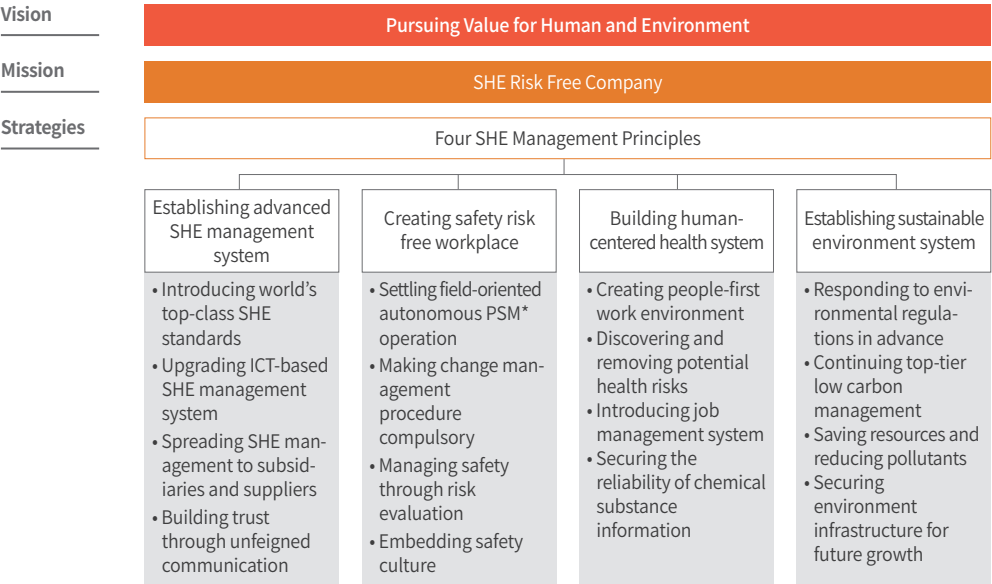
SK hynix announced a comprehensive SHE strategy for 2016 to achieve the highest standards in safety. In accordance with the strategy, we have introduced world’s highest SHE standards to inspect and improve our SHE activities and consequently establish a culture of safety. Particularly, we reorganized the SHE Office to ensure systematic SHE management and response and promoted practical safety management through onsite monitoring. With the vision “Human and Environment-centered Value Creation,” SK hynix will achieve the highest level of safety and health for all business sites and members by practicing the four SHE Management Principles by 2020.

\* Safety, Health, Environment

### Operation of the SHE Management Committee

SK hynix regularly convokes the SHE Management Committee led by the CEO, which is the supreme decision-making body for SHE issues, in order to check pending SHE issues. The SHE Advisory Committee consisting of independent experts verifies the effectiveness of our SHE-related activities.

#### SHE Management Strategy System



\* Process Safety Management

### Integrated SHE Management System

In 2016, we integrated the Safety and Environment Management System (OHSAS 18001/KOSHA 18001), Environmental Management System (ISO 14001), and Process Safety Management (Article 49-2 of the Industrial Safety and Health Act) into our SHE Management System to manage SHE information more efficiently.

### Expansion of SHE Investment

Investment in SHE management has increased to reduce SHE risks and ensure healthy and safe work environment. In 2016, a total of KRW 106.0 billion was invested, of which infrastructure for water and wastewater control required for the expansion of FAB accounted for a large part. Others included environmental improvement, worksite safety, and employee health.

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## 01-2 Enhancing Safety Management at Workplace

### Implementation of the Work Safety Permit System

In order to strengthen supervision of safety control at worksite, SK hynix implements the Work Safety Permit System which approves works based on the results of risk evaluation by worksite. This system helps establish preliminary training programs and take necessary measures to ensure safety. We also check risk factors by each work process to eliminate any potential risks caused by negligence in advance while enhancing our supervision on compliance with safety procedures to prevent and minimize hazardous factors.

### Operation of the Emergency Control Tower

Our business sites are monitored 24/7 through the safety and fire prevention system, which enables to respond to emergency situations in early stage. The ETC (Emergency Control Tower) plays a pivotal role for preventing the expansion of damages. SK hynix maintains emergency systems and equipment in preparation for each type of accident in ordinary days while conducting emergency evacuation trainings by each situation. We also practice spot evacuation trainings at each building without notice of time, place, and type of accident as part of our preventive efforts against personal injuries, which helps improve our ability to respond to actual accidents.

### Safety Index System

We operate the Safety Index System that allows each department to conduct self-assessment on key factors required for safety management.



Emergency drill

In 2016, particularly, it was upgraded into a rating-based index system to raise awareness of safety at worksites. 48 departments from Icheon Campus and 39 departments from Cheongju Campus scored 93.4 points and 96.3 points on average, respectively, while Wuxi Campus achieved 100.5 points on average out of 110. This system will be adopted to suppliers to further improve safety standards and promote voluntary safety practices across the industry.

### Workshop for Safety Diagnosis

Raising employees’ awareness of safety is a prerequisite for building safe worksites. All organizations at SK hynix hold the workshop aimed at diagnosing and confirming the safety of their worksites on a regular basis. Insufficiencies identified at the workshop are reported to the management and supplemented through collaboration with safety organizations.

### Enhancement of Safety Training

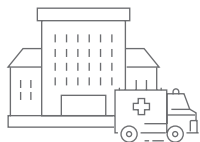
Safety training is executed at the enterprise, department, and shift levels to elevate employees’ awareness of safety. Particularly, to better respond to industrial disasters, we operate the internal SHE Experience Training Center. The center is also open to local communities and suppliers for the dissemination of the safety culture.



SHE Experience Center



Safety and Health



01-3 SHE Management of Suppliers

Support for On-site Risk Management

SK hynix encourages suppliers to voluntarily engage in eliminating risk factors in workplace through trainings and technical supports for risk assessment. In 2016, risk assessment criteria were redefined to set up a systematic tool by type. In addition, our safety managers coordinate with those from suppliers to manage risks in their business sites. We also hold the Risk Assessment Best Practice Conference for suppliers to share best practices and promote voluntary SHE compliance.



Suppliers' presentation on risk assessment results (Mar. 28, 2017)

Internalization of Training and Education

Monthly SHE education materials are offered to suppliers and trainings about safety and health are mandatory to workers of subcontractors. In 2016, we provided special lectures about Chemical material and MSDS\* twice. Moreover, we conducted emergency drills against safety accident jointly with suppliers to cultivate capabilities to promptly respond to emergency situations. A total of 113 residential suppliers signed the pledge on safety, and in April 2016, we held a resolution conference for accident-free worksite and a seminar for safety and health improvement.

\* Material Safety Data Sheet

Support for Safety and Health Management System Certification

We provide suppliers with professional consultations on safety management, through which we check their work environment and process and help solve difficulties. Other supports include costs for obtaining the certification on SHE management system, risk assessment, training of internal inspectors, setup of SHE goals, diagnosis on management system, and internal inspection.

Enhancement of Suppliers' SHE Assessment System

We hold a monthly meeting for managers of suppliers to share our safety-related systems while conducting daily inspections and quarterly joint inspections. In 2016, we executed joint inspections on 21 1st-tier suppliers who participated in our co-operation program. In addition, we evaluate the work environment of our suppliers on a semiannual basis and reward those who demonstrate excellent SHE performances.

Expansion of Health Management for Suppliers

Workers of in-house contractors receive the same level of welfare services as those of our employees. Those include access to our internal clinics and physical therapy centers as well as work environment assessment and medical examination. In 2016, we conducted special medical examinations on entire 825 types of substances for 22 suppliers.

Management of VOCs of suppliers

SK hynix collects opinions of suppliers through various VOC channels and take necessary actions to solve problems. Particularly, we operate the Co-prosperity & Cooperation Program\* and implement a survey to check satisfaction on risk assessment. We surveyed CEOs and employees of 36 suppliers who were members of the program in 2016, scoring 9.2 points from CEOs and 8.8 points from their employees.

\* A program to support suppliers' management stability

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01-4 Employee Health Management

Industrial Safety and Health Committee

At SK hynix, the Industrial Safety and Health Committee reviews and resolves important industrial safety and health issues. The domestic campuses organize separate subcommittees aside from quarterly meetings to make necessary improvements of employees' safety and health.

Work Environment Analysis

We analyze our work environment on a semiannual basis by commissioning external organizations and share any important information through the internal bulletin board.

Prevention of Musculoskeletal Diseases

Inspection on factors causing musculoskeletal disease was expanded to design staff who work sitting down for long hours beyond site workers. In 2016, despite no job identified to cause musculoskeletal diseases by onsite investigation, we developed and presented subjects of recommendation from an ergonomic perspective. Particularly, ergonomic working methods and tailored stretching and exercise trainings as well as medical care are offered to employees with severe pain.

Differentiated Healthcare Programs

We operate internal medical clinics, physical therapy centers, and psychology counseling centers as well as programs to address smoking, alcohol consumption, and obesity. In 2016, our healthcare programs were further upgraded by opening physical therapy centers during lunch time, recruiting more

counselors, and providing monthly mental health-related information. Particularly, employees who handle hazardous substances are required to have special medical checkups to identify whether they are taken with occupational diseases on a regular basis, which satisfy legal medical checkups by hazardous factor.

Activities of the Industrial Health Verification Committee

Fact-finding Survey

In 2015, SK hynix conducted an epidemiological survey on occupational diseases in the manufacturing sector. The Industrial Health Verification Committee announced that there is no relation between occupational diseases and our work environment, but we promised to provide comprehensive supports and compensation. In response, we completed 106 out of 127 tasks recommended by the committee by 2016.

Comprehensive Supports and Compensations

The company established the Industrial Health Support Compensation Committee, a third-party organization, in January 2016 to provide comprehensive supports and compensations. Eligible recipients include our current and retired employees and suppliers' employees who have worked at least 1 year at production facilities and their children. The benefit covers all types of cancers that have any relation with the semiconductor industry.



Results of inspecting working environment in 2016



Healthcare Using Light Therapy Glasses

Having conducted researches on light therapy to help sound sleep of employees who work night shifts, SK hynix found out that illuminating bright light through the light therapy glasses helped improve sleep disorders and fatigue. Thus, the light therapy was expanded to those who suffer from insomnia, time lapse, and overtime work. In 2016, it was tested on 12 employees who traveled long-distance and suffered from depression, as well as those who needed to improve the quality of sleep. We will continue to develop improvement effectiveness of this therapy and expand the application going forward.



# Response to Climate Change

ISSUE 02



◆ Importance of the Issue

Global environmental regulations are being tightened and companies are required to undertake higher responsibilities due to growing climate change issue derived from GHG emissions. Semiconductor business has potential risks regarding greenhouse gas emission and production cost increase, considering the nature of consuming a lot of energy. Therefore, it is necessary for SK hynix to actively participate in global efforts for mitigating climate change through developing new technologies for GHG reduction and improving energy efficiency.

◆ Management Approach

SK hynix complies with regulations related to energy use and GHG emissions and understands risk and opportunity factors from climate change. By reducing potential cost factors driven from climate change and preparing quality control policy, we will secure higher trust with stakeholders and create new values at the company level.

◆ Responsible Organization and Role

SHE Office

└─ SHE Steering Council

- **SHE Office:** Identifying environmental impact related tasks and reducing impacts
- **Communication Office:** External communication
- **Legal Affairs Office:** Support for compliance

◆ Future Plan

In response to the emissions trading scheme enforced in 2015, SK hynix is active in reducing GHG emissions, thereby minimizing costs for purchasing emissions right. Particularly, we will focus on increasing the efficiency of GHG emissions reduction facilities.

## Major Activities and Performances in 2016

SSD 128Gb product obtained the

Carbon Labelling



Energy-saving at domestic and overseas worksites

KRW 38.0 billion



Entered the  
CDP Platinum Club  
the highest level of the Carbon Management Honors Club



## On-site Interview

The Environmental Team is focusing on decreasing the load on the environment in the emission stages of wastewater, air pollutants, and waste. SK hynix is highly evaluated internally and externally in terms of the fidelity to GHG information disclosure and GHG management performance. Our company entered the Global Leaders' Club of the CDP for five consecutive years until 2013, and was inducted to the Hall of Fame. In 2016, we entered the top level, the Platinum Club. I believe this was a result of efforts to minimize GHG emissions, including continuous monitoring of energy use, pursuing energy-saving activities, and even optimizing semiconductor production and delivery. SK hynix is focusing on development of environment-friendly products that can minimize power use. I ask for your continued interest and support in our climate change counteraction activities, as we thoroughly manage both domestic and overseas worksites.

Kim Soo-young, Head of Environment Team

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# Response to Climate Change



SDGs

- 
- Ensure access to affordable, reliable, sustainable and modern energy for all
- 
- Ensure sustainable consumption and production patterns
- 
- Take urgent action to combat climate change and its impacts

02-1

## Climate Change Response System

### Governance for Responding to Climate Change

#### Operation of the SHE Management Committee

The SHE Management Committee, the supreme decision-making body that handles SHE issues including climate change, reports critical SHE issues to the management. At the SHE Management Committee Meeting held in March 2016, we reported all locations and response strategies corresponding to the first and second years of emissions trading. Based on the reported plans, SK hynix set guidelines for purchasing emissions rights and defined the TF activities to achieve our allocation goals.

#### Establishment of Performance System

SK hynix rewards its employees who reach performance goals set based on our performance indicator on climate change. Incentives are offered to employees, management, and energy and facilities managers to encourage better performance in terms of efficiency and reduction of emissions.

### Risks and Opportunities Derived from Climate Change

In response to regulatory requirements and physical risks derived from climate change, we undertake enterprise-wide activities and investment. We are also proactive in developing opportunities generated from climate change and conducting response strategies.

Risks		Opportunities		SK hynix's Initiatives for Climate Change
Regulatory Risks	<b>Emissions trading scheme</b> <ul style="list-style-type: none"><li>Increasing costs when power generation companies shift their GHG reduction costs onto electric charges</li><li>Requiring the establishment of annual GHG inventory and third-party verification due to the mandatory GHG emissions submission</li></ul>	Regulatory Opportunities	<b>Emissions trading scheme</b> <ul style="list-style-type: none"><li>Creating revenue from emissions rights when securing GHG emissions reduction technologies</li></ul>	<ul style="list-style-type: none"><li>Building and verifying GHG inventory</li><li>Developing GHG measuring technology</li><li>Developing GHG/energy reduction items (TF)</li><li>Establishing the Energy Management System (ISO 50001)</li></ul> <ul style="list-style-type: none"><li>Carbon/environmental label</li><li>CO<sub>2</sub> Calculator</li></ul>
	<b>Fuel/energy tax and restrictions</b> <ul style="list-style-type: none"><li>Increasing energy costs for producing semiconductors if the restrictions on energy use are applied by the government</li></ul>		<b>Fuel/energy tax and restrictions</b> <ul style="list-style-type: none"><li>Reducing power costs at the production FAB that comprises the great majority of power consumption if highly energy-efficient equipment is introduced</li></ul>	
	<b>Product labeling/standards</b> <ul style="list-style-type: none"><li>Disrupting or delaying product sales to customers if we fail to meet customers' certification requirements</li></ul>		<b>Product labeling/standards</b> <ul style="list-style-type: none"><li>Increasing revenue by preoccupying markets if future technologies meeting regulatory requirements are secured</li></ul>	
Physical Risks	<b>Abnormal climate</b> <ul style="list-style-type: none"><li>Increasing failure rate of precision instruments used for producing semiconductors and causing loss due to quality issues</li></ul>	Physical Opportunities	<b>Abnormal climate</b> <ul style="list-style-type: none"><li>Increasing revenue from non-memory semiconductors used for smart devices and IoT solutions due to increasing uncertainty caused by abnormal climate</li></ul>	<ul style="list-style-type: none"><li>Strengthening HVAC (Heating, Ventilation, Air Conditioning) management</li><li>Conducting employee training about integrity</li><li>Strengthening non-memory semiconductor business including CIS product</li><li>Installing uninterrupted power supply, introducing central monitoring system, and strengthening surveillance system</li><li>Establishing double track power systems</li></ul>
	<b>Unusual weather and depletion of resources</b> <ul style="list-style-type: none"><li>Causing direct &amp; indirect losses due to damage to products (e.g. wasted products, poor yield) by blackout derived from typhoon</li></ul>		<b>Unusual weather and depletion of resources</b> <ul style="list-style-type: none"><li>Generating revenue based on the RPS (Renewable Energy Portfolio Standard) system in relation to renewable energy policies</li><li>Renewable energy Portfolio Standard</li></ul>	
Other Risks	<b>Change in customer behaviors</b> <ul style="list-style-type: none"><li>Decreasing sales and M/S if low-power products customers want cannot be delivered on time</li></ul>	Other Opportunities	<b>Change in customer behaviors</b> <ul style="list-style-type: none"><li>Increasing sales and M/S by supplying low-power products on time</li></ul>	<ul style="list-style-type: none"><li>Developing high-performance low-power products</li><li>Improving product planning and supply chain management process</li><li>Expanding communication channels with stakeholders</li></ul>
	<b>Corporate reputation</b> <ul style="list-style-type: none"><li>Falling stock price and ownership if we cannot satisfy sustainability evaluation with regard to climate change</li></ul>		<b>Corporate reputation</b> <ul style="list-style-type: none"><li>Rising stock price and ownership if we satisfy sustainability evaluation with regard to climate change</li></ul>	

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## GHG and Energy Management

### GHG Emissions Control

SK hynix established a mid and long-term vision to reduce 20% of the intensity of GHG emissions with business as usual, and detailed strategies are promoted around a task force team organized for reducing energy consumption and GHG emissions at the enterprise level. Despite the introduction of high energy-efficiency equipment, GHG emissions increased from 2015 due to the increase of process gas and power consumption driven by the expansion of production facilities.

### Response to GHG Emission Trading Scheme

The GHG Emission Trading Scheme was introduced in Korea in 2015. In accordance with the scheme, the government grants each company the right to emit GHG, and companies can trade their rights depending on the marginal abatement cost and the market price. SK hynix, as a company applied by the scheme, formed a task force team dedicated to saving energy and GHG in order to achieve the target allocations. In 2016, we measured and controlled our GHG emissions by establishing a GHG reduction device (scrubber) management system, through which we certified for GHG reduction from the government. The results were also reflected in our decision to purchase high-efficiency scrubbers and strategies to reduce more GHG emissions.



### First Korean Company to Join the CDP's "Platinum Club"

SK hynix became the first Korean company to join the "Platinum Club," the highest level of the Carbon Management Honors Club, after being selected by the CDP (Carbon Disclosure Project) Korean Committee. By joining the Global Leaders Club for 5 consecutive years from 2009 to 2013, SK hynix was inducted into their Hall of Fame. The Global Leaders Club qualifies for the A Band, the top-rankers group, in the fields of fidelity to carbon information disclosure and carbon performance leadership index. Since then, we have maintained this honor for 4 consecutive years through the third-party verification on GHG emission and transparent disclosure of information, which allowed us to enter the Platinum Club, the highest level.



Response to Climate Change



02-3

Efficient Energy Management

Energy Saving in the Production Process

SK hynix improves energy efficiency through the optimization of production process and facilities and use of high-efficiency equipment. At the Icheon Campus, waste heat generated from the M14, M10A, M10B and M10F production processes is recycled as steam energy for air conditioning system. In 2016, about 23,000 tons of steam was saved through continuous upgrade and optimization of facilities, contributing to saving KRW 1.5 billion. The Wuxi Campus also reduced power consumption by introducing air circulation method to air conditioning system at copper processing process, which contributed to saving 4,780,000 Kwh, or KRW 467 million.

※ Based on the exchange rates (yuan) as of December 30, 2016.

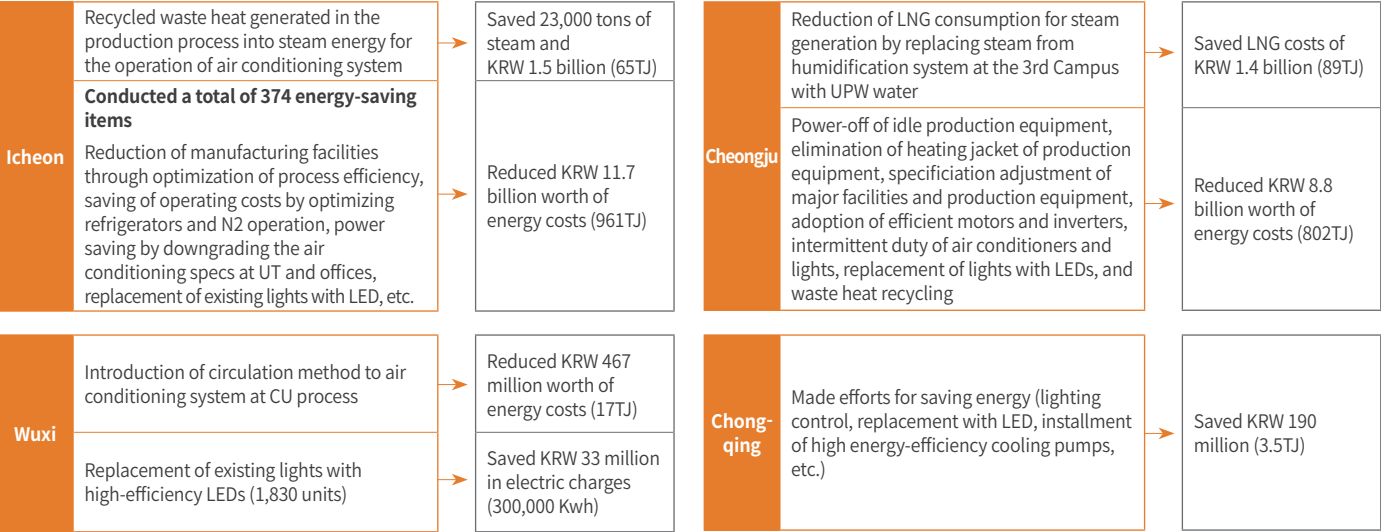
Monitoring of Energy Consumption

The company monitors energy consumption by users in accordance with its energy management goals. Since 2016, energy consumption by each factory has been checking through the integrated IT system and the results are used for energy saving activities. We create optimized work environment and maximize energy efficiency in manufacturing process by comparing and analyzing energy-saving data among processes and facilities.

Energy Saving Activities

SK hynix adopted the ISO 50001 to ensure systematic energy management and has operated a task force team dedicated to energy saving. Energy management goals and performances are reported to the management. The Icheon Campus saved KRW 11.7 billion by undertaking 374 energy-saving items in all areas including manufacturing, facilities, and R&D in 2016. The Cheongju Campus strived to eliminate waste factors and introduce recyclable high-efficiency energy systems by analyzing the efficiency of production facilities in 2016, carrying ot 317 energy-saving activities and reducing KRW 8.8 billion woth of costs. The Wuxi Campus saved 300,000 kWh of electricity, amounting to KRW 33 million, by replacing the existing lights with high efficient LED lamps. The Wuxi Campus was also awarded with KRW 137 million from the government as it was recognized for its efforts to reduce carbon emission. Company-wide energy-saving activities include maintaining proper temperature at office in winter and summer and conducting power-saving campaigns.

Energy Saving by Workplace



02-4

Reduction of Environmental Impact from Products

Environmental Product Declaration

Environmental Product Declaration is a certification system that quantifies the environmental impact in the entire product life cycle, which is led by the Korea Environmental Industry and Technology Institute. Since 2013, we have worked on obtaining this certification. As a result, three products have been certified as eco-friendly products as of 2016 through the evaluations on the scope of impact\* including GHG emission and resource consumption. Particularly, in 2016, our 128GB SSD (Solid State Drive) first obtained the carbol labeling certification in the market. Carbon labeling is evaluated on the basis of carbon footprint, one of the scope of environmental impact guided by environmental product declaration. GHG emissions from entire product lifecycle including raw materials collection, production, transport, distribution, use, and disposal are converted into carbon emissions and displayed on the label. Our 128GB SSD, which is mainly used as a main memory for PCs and notebooks, demonstrates higher performance and lower power consumption than HDD. We plan to expand the carbon labeling certification into major DRAM and NAND Flash products.

\* Scope of environmental impact: carbon footprint, water footprint, impact on ozone layer, eutrophication, photochemical smog, resource footprint, acid rain



Carbon Label Certified Product in 2016

Product name	128GB SSD (HFS128G39TND-N210A)
Unit	kgCO <sub>2</sub> e/unit
Total carbon emission	12.14
Before manufacturing	3.9
Manufacturing stage	0.18
Usage stage	0.0
Disuse stage	64

※ As of one 128GB SSD (HFS128G39TND-N210A)

Development of Eco-friendly and Energy-efficiency Products

SK hynix has been working hard to develop low-power high-performance products to meet customer needs. This effort resulted in first developing 8Gb LPDD R4 DRAM with high-capacity and low-power features in the world, further upgrading our competitiveness in the semiconductor market.

Life Cycle Assessment (LCA)

We autonomously carry out the life cycle assessment on major DRAM and NAND Flash memory products every year with the aim of reducing environmental impact from products.

Water Footprint Certification



Our 20nm 4GB DDR3 became the first Korean product to receive water footprint certification from the US-based UL. The Water Footprint is a certification system on quantifiable water consumption, which certified that our product consumes about 18.6kg of water during manufacturing process. Meanwhile, SK hynix is participating in the Water Footprint Pilot Project undertaken by the government in 2017. By acquiring the certification for the first time in Korea, we will continue to take the initiative in managing water resource and effectively responding to international regulations.

Eco-friendly Product Certifications

	Certification	Product	Carbon footprint
DRAM	Carbon label certification	50-nano 1GB DDR3	602gCO <sub>2</sub>
		40-nano 2GB DDR3	530gCO <sub>2</sub>
		30-nano 4GB LPDDR3	807gCO <sub>2</sub>
	Low carbon product certification	30-nano 2GB DDR3	459gCO <sub>2</sub>
		20-nano 4GB LPDDR2	634gCO <sub>2</sub>
	Environmental product declaration certification	20-nano 4GB LPDDR3	735gCO <sub>2</sub>
NAND Flash	Carbon label certification	30-nano 32GB NAND Flash	985gCO <sub>2</sub>
	Low carbon product certification	2X-nano 64GB NAND Flash	1,321gCO <sub>2</sub>
		2Y-nano 64GB NAND Flash	891gCO <sub>2</sub>
		Environmental product declaration certification	10-nano 64GB NAND Flash
SSD	Carbon label certification	10-nano 128GB NAND Flash	12.14kgCO <sub>2</sub>



# Reduction of Environmental Impact

ISSUE 03

### Importance of the Issue

Increasing demand for semiconductors not only underlines the importance of water management, but also requires global players to set up plans for reducing environmental impact. Recently, there is an increasing interest in the safety of hazardous chemicals under the enforcement of the Chemicals Control Act and the Act on the Registration and Evaluation of Chemicals.

### Management Approach

SK hynix manages water supply, wastewater, waste, and air quality with the aim of efficiently using resources and reducing environmental impact. We especially focus on water resource recycling and wastewater treatment, and organized a task force team dedicated to enhancing operational efficiency of manufacturing facilities. In addition, chemical substances are managed safely throughout entire process from warehousing to usage in accordance with tightened criteria. We also adopt stricter internal standards than legal requirements to managing chemical substances and concentrate on advanced prevention activities to eliminate environmental risks.

### Responsible Organization and Role

SHE Office

└ SHE Steering Council

- SHE Office: Identifying environmental impact related tasks and reducing impacts
- Communication Office: External communication
- Legal Affairs Office: Support for compliance

### Future Plan

There is no royal road to reducing environmental impact. The company will make its best effort to strictly controlling resource and environmental pollutants in order to satisfy the domestic and foreign environmental regulations and internal standards.

### Major Activities and Performances in 2016

Reduction of water consumption

1.1 thousand tons per day

20-nano 4GB DDR3

Water Footprint Certification

Number of chemical substance suppliers that we have inspected SHE management

24

### On-site Interview

I am in charge of chemical substance safety. Our team duties include PSM and harmful risk prevention, counteraction to the Chemical Substance Management Law and Registration and Evaluation of Chemical Substances Law, and authorization of high pressure gases and dangerous substances. SK hynix created a Water and Dirty Water Reduction TF Team in 2016 in an effort to manage water resources of the entire company. We have a real-time monitoring system to make sure our wastewater does not affect the ecosystem of the rivers and streams, and our wastewater-handling plant treats dangerous substances within the safety standard. Our waste is managed according to a standard stricter than legal requirements. We hold regular evaluations in the process of selecting and maintaining our waste-handling suppliers to eliminate the possibility of environmental accidents. For air quality control, we have a total fluoride volume system and continue to replace old handling facilities. New substances go through a dangerous and prohibited substance test to maintain an environment-friendly process.

Shin Gil-ho, Head of Chemical Substance Safety Team

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# Reduction of Environmental Impact



SDGs

6

Sustainable Water and Sanitation

Ensure availability and sustainable management of water and sanitation for all

Water Resource Use		(Unit: million m³)			
Classification		2014	2015	2016	2016 Target
Water supply	Waterworks	37.827	40.109	36.089	-
	Surface water	13.743	16.007	29.128	-
Waste-water discharge		44.227	48.857	53.900	-
Total consumption (water & wastewater)		7.343	7.259	11.317	12.449

\* Partially taking water from wide waterworks system.

## Water Resource Management

### Water Resource Risk Management

The larger production volume of semiconductors, the higher importance of water and wastewater management. As the semiconductor business is recognized as a representative water intensive sector, SK hynix makes a lot of effort into water resource management. The Icheon Campus purifies raw water taken directly from Namhan River for production\* while the Cheongju Campus uses water supplied from the metropolitan waterworks. SK hynix ensures stable water supply during production process by effectively managing water resources and works on water recycling and wastewater treatment as well. We reuse a certain amount of ultrapure water used for production process and recycle wastewater from worksites, reducing water consumption. In 2016, we organized a task force team to promote company-wide activities for reducing water consumption and wastewater discharge. As a result, we managed to save 11,000 tons of water a day through the optimization of scrubber operation and increased recycling of process water. Particularly, the Chongqing P&T reduced 92,128 tons of water supply corresponding to about KRW 60 million by recycling condensate water and RO condensate water.

## 03-1 Resource Management

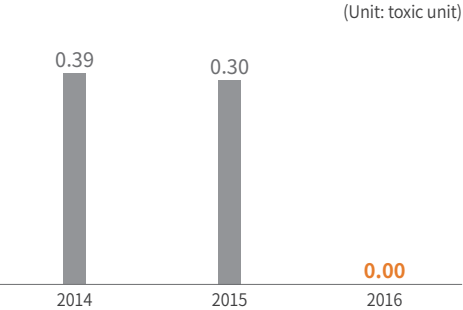
### Building Infrastructure for Water Resource Management

In addition to stabilizing water supply for manufacturing processes, SK hynix manages water resources in response to possible water shortage risks. In 2016, we developed a water and wastewater monitoring system which uses the RTDB (Real Time Data-Base) and is automatically controlled. This system allows us to monitor water consumption and wastewater discharge by each department in real time.

### Preservation of Biodiversity

The Icheon Campus located in water quality conservation area complies with wastewater discharge guidelines and safely controls hazardous substances through dedicated wastewater treatment facilities. It has also managed eco-toxicity since the second half of 2007 to satisfy the government's environmental policy and preserve water ecosystem. As part of this, we have conducted environmental impact assessment on water fleas at the rivers (Jukdang Stream, Bokha Stream, and Namhan River) where effluent water is discharged. In 2016, the test result showed 0.0 toxic unit, which proved that our wastewater had no impact on the biodiversity of the rivers.

### Eco-toxicity Management Status



- Issue 01 Safety and Health
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## 03-2 Pollutant Management

## Wastewater Management

SK hynix strives to minimize impact on water system by strictly treating wastewater in compliance with regulatory requirements before discharging. We check the concentration level of the pollutants in effluent through the real-time monitoring system (TMS, Tele Monitoring System) and share the monitoring data with the Ministry of Environment in real time, thereby disclosing information on wastewater treatment transparently. In addition, wastewater is separated by pollution type and treated in accordance with each feature before discharging. Especially, we apply internal standards, which are stricter than the legal requirements, to maintain the level below 60% of the legal standards.

SDGs

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Responsible Consumption and Production

Ensure sustainable consumption and production patterns

### Water Quality Management by Campus

		(Unit: mg/l)			
Classification		2014	2015	2016	
Icheon	Chemical oxygen demand (COD)	4.2	4.1	4.2	
	Biochemical oxygen demand (BOD)	3.8	2.5	2.4	
	Total nitrogen (T-N)	20.0	18.7	17.8	
	Fluorine (F)	1.2	0.7	1.0	
Cheongju	Chemical oxygen demand (COD)	5.2	6.5	6.8	
	Biochemical oxygen demand (BOD)	4.6	6.2	5.4	
	Total nitrogen (T-N)	16.0	19.2	19.8	
	Fluorine (F)	7.4	7.2	7.4	
Wuxi*	Chemical oxygen demand (COD)	14.2	11.0	12.1	
	Biochemical oxygen demand (BOD)	13.8	9.0	3.0	
	Total nitrogen (T-N)	9.8	11.2	-	
	Ammonia (NH <sub>3</sub> -N)*	-	-	3.3	
Chongqing	Fluorine (F)	4.7	4.3	3.5	
	Chemical oxygen demand (COD)	-	12.7	7.8	
	Biochemical oxygen demand (BOD)	-	2.9	5.2	
	Total nitrogen (T-N)	-	1.9	2.3	

\* Wuxi Campus has been controlling NH<sub>3</sub>-N instead of T-N from 2016 in accordance with relevant regulations.

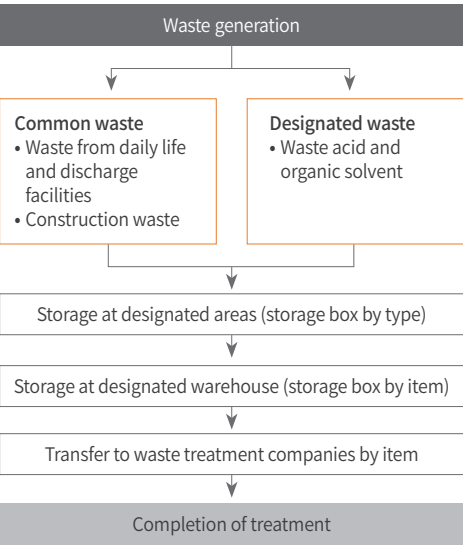
## Waste Management

### Improvement of Waste Management System

At SK hynix, waste is managed to satisfy legal requirements by applying stricter environmental standards. Waste is separated into general waste and designated waste by item from the generation stage to ensure safe waste control. To prevent accidents during its collection, sorting, and transportation processes, we set work procedures and conduct risk assessment and training. Waste is transported to professional waste disposal companies by type. Waste disposal companies are selected through preliminary onsite evaluation and we make sure that it is stored and disposed according to the applicable regulations every year after the selection. If any of the 39 items in 11 categories is found to be non-compliant\* in the post-evaluation, we suspend transactions with the waste disposal company.

\* Non-compliance: Serious environmental accident, situation in which no short-term improvement can be made, violation of the Environmental Act

### Waste Management System



# Reduction of Environmental Impact



## 03-2 Pollutant Management

### Resource Recycling

We recycle most of waste by enhancing separate waste collection process. In 2016, a total of 163,253 tons of waste was generated, 95% of which were recycled. In addition, we sell low-concentration IPA (Isopropyl Alcohol) generated from manufacturing process through the IPA evaporation system, reducing waste generation. In 2016, a total of 29,247 tons of IPA worth KRW 3.8 billion were saved. The Wuxi Campus minimizes its environmental impact by recycling waste sulfuric acid generated from manufacturing process as chemicals for wastewater treatment. As a result, the Wuxi Campus managed to reduce the amount of waste sulfuric acid by 4,772 tons, saving KRW 600 million in 2016.

### Air Quality Management

#### Air Pollutants Emission Management System

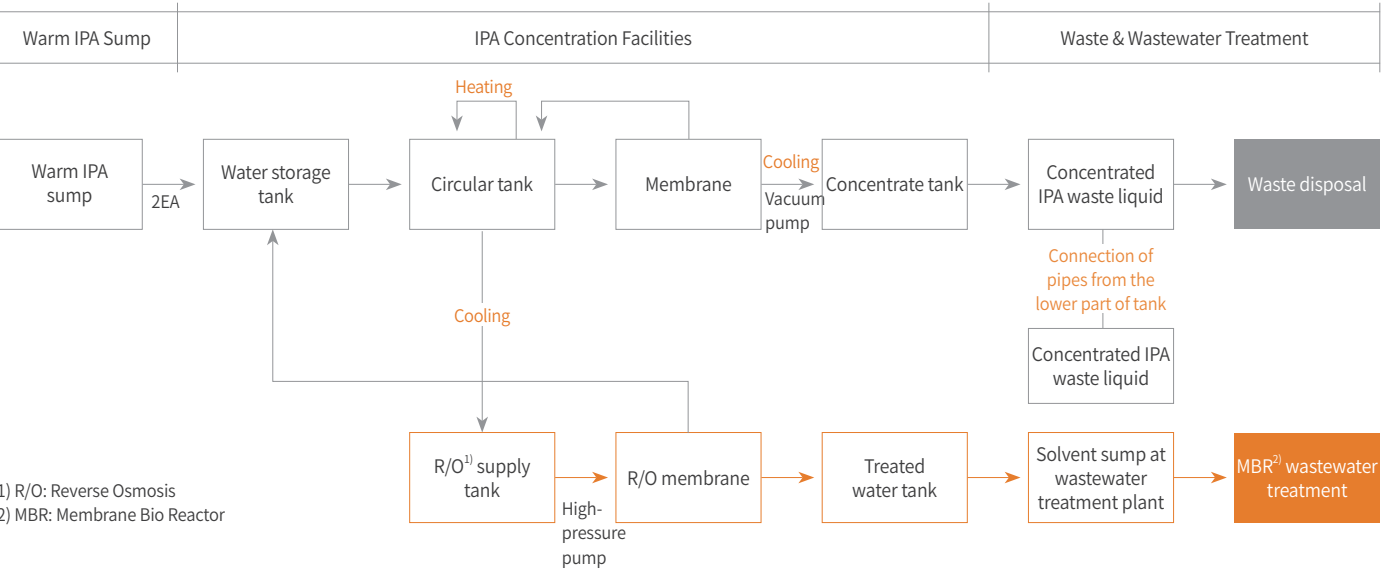
SK hynix commissions authorized agencies to check the level of air pollution inside and outside the company and utilize the results for improving the efficiency of air pollution prevention facilities.

#### Reduction of Air Pollutants Emission

In order to create an eco-friendly work environment, we have strived to reduce the total amount of fluorine compounds, the major pollutants in the semiconductor business. The emission of fluorine compounds amounted to 2.1 tons, down 12.5% from 2015, at the Wuxi Campus in 2016. In addition, we established the monitoring and control guidelines to further reduce fluorine compounds emission, and then enforced the total fluorine compound emission regulation. As part of these initiatives, the company not only replaced multi-stage treatment systems and outdated facilities, but also adopted new technologies and optimized management standards for air pollution prevention facilities.

### IPA Concentration Facilities

※ Warm IPA concentration facilities at the Cheongju Campus #3 (as of December 2016)



1) R/O: Reverse Osmosis  
2) MBR: Membrane Bio Reactor

### Chemical Substance Management

#### Response to Regulations on Chemical Substances

In accordance with the Chemical Substances Control Act and the Act on the Registration and Evaluation of Chemicals which were enforced in 2015, SK hynix has tightened chemical substances control criteria. We inspect the safety of all chemical substances from the stage of warehousing to usage every year with the aim of minimizing safety accidents from hazardous chemical substances and effectively responding to relevant laws and regulations.

#### Chemical Substance Management Policies

SK hynix has implemented emergency drills as well as legal and professional trainings for employees to ensure safe and proper handling of chemical substances. Inspections and evaluations are also carried out in accordance with the Risk Management Plan and Process Safety Management (PSM). New chemical substances are required to get prior reviews and approvals on usage through evaluation on hazardousness. Moreover, we registered the Material Safety Data Sheet (MSDS) on our computer system for an easy access to properties of each chemical substance and expanded opportunities to communicate information about environmental impacts from the use of chemical substances with local communities. Since 2016, we have operated the “Chemical Substance Council” consisting of officials of Gyeonggi-do and Icheon City, chemical experts, and local representatives on a regular basis and transparently disclosed our environmental safety facilities and safety management status to local communities.

#### Supports for SHE Risk Reduction of Chemical Substance Suppliers

The company inspects SHE activities of chemical substance suppliers on a regular basis to help them minimize legal risks and prevent serious accidents. In 2016, we have strictly inspected two suppliers every month by spending six hours a day per each supplier. As a result of inspections on 24 suppliers out of 108 suppliers, 154 cases of irrationalities were identified.



Local Council for Supplying Chemical Substances (Sep. 9, 2016)

### Inspection on SHE Management of Chemical Substance Suppliers

(Unit: cases)

Classification	2014	2015	2016
Safety	32	63	75
Environment	5	26	27
Health	19	27	39
Firefighting	8	20	13
Total	64	136	154

The figure has increased due to our stringent prevention activities and tightening criteria on controlling chemical substances and areas of explosion hazard. SK hynix continues to pay full attention to risk control, adopt higher SHE criteria, and take corrective actions to irrationalities.

#### Effort to Reduce the Use of Hazardous Substance

To fundamentally prevent hazardous substances from introducing new materials for semiconductor production, SK hynix has institutionalized prior approval on hazardous level and usage of new substances. Therefore, all new materials are coded and inspected thoroughly prior to the application to processing, and suppliers are required to submit their certificates in advance. We manage a total of 46 hazardous substances content of 19 materials. By doing so, we comply with the domestic and foreign regulations with regard to hazardous substances and secure global competitiveness in eco-friendly production process and eco-friendly products.

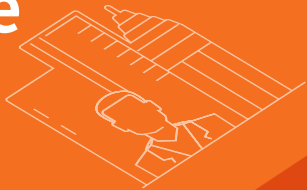
#### Hazardous Substance Management System

In 2016, SK hynix established a system to proactively monitor environmentally hazardous substances, which includes the RoHS (Restriction of Hazardous Substance) and REACH (Registration Evaluation Authorization of Chemical). Since 2015, we have also operated a system to verify four kinds of phthalate substances including DBP (Dibutyl Phthalate) which will be banned from using due to the RoHS Directive from 2019. As this system detected that some raw materials such as resistor (passive device installed on module products) contained DBP substance, we have required suppliers to develop substitutes and completed their mass production system. Other raw materials such as EMC (Epoxy Module Compound) containing REACH SVHC (Substance of Very High Concern) were also substituted with new substances for mass production. Sub-standard materials are designated as management objects to be substituted after the termination of license period.

\* Restriction of Hazardous Substance  
\*\* Registration Evaluation Authorization of Chemical



# Innovation of Corporate Culture



ISSUE 04

## Importance of the Issue

As technological competitiveness of the semiconductor business depends on human resources, it is important to secure high-caliber global talents for future growth. Therefore, many semiconductor companies strive to create a corporate culture where human rights, labor conditions, and diversity are respected and employees are able to display their capabilities.

## Management Approach

Our employees are the most valuable asset of SK hynix. In this regard, we not only provide them with trainings tailored for field jobs to support their balanced growth and higher professionalism but also ensure fair evaluation and compensation. We also activate communication within the company to build a rational corporate culture.

## Responsible Organization and Role

### Talent Cultivation

- HR Operation Team: Employment, evaluation, and compensation
- Competence Planning Team: Employee training and career development
- M&T Personnel Team: Technical training
- Shared Service: Labor condition management and welfare benefit system operation

### Corporate Culture

- SKMS Promotion Team: Leadership training and diagnosis of organizational culture
- Global Biz. Center: Enhancing global business competence
- Creativity Development Team: Employee proposal system

## Future Plan

Innovation of corporate culture starts with communication and the culute of meeting and reporting represents the level of communication. Even though our communication culture has improved by operating the “Gonggam Talk Talk” and “Hi-tong” channels, the culture of meeting and reporting needs to be improved. Going forward, we will strive to minimize unnecessary works by consistent control and monitoring and find ways of working pleasantly.

## Major Activities and Performances in 2016

Training hours per employee

81 hours

Response rate to the improvement of work efficiency

79.9 %

No. of Group Cookies developed

Approximate 300 units

## On-site Interview

Our team is in charge of the dissemination of SKMS, innovation of people and culture, and leadership development. Particualrly, we work on creating a unique SK hynix identity from the perspective of corporate culture based on pursuit of SUPEX and executing SKMS. SK hynix founded SKHU (SK hynix University) in 2016 to train semiconductor experts. I believe world’s top faculty in the semiconductor field joined SKHU. SKHU contributes to relieving the intellectual thirst of employees and creating synergy with the Imagination Town, an internal idea proposition system, thereby adding energy to the company as a whole. This change is largely affected by the new management motto of SK group, “Deep Change.” Deep Change contains the will to lead twists in fast-changing technology through creativity and innovation. The existing proposition system has changed to a voluntary participation method to encourage self-motivation of employees. The corporate culture innovation at SK hynix is led by active participation of employees today.

Ahn Min, Head of SKMS Team

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# Innovation of Corporate Culture



04-1

## Competency Development

### New Talents Cultivation System

SK hynix has helped our employees upgrade their expertise in fundamental areas while strengthening their technological competence tailored to the semiconductor business in line with their individual roles and positions. Particularly, with the recognition that paradigm shift in talent cultivation system is necessary for the enhancement of technological leadership, we established the SKHU (SK Hynix University), a new education system, in November 2016. Today, we are fostering field-oriented learning culture in each area of technology and providing online and offline training programs to help our employees elevate their job expertise.

#### Employee Training

Classification	Unit	2014	2015	2016
Total trainees	Persons	161,988	304,200	172,236
Training hours per employee	Hours/person	64	58	81
Training expenditure per employee	KRW in thousands/person	920	676	490

#### SKHU (SK Hynix University)

The SKHU, launched in March 2017, consists of diverse courses to help employees systematically develop their abilities in each field. Staff-level and senior staff employees are required to complete the course while senior and executive officers are allowed to choose the courses they want. There are 10 colleges under the SKHU, and each college offers unique curricula tailored to the needs of students. Particularly, in-house professors satisfy employees' needs by delivering high quality lectures. We also implement an academic grading system to encourage voluntary participation and promote consistent advancement of employee competence. Our goal is to foster high-caliber talents and improve their technological expertise through the SKHU system and well-organized curricular management.

### Enhancement of Technological Leadership

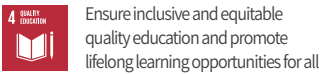
#### Online Learning Content, Group Cookie

We have helped employees foster basic knowledge about semiconductors through the Smart Cookie education module. In 2016, a new online education contents program was launched to carve out employees' job capability that meets the rapidly-changing latest semiconductor technologies. Started in July 2016, the Group Cookie education module allows anyone to create online contents that are about 20 minutes long to share their expertise, knowhow, and skills with others. As the instructors can freely choose lecture formats and create educational contents by using all business data, the Smart Cookie receives great response from instructors as well as employees. In the second half of 2016, more than 300 contents were created. Going forward, we will build a studio where any employees can create Smart Cookie contents easily.

#### Job Performance Improvement with i-TAP

The i-TAP (innovative Technology Advancement Program) is an education program tailored to site workers. SK hynix intends to solve technical issues, strengthen technological competence, and at the same time cultivate core technical professionals through education programs connected with corporate strategies. In this regard, to identify and solve tasks necessary for achieving corporate strategies at worksites, we provided diverse education programs tailored to each task by inviting internal and external professionals. Particularly, small group education program for employees who conduct tasks increased the immersion level and optimized all education factors such as format, period, and lecturer. In 2016, we organized 35 courses in total, and more than 200 employees joined the i-TAP. As a result, we were able to reduce product development costs and Test TAT while securing the advanced technology in circuit design, improving our process, and fostering human resources with superior technical expertise.

#### SDGs



### Securing Technological Expertise in Semiconductors

Due to the increasing complexity and specialization of the semiconductor production process, there is a growing need for experts with problem-solving skills and advanced job competence. To this end, we streamlined the 8-step production job position system into 5 steps and extended the retirement age and supports for technological competence improvement. In addition, the “SK hynix Technology Master Program” was introduced to promote the transfer of technological knowhow among employees, and an annual academic conference is held to share the latest technological progress and ideas. In 2016, a total of 135 academic theses were published, in which more than 1,500 employees participated to discuss them in the field of their interest.

### Leadership and Competence Development

#### Taking “Tenacious Actions”

The “Tenacious Actions” is a part of our code of conduct aimed at winning fierce competition in the semiconductor business. It consists of our 10 strong attitude DNAs which were identified by all employees. With the “Tenacious Actions,” we are making a concerted effort to achieve our goals and create values by unifying the affection of all employees for the company.

#### Leadership Development

To create an environment where “Tenacious Actions” can be implemented, the company defines the roles of executives and encourages their practices. To this end, a leadership coaching program was introduced to make heads of each office and group interview their team managers and project leaders with the aim of helping them improve their leadership skills. In 2016, we implemented the “Strategic Leadership Program for Executives” and “Leadership Program for Team Managers and Project Leaders,” as well as “Leaders Workshop” for field managers and supervisors.

#### Support for Global Competence Development

With the aim of cultivating fluent speakers, we provide global business staff, expatriates, and dispatched employees with intensive English and Chinese language courses. Email etiquette guidebooks and videos help enhance business efficiency and communication skill. Moreover, interpretation and translation supports are offered to ensure in-depth technology sharing between our employees and customers in the global business.



Issue 04

Innovation of Corporate Culture



Employment Status

Classification		Unit	2014	2015	2016
Employment	Job creation rate <sup>1)</sup>	%	9.0	3.4	(1.2)
	No. of dismissed employees <sup>2)</sup>	Persons	1	1	2
	Turnover rate <sup>2)</sup>	%	2.6	2.1	3.4
Employees	No. of employees	Persons	26,903	27,813	27,488
	Executives and technical office positions (male)	Persons	9,277	9,907	9,936
	Executives and technical office positions (female)	Persons	2,275	2,422	2,372
	Production employees (male)	Persons	5,538	5,725	5,804
	Production employees (female)	Persons	9,791	9,648	9,303
	Contract employees (male)	Persons	5	22	42
	Contract employees (female)	Persons	17	89	31
	Rate of permanent workers	%	99.9	99.6	99.7
	No. of senior employees <sup>3)</sup>	Persons	36	46	61
	Average length of service <sup>4)</sup>	Years	9.7	10.2	10.9
Employees by region	Korea	Persons	21,558	22,291	22,255
	US	Persons	395	432	393
	China	Persons	4,693	4,818	4,574
	Asia <sup>5)</sup>	Persons	46	47	51
	Europe	Persons	211	225	215
Local employment by region	Korea	Persons	1,439	1,220	684
	US	Persons	79	95	143
	China	Persons	2,074	911	534
	Asia <sup>5)</sup>	Persons	42	18	13
	Europe	Persons	8	29	16

1) (No. of employees for the year – No. of employees for the previous year)/  
No. of employees for the previous year ×100  
2) Based on domestic worksites  
3) People of the age 55 and over with more than one year of employment  
4) Based on the headquarters  
5) Excluding Korea and China

Enhancement of Employee Value

Employment and Recruitment

Recognizing human resources as the most valuable asset for the company, SK hynix strives to secure and cultivate excellent R&D experts as well as support sustainable growth of employees.

Fair Performance Evaluation and Compensation

Fair Performance-oriented Evaluation

SK hynix operates performance management process centered on coaching activities and communication, evaluating created performances and growth potential in a fair and comprehensive manner. Through the e-HR System, we strengthen the alignment between the organizational and individual goals to maximize performance. Technical office workers are evaluated for their annual comprehensive performance, job achievements, capabilities, ranking assessment among employees. Full-time employees and technical office workers with Level 5 and under are evaluated based on more than 10 indicators, including job knowledge, performance drive and communication skills. The results are reflected in promotion process.

Rational Compensation System

SK hynix compensates its employees based on their performance assessment and grade. The PI (Productivity Incentive) and PS (Profit Sharing) are paid annually according to business results in addition to individual salary. The initial salary of college graduates working at domestic worksites as of 2016 amounted to 280% of the legal minimum wage, and employees are paid without any gender discrimination.



“Valuable Leader” Program

To create a positive corporate culture and boost teamwork between senior and junior staff members, we are implementing the “Valuable Leader” program. We value leaders who set good examples for the team and prioritize communication and trust while helping team members grow and overcome challenges. In 2016, a total of 4,770 best practices were reported online on the intranet, and 2,749 employees were selected as Valuable Leaders through recommendations. We plan to build a model for admirable leadership by analyzing more than 100,000 keywords among recommendations from employees and use best practices for leadership coaching programs.

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Communication-oriented Organizational Culture

Active Communication

Conversation with the CEO, “Gonggam Talk Talk”

The company shares its management philosophy, corporate vision, and ways to improve corporate culture with employees through the “Gonggam Talk Talk,” a communication meeting in which the CEO and employees participate. In 2016, a total of 330 employees joined the meeting to discuss the increasingly competitive market environment and ways to build a healthy corporate culture. Particularly, we chose discussion topics through the intranet to form a consensus and further boost communication.

Anonymous Communication Channel, Hi-tong

SK hynix operates the “Hi-tong,” an anonymous communication channel consisting of three categories: Innovation-tong for developing and discussing innovative ideas, Debate-tong for suggesting proposals to the company and discussing items related to human resources and corporate culture, and Openness-tong as a space for free discussion on any topic.

Improvement of Corporate Culture

SK hynix Culture Survey

The “SK hynix Culture Survey” contributes to creating desirable corporate culture by helping diagnosis on organizational culture and proposal of improvement measures. The survey in 2016 included items to check the effects of “Tenacious Actions” and job efficiency dedicated to SK hynix as well as SK Group’s common items. The results showed that “Tenacious Actions” influenced the team-based work attitude at a rate of 85.8%, with positive impact on the meetings and reporting culture at a rate of 79.9%.

Junior Board

Junior Board at SK hynix consisting of employees who can present opinions in an objective and balanced manner is operated through seven channels by region and organization every month. In 2016, the board discussed the concept of “Strong Attitude” and ways to better practice the campaign at worksites. During this process, we identified issues such as “Organizational Issues for Efficient Development,” “Logistics Process Issues,” and “Work-oriented Positioning” and then reported them to the management, resulting in actual performance improvement.



Improvement of Meeting and Reporting Culture

SK hynix strives to eliminate unnecessary and inefficient work processes to create an open and creative workplace environment that makes work more enjoyable and productive. Most office workers spend a lot of time on meeting and reporting. We have listened to the voices of our employees through the Culture Survey and worked hard to establish a productive meeting culture. As part of this, we have identified and shared 7 items for the establishment of efficient meeting and reporting culture. As a result, the survey in 2016 showed a positive response that 80% of the respondents felt improvement. Thanks to these efforts, the number of meetings decreased about 30%, which helped spend more time on productive works. Moreover, streamlined reporting process and diversified reporting types facilitated rapid and efficient decision-making. Going forward, the company will continue to upgrade its meeting reservation system and time controller system to meet employees’ needs and develop diverse meeting and reporting culture improvement tasks.

# Shared Growth with Suppliers

ISSUE 05

## Importance of the Issue

As a large part of semiconductor production process is done through collaboration with suppliers, their competitiveness has significant impact on our business. The Korean government places a high priority on shared growth among big and small companies and at the same time stakeholders including global investors, credit rating agencies, and major customers pay attention to CSR performances throughout the supply chain. Moreover, emerging AI and IoT businesses that lead the demand for semiconductor products require us to further collaborate with suppliers for the innovation and development of leading technologies.

## Management Approach

SK hynix is proactive in helping suppliers enhance global competitiveness based on cooperation and technology innovation and building an ecosystem for healthy shared growth. To this end, we are implementing various shared growth programs in line with the SK Group-led Happiness Companion Management policies. In particular, we declared shared growth with suppliers by initiating the co-prosperity salary sharing program and expanded the scope of target of shared growth.

## Responsible Organization and Role

- **Win-win Cooperation Team:** Competence improvement of suppliers (supports for technology, patent, management, and finance), communication with suppliers
- **Global Compliance Team:** Support for fair trade and suppliers' CSR activities

## Future Plan

We plan to initiate a new win-win program aimed at cultivating "technology innovation partners" by selecting suppliers with great technological potential as well as upgrading the Shared Growth Council for a strong partnership. By doing so, we will create more opportunities for sustainable growth and pursue co-prosperity and happiness with suppliers.

## Major Activities and Performances in 2016

Signed the agreement on shared growth with

63 suppliers

Fund spent on supporting shared growth

KRW 128.1 billion

Win-win Cooperation Salary Sharing Program

4,977 employees of 5 suppliers

## On-site Interview

Receiving equipment, raw materials, components, and relevant technical services needed for manufacturing semiconductors from a lot of suppliers, SK hynix strives to efficiently manage social and environmental impacts with the aim of building a virtuous circle and enhancing sustainability in its supply chain. Particularly, the Company runs a variety of shared growth programs in the fields of technology, finance, and management, which include the Salary-sharing System created by one accord between the labor and management, Win-win Academy for enhancing technical competence of suppliers' employees, and Technology Innovation Partner System aimed at adding sustainability to suppliers with technological prowess. With a belief that suppliers' competitiveness represents the competitiveness of our company, we will continue to promote diverse activities including the establishment of a culture of fair and ethical transaction and enhancement of cooperative networks to foster an ecosystem for shared growth with suppliers.

Lee Sang-yup, Head of Joint Growth Cooperation Team

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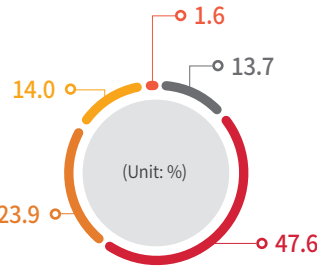


# Shared Growth with Suppliers



Breakdown of suppliers

- Equipment
- Raw materials
- Spare parts
- Infrastructure
- Purchasing of overseas sites



## 05-1 Ecosystem for Shared Growth

### Establishment of Shared Growth Culture

SK hynix uses standard contract forms and trading guidelines provided by the Fair Trade Commission to promote shared growth with suppliers and ensure fair trade. In addition, our internal guidelines for fair and transparent transactions are disclosed through our portal website for co-prosperity. As of 2016, a total of 634 suppliers joined our business and purchasing amount from them reached KRW 9.30 trillion.

Transactions with Suppliers

(Unit: KRW in billions)

Classification	2014	2015	2016
Number of suppliers <sup>1)</sup>	631	677	634
Total purchasing <sup>2)</sup>	7,433.0	7,433.0	9,302.5
Equipment	2,934.6	2,934.6	4,361.4
Raw materials	1,870.1	1,870.1	2,222.2
Infrastructure	1,393.6	1,393.6	1,274.4
Spare parts	1,056.8	1,056.8	1,298.0
Purchasing by overseas sites <sup>3)</sup>	177.9	177.9	146.5

- 1) Transactions of more than KRW 500 million  
2) Excluding contracts for IT, outsourcing, and guard  
3) Wuxi and Chongqing

### Expanding Supports for Suppliers

Since signing the “Agreement on Collaboration between Small and Large Enterprises” in June 2015, our supports for suppliers have expanded to the 2nd-tier suppliers. To improve the competitiveness of industrial ecosystem, we have promoted the “Industrial Innovation Movement 3.0” since 2013, through which about KRW 3.5 billion will be supported for consultation on the 2nd-tier suppliers’ productivity enhancement. In 2016, we supported KRW 700 million for executing professional consulting programs and purchasing facilities in the areas of business management, process, and production technology.

### Subcontract Management System

It is important to establish fair subcontract policies and realize continuous improvement through monitoring and review to build a healthy shared growth ecosystem. SK hynix has signed an agreement on fair trade, strived to spread fair subcontract policies, complied with relevant regulations, and conducted internal monitoring of major subcontract issues. Particularly, we focus on training about the Subcontract Act, fair subcontract practice, and legal penalties as well as checking subcontract management of core departments. We also strengthen both preventive and monitoring processes to make necessary improvements in our subcontract management system.



### Salary-Sharing Program

SK hynix has implemented the “Salary-Sharing Program” aimed at spending a certain amount of salary increase on improving welfare benefits for suppliers’ employees. This program was launched in 2015 through an agreement on delivering 20% of salary increase to suppliers between the labor and management, which has contributed to creating a virtuous cycle where suppliers enjoy better welfare benefits and SK hynix ensures quality improvement. In 2016, a total of KRW 6.6 billion was raised by contributing 10% of salary increase and the company’s matching grant donation, which delivered to 4,977 employees from 5 suppliers. This financial support is used for the improvement of suppliers’ work improvement and their employees’ private conditions.

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### Improvement of Payment System

Our company encourages the 1st-tier suppliers to expand supports for the 2nd-tier suppliers. As part of this, we have recommended fair trade agreements between the 1st and 2nd-tier suppliers, in which 26 1st-tier and 99 2nd-tier suppliers participated in 2016. Particularly, 28 1st-tier and 113 2nd-tier suppliers joined the cash monitoring system which was introduced to improve the terms of payment between them. We also implemented the Win-Win Payment System to support the financial operation of the 2nd-tier suppliers. The system allows the 1st-tier suppliers to pay the 2nd-tier suppliers with the credit of large companies so that they can secure cash in quickly. We offer incentives to the 1st-tier suppliers who joined this system to attract more participations.

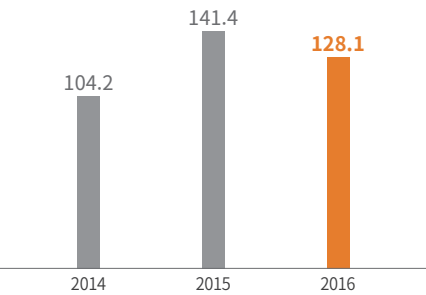
### Strengthening Collaboration Networks

SK hynix has built sustainable partnership with strategic suppliers through the Shared Growth Council. The CEOs from 60 major suppliers join the Shared Growth Council that operates regular exchange programs such as general meeting, divisional meeting, CEO convention, and Shared Growth Day event. The general meeting and Shared Growth Day event are held every year to share the advanced technology roadmap, shared growth policies, and ethical management policies with our suppliers. At the general meeting of the Shared Growth Council in 2016, we decided to expand the council organization with the purpose of boosting involvement in shared growth activities. At the Shared Growth Day event, we awarded suppliers with excellent performance in the areas of technological innovation, shared growth, environment, and safety, thereby solidifying strategic partnerships. Furthermore, in 2016, we visited 58 suppliers to better understand their grievances and difficulties in business operations, while sharing opinions on issues regarding environment, safety, and health through the monthly Environment, Safety and Health Committee meeting.

Performances in 2016

Fund spent on supporting shared growth\*

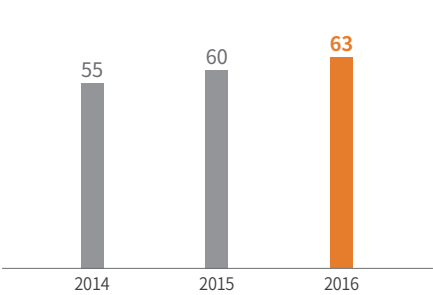
(Unit: KRW in billions)



\* Equipment localization costs + pattern wafer support + contribution to the Industrial Revolution 3.0 + contribution to the Semiconductor Fund + loan supports through the Shared Growth Fund Network Loan, and Shared Growth Insurance

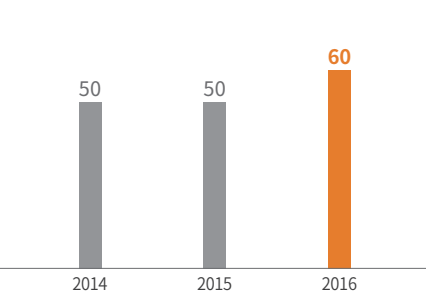
Number of suppliers who agreed upon shared growth

(Unit: companies)



Number of Shared Growth Council member suppliers

(Unit: companies)



# Shared Growth with Suppliers



## 05-2 Shared Growth Support Programs

### Technological Supports

To help suppliers enhance their competitiveness, SK hynix is proactive in supporting the development of semiconductor-specific technologies as well as developing technical support programs in cooperation with SK Group. Particularly, we are undertaking co-development projects to improve their technical expertise and sales, thereby promoting the localization of equipment and parts and consequently securing cost competitiveness. In 2016, we managed to replace our equipment with localized products, which was equivalent to KRW 27.7 billion. In addition, eight our patent technologies were transferred to small and medium-sized companies free of charge, and patent professionals were dispatched to four suppliers for offering consultation services on systematic patent management. Furthermore, we provided 864 sheets of pattern wafers to small and medium-sized suppliers who engaged in developing pattern wafers by using light exposure equipment. Like this, our technological supports aim to creating a virtuous circle in the semiconductor business ecosystem.

Shared Growth Program			
Classification	Program	Performance in 2016	Details
Technical supports	Equipment localization	KRW 27.7 billion worth of import-substituting effect	Localizing imports in cooperation with suppliers
	Free patent transfer	Transferred 8 patents	Transferring our patents to suppliers at no cost to strengthen their technology competitiveness
	Patent consulting	4 suppliers	Providing suppliers with consulting services by patent attorneys and experts to cultivate ability to manage intellectual properties
	Technology escrow	39 cases	Protecting suppliers' technology by depositing funds to the Win-Win Growth Foundation
	Pattern wafer support	864 sheets	Supporting small and medium-sized suppliers that develop pattern wafers using light exposure equipment for free
Management supports	Win-win Academy	190 persons	Providing suppliers' employees with Job education, leadership education, and e-learning
Financial supports	Shared Growth Fund	Total: KRW 134.4 billion Supported: KRW 86.2 billion	Raising funds in banks and lending capital for management and facility at low interest rates to small and medium-sized suppliers (KRW 77.5 billion was raised by SK hynix)
	Shared Growth Insurance	Total: KRW 9.6 billion Supported: KRW 1.8 billion	Financial support program for 2nd-tier suppliers that collects bonds and provides loans when a 1st-tier supplier goes bankrupt
	Semiconductor Fund	Total: KRW 15.0 billion Supported: KRW 13.9 billion	Indirect equity investments in promising small and medium-sized semiconductor companies
	Network Loan	KRW 1.2 billion	Determining the credit line based on the performances and providing loans without any material evidence

### Financial Support

We regularly pay trading costs 2 or 3 times a month to suppliers and particularly, the payment is made in advance during holidays, which contribute to stabilizing their business operation. We also run the “Sharing Growth Fund” to provide suppliers with loans for the purchase of facilities and working capital at a low interest rate. In 2016, a total of KRW 134.4 billion was raised, KRW 86.2 billion of which was supported to the 1st-tier suppliers. In addition, we created the “Semiconductor Fund” jointly with companies engaging in the semiconductor business, through which KRW 13.9 billion was delivered to promising small and medium-sized semiconductor companies. Financial supports of KRW 1.2 billion were provided through the “Network Loan.”

### Management Support

SK hynix is proactive in offering HR development programs to suppliers with the aim of enhancing their corporate competitiveness. In 2016, 190 employees of suppliers joined the Win-Win Academy for job competence, leadership, and e-learning programs. In addition, their CEOs and managers are able to receive specific learning programs led by SK Group. The “CEO Seminar” program is designed to provide education in various areas including economy, business administration, humanities, and society, while the “MBA for Middle Managers” is organized to enhance the management skills of leaders. We also implemented the “SK Employment Foundation” program to create quality jobs, which includes not only professional training courses but also internship program. A total of 102 employees of suppliers benefited from internship program, supports for labor costs, and training expenses.

## 05-3 Sustainable Supply Chain Management

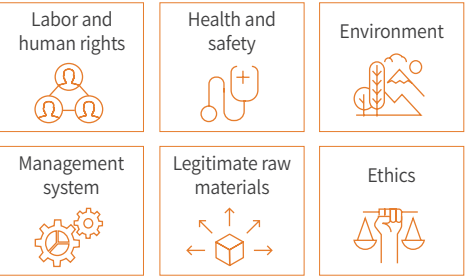
### Social and Environmental Impact Management Goals in the Supply Chain

The “SK hynix Code of Conduct for Suppliers” is distributed to entire supply chain to help suppliers fulfill their social responsibilities. As part of this, we established a mid and long-term strategy to complete on-site audit on major suppliers by 2019. Onsite audit will be further expanded from 2017. We plan to inspect about 30% of major suppliers in 2017 and complete the improvement of high risk factors by 2018.

### Social and Environmental Impact Management System in the Supply Chain

The “SK hynix Code of Conduct for Suppliers” was initiated based on the EICC Code of Conduct and the requirements from customers, which requires all suppliers to comply with guidelines in terms of 6 categories including labor rights, human rights, health and safety, environment, management system, legal conflict free materials, and ethics. Our suppliers pledge to satisfy their social, environmental and ethical responsibilities every year. Moreover, we preemptively identify and eliminate potential CSR risks in the supply chain through regular evaluation on suppliers. In 2016, we focused on correcting vulnerable points identified through the EICC-based inspection VAP (Validated Audit Process) carried out in 2015.

#### Suppliers' Code of Conduct



### Evaluation of Suppliers Based on EICC Standard

The company evaluated suppliers' sustainability management competence in the fields of labor, human rights, business ethics, safety, health, and environment. The EICC evaluation standard is used for diagnosing their competence and the results are shared with them, which encourages suppliers to enhance sustainability management competence.

## 05-4 Response to Conflict Minerals

### Policies on Conflict Minerals

SK hynix rules out the use of conflict minerals\* from the stage of raw materials purchasing. To that end, we inspect the status of conflict minerals every year and upgrade the conflict minerals management system by forming a task force team when necessary.

\* Tin, tantalum, tungsten, and gold produced in DRC (Democratic Republic of Congo) and neighboring areas. The use of these minerals is regulated by SEC (Securities and Exchange Commission).

### Onsite Audit on Supply Chain

The company responds to conflict minerals issue by regularly inspecting the supply chain based on the Code of EICC. The inspection is conducted in accordance with a process encompassing the selection of targets on the basis of the property data on raw materials, onsite audit, analysis of suppliers' conflict minerals management system, and checks on the use of raw materials and conflict minerals with a lack of origin confirmation.

### Spreading the CFS Certification

We conduct surveys of raw materials suppliers on an annual basis to further expand the CFS Certification\* in the electronics industry. The survey on the use of conflict minerals by raw materials suppliers and supply chain in September 2016 showed that more smelters joined the supply chain from the previous year due to the expansion of new businesses. In response, we grasped the CFS certification of all smelters and asked for recertification of CFS to ones with the expired certificates.

\* Conflict Free Smelter (CFS) Certification: Certification for smelters without using conflict minerals





# FORGING AHEAD, RISING TO A CHALLENGE

## PERFORMANCE

SK hynix systematically manages various issues for sustainability growth in the long-term and discloses the results to stakeholders. This is why we believe trust from all stakeholders including customers, employees, and local communities can be earned by better understanding on what they want for the company and transparently reporting our commitments to their requirements. Going forward, SK hynix will make a concerted effort to proactively meet stakeholders' requirements and create the value of co-prosperity.

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# Social Contribution

SDGs

1

POVERTY

End poverty in all its forms everywhere

3

GOOD HEALTH AND WELL-BEING

Ensure healthy lives and promote well-being for all at all ages

4

QUALITY EDUCATION

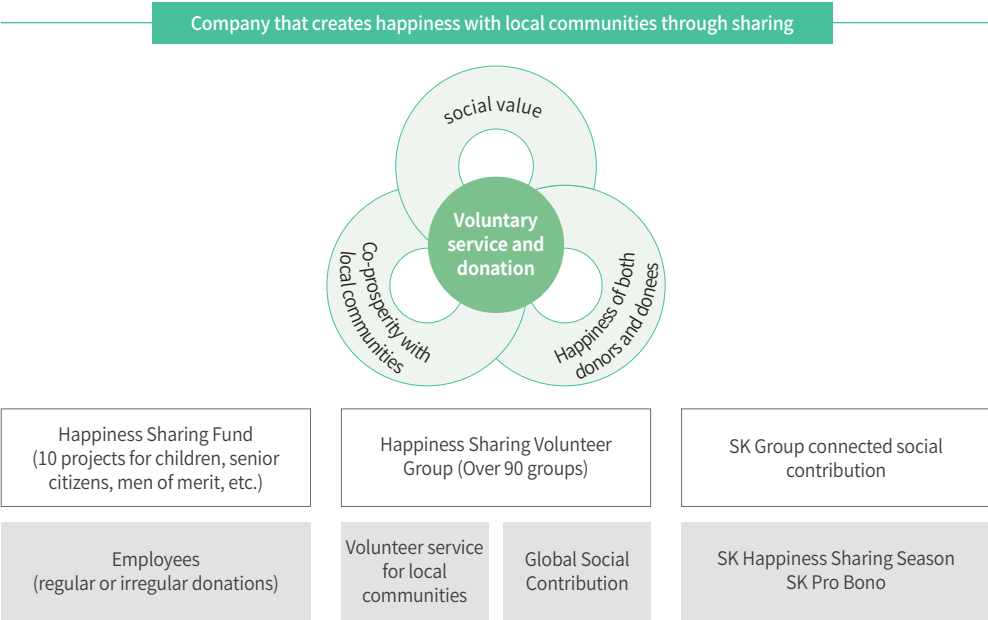
Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all

## Overview of Our Social Contribution

### Social Contribution System

Based on our management philosophy pursuing co-prosperity, we are actively involving in sharing fruits and solving social problems. In this regard, our social contribution is focused on sharing activities with local communities where our worksites are located and cultivating talents who can lead the future of the semiconductor business. Our social contribution activities are mainly guided by the “Happiness Sharing Fund” and “Happiness Sharing Volunteer Group.” Other activities are carried out in connection with SK Group. Particularly, cultivation of talents in the field of science as part of the “Happiness Sharing Fund” project has been representing our social value creation activities. We plan to make this activity a brand “Hynstein” (SK hynix + Einstein) as our flagship social contribution program.

### Social Contribution Implementation System



### Social Contribution Performances in 2016

SK hynix has provided vulnerable social groups with diverse support programs to improve the quality of their lives. In 2016, we introduced new social contribution programs to especially help veterans and senior citizens with memory impairment and intellectual disabilities in the grey zone. Moreover, social contribution to care poorly-fed children was extended to donating books for knowledge and emotion cultivation in connection with the “Happiness Plus Nutritious Meal Support” and “Book Dream Service” programs. The “Junior Engineering Class” conducted by talent donation of our employees has celebrated its 100th session.

#### Social Contribution Activities

Classification	Unit	2014	2015	2016
Social contribution expenditure <sup>1)</sup>	KRW in billions	16.9	56.3	52.3
Total amount of donations	KRW in billions	16.1	54.7	50.6
Cash donations <sup>2)</sup>	KRW in billions	2.1	47.8	47.7
Volunteer service per employee	Hours	0.90	1.01	1.02

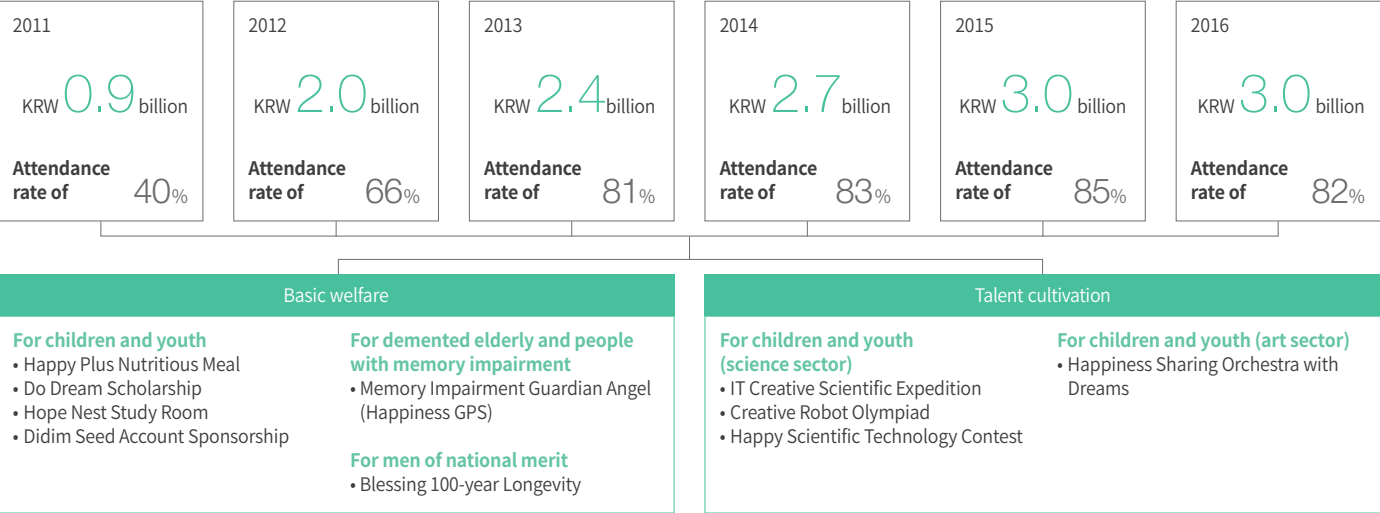
1) Company donations + employee donations + social contribution budget  
2) Cash donations out of total donations

## Social Value Creation through the Happiness Sharing Fund

### Operation and Support System of the Happiness Sharing Fund

The Happiness Sharing Fund raised by through voluntary donations from our employees and matching grant by the company is used for supporting the underprivileged in the local communities. With the concepts of “Social Value Creation,” “Co-prosperity with Local Communities,” and “Happiness of Donor and Beneficiary,” this fund focuses on promoting basic welfare and fostering future talents. In 2016, about 82% of Korean employees working at the headquarters joined this fund to raise KRW 3 billion. Since 2011, a total of KRW 14 billion has been raised, which has been spent on supporting more than 19,000 people in need in Icheon and Cheongju.

### Raising and Supporting Happiness Sharing Fund

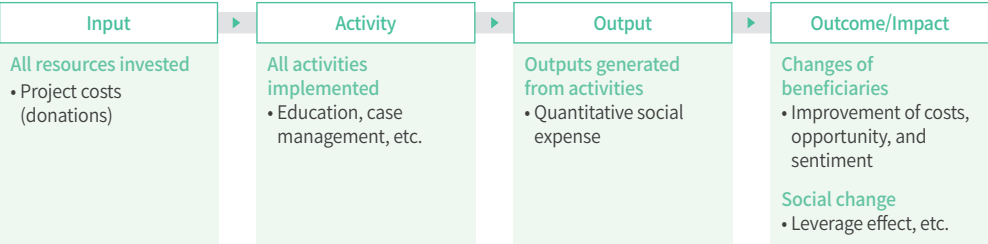


Fund Operation Committee

### Social Value Measurement

SK hynix has quantified the social value created throughout the entire process of the Happiness Sharing Fund project (Input-Output-Outcome-Impact) in order to better realize social value through social contribution activities. The result for 2016 showed that social value created through the Happiness Sharing Fund project reached 226% compared with input factors. This analysis was estimated and reviewed by a third-party organization to ensure its objectivity.

#### Social Value Measurement Process



### Audit of the Happiness Sharing Fund

The operation of the Happiness Sharing Fund is determined by the Fund Operation Committee, and the fund is deposited to the Community Chest of Korea to ensure transparency and wise use of the money. The organization undergoes the audit from the Ministry of Health and Welfare and the National Assembly to maintain its transparency. We make sure that the fund is used according to its purpose through monitoring and internal accounting audits on a regular basis.



Social Contribution

Social Contribution Programs Focused on Value Creation

The Happiness Sharing Fund project is implemented under the belief that the prosperity of local communities leads to the success of our company. We also strive to extend our supports to the grey zone, the most vulnerable social groups. In 2016, to this end, the “100-Year Longevity of Veterans” and “Guardian Angel for Memory Disabilities (Happiness GPS)” programs were newly launched. In addition, we are proactive in cultivating talents and IT-based creativity programs to support science and engineering fields considering the characteristics of our business.



Happiness Plus Nutritious Meal Support



Hope Nest Study Room




Blessing 100-year Longevity of Veterans



Guardian Angel for Memory Disabilities (Happiness GPS)

Basic Living Welfare Support Programs



Happiness Plus Nutritious Meal Support


Social Value Creation

243%

Input KRW 900 million

SK hynix cares for underfed children in local communities around its worksites. We provide them with a week's worth of nutritious meals through the SK Happy Lunchbox Centers in Icheon and Cheongju every week, which contributes to solving their undernutrition and nutritional imbalance.

We also monitor their lives and nutritive conditions to ensure their health. In 2016, a total of 1,260 children, 630 children in each area, benefited from this program.



Hope Nest Study Room


Social Value Creation

186%

Input KRW 200 million

We carry out the “Hope Nest Study Room” project to support youths in need to continue study in pleasant and healthy environment.

In 2016, this project covered wider areas and targets as well as local children's centers. We revamped 16 local children's centers and youth facilities in Icheon, Cheongju, Yeosu, and Gwangju and provided IT systems such as PCs.



100-Year Longevity of Veterans

Social Value Creation

488%

Input KRW 200 million

Medical services are offered to veterans in need to help them enjoy healthy lives. Those include hearing test, provision of hearing aids, financial supports for cataract surgeries at hospitals designated by the Ministry of Patriots and Veterans Affairs.

In 2016, customized hearing aids were donated to 173 veterans from the Korean War in Icheon and Cheongju. We also supported medical expenses for 37 cataract surgeries patients.



Guardian Angel for Memory Disabilities (Happiness GPS)

Social Value Creation

469%

Input KRW 150 million

To prevent senior citizens with dementia and those with memory disorders from going missing, SK hynix provides them with financial supports for the cost of GPS Wearable Detectors and telecommunication service. In 2016, a total of 700 senior citizens in Icheon and Cheongju benefited from this project.

The device is linked to their guardians' smartphone to give alarms if they go outside a certain range, preventing their disappearance. We plan to develop new devices with lower module size and communication costs that use SKT's IoT-dedicated network jointly with startups, and to bring the benefits nationwide.

- SHE Management
- Human Rights Management
- Quality Management
- Information Security and Protection



Do Dream Scholarship

To create better social value, SK hynix estimates and verifies the efficiency and feasibility of strategic social contribution activities. This process contributes to delivering value to more local communities. In addition to eight major programs, we also promote the “Do Dream Scholarship” and “Seed Money Account Support” projects.

Do Dream Scholarship

SK hynix delivers scholarships to the underprivileged youth who are excellent in their studies and demonstrate talents in specific areas in order to help pursue their dreams

Seed Money Account Support

The Seed Money Account Corps offers support funds to children and youth of low-income families and community facilities with the aim of helping their self-reliance after 18 years of age.

Scientific Talents Cultivation Programs



Creative Robot Olympiad


Social Value Creation

338%

Input KRW 280 million

SK hynix provides educational robot kits and science education opportunities to children of low-income families to help them dream of becoming talents in IT and science fields.

This program was offered to more than 300 students of 32 local children's centers in Icheon, Cheongju, Yeosu, and Gwangju. We also held the Creative Robot Olympiad to test their creativity. About 70 students from 14 teams were awarded with prizes and scholarships. Particularly, we helped the winners in 2015 participate in bigger contests.



IT Creative Scientific Expedition

Social Value Creation

205%

Input KRW 150 million

The “IT Creative Scientific Expedition” program offers opportunities for visiting scientific research facilities at home and abroad and mentoring to students who are interested in science. In 2016, we organized 3 day trips to our Cheongju Campus and science facilities in Korea for 130 elementary and middle school students in Gyeonggi and Chungbuk under the theme of Artificial Intelligence (AI).

Among them, 20 excellent students were chosen and provided an opportunity to visit the Wuxi Campus, unmanned production lines of Shanghai GM, and Super Computer Center for 3 nights and 4 days.



Creative Robot Olympiad




IT Creative Scientific Expedition



Happy Scientific Technology Contest



Happiness Sharing Orchestra with Dreams



Happy Scientific Technology Contest


Social Value Creation

101%

Input KRW 285 million

We held the SW/HW Convergence Solution Contest that students in need can contend for their cutting-edge IT technologies.

In 2016, a total of 721 students, 272 teams from elementary, middle, and high schools participated in the contest held with the theme of “Creating Better World with Software, Ideas for Solving Social Issues,” and 21 teams won the awards. They were given career counseling, and we reviewed their entries for patent registration and application in practice.



Happiness Sharing Orchestra with Dreams

Social Value Creation

171%

Input KRW 230 million

The Happiness Sharing Orchestra program aims to provide children from low income families and local children's center in Icheon and Cheongju with opportunities for displaying their artistic and creative talent. Particularly, we select children with musical talent through auditions and give them music lessons to cultivate their talent.

In 2016, 100 children joined the orchestra, and 10 of them were given lessons on musical instruments twice a week and opportunities to play as an orchestra member once a week.

Volunteering Services by the Happiness Sharing Volunteer Group

Happiness Sharing Volunteer Group

SK hynix organized the “Happiness Sharing Volunteer Group” to boost communication with local communities and volunteering services of all employees. Major activities include volunteering services at social welfare facilities for children, seniors, and the disabled, educational talent donation, protection of cultural properties, environmental protection, and medical support. A total of 5,596 people joined the volunteer group consisting of 97 units and spent 22,298 hours on volunteering services (4.0 hours/person) in 2016. To boost volunteering services, the company includes volunteering hours in business hours and provides financial supports as well.

Volunteer Activities of Employees

Classification	Unit	2014	2015	2016
Time spent on volunteer activities	Hours	19,060	21,114	22,298
No. of employees who participated in volunteer activities	Persons	6,282	5,218	5,596
No. of activities per employee	Times	890	794	794
Participation rate	%	30.0	25.0	26.0

100th Session of the Junior Engineering Class

The “Junior Engineering Class” program conducted by our employees’ talent donation aims to teach elementary school students in Icheon about engineering principles. Started in 2010 by voluntary participation of employees, this program celebrated 100th session in April 2016. The survey shows that more than 90% of the students wanted to take the class again.



Junior Engineering Class

Delivery of Happy Lunch Box

16 units under the Happiness Sharing Volunteer Group engage in packaging and delivering lunch boxes to children in need in Icheon and Cheongju twice a week in connection with the “Happiness Plus Nutritious Meal Support” project of the Happiness Sharing Fund. Volunteers are very happy about and proactive in participating in this program as they can involve in the entire process beyond just delivery activities.



Delivery of Happy Lunch Box

Inviting Local Residents to SK Hawks’ Handball Games

The SK Hawks, SK hynix’s men’s handball team, invites the underprivileged people in local communities to watch their games and presented them with signed balls and T-shirts as gifts. Going forward, we invite more local residents to our team’s games as part of social contribution activities and at the same time with the aim of raising the awareness of handball game.



Inviting the underprivileged in local communities to SK Hawks’ handball game

Global Happiness Sharing

Social Contribution Activities of Wuxi Campus

The Wuxi Campus established the “Wuxi SK hynix Happiness Contribution Foundation” in 2016 to carry out more consistent and beneficial CSR activities in July 2016. And the “Wuxi SK hynix Happiness Public Interest Fund” was launched in August 2016 and a free mobile medical service titled the “Happy Bus” was also started. We plan to raise CNY 550 every year for the fund and undertake various social contribution activities such as environmental protection, improvement of farmers’ and nursing home environments, and scholarship programs with the Wuxi government. Social contribution activities of Wuxi Campus are mainly carried out by financial sponsorship and the participation of employees. These efforts were recognized when we received the Korean Company CSR Excellence Award in the Creative Innovation category and 2016 Public Interest Award on the 6th Day of Public Interest from the Korean Embassy in China.



Mobile clinic service “Happy Bus”

Operation of the “Happy Bus,” a Free Mobile Medical Service

Despite an increase in the population aged over 65 years, there is a shortage in medical service and facilities as well as nursing homes with advanced medical facilities for senior citizens. In response to this situation, we have operated the “Happy Bus” project, a free mobile medical check service for the disadvantaged in Wuxi, that uses SKT’s ICT-based healthcare system since December 2016. With 2 medical clinic vehicles, one for examination and the other for treatment, the project offers regular medical checkups and treatments free of charge for low-income families, senior citizens, and orphans in Wuxi.

Happiness Sharing Campaign in Cambodia

Since 2014, we have carried out global social contribution activities that capitalize on the overseas training program for outstanding employees. In 2016, 600 employees visited orphanages and schools in Siem Reap in Cambodia to improve their education facilities and give educational supports. We also donated 10 “Happy Boats” that can serve as a means of transportation and livelihood to the local residents, thereby giving substantial helps beyond just material supports.

Happiness Sharing in Connection with SK Group’s CSR Activities

Happiness Sharing Season

Since joining SK Group in 2012, we have been proactive in conducting various Happiness Sharing activities such as Happiness Sharing Bazaar and donations for underfed children and senior citizens led by the Group.

SK Happiness Sharing Bazaar

The SK Happiness Sharing Bazaar is a year-end volunteer service event where our employees donate and sell their goods. In 2016, we held an online auction to help people in need during winter. A total of 176 employees participated in the auction to sell local specialty Icheon rice and personal items. Sales revenues were donated to the disadvantaged.



SK Happiness Sharing Bazaar

Donation Campaign to Help Underfed Children and Senior Citizens

Our company carries out a donation campaign to help underfed children and senior citizens in which all employees from the management to new recruits participate. In 2016, a total of 606 employees joined the campaign and the donations were used for delivering lunch boxes.



Donation campaign to help underfed children and senior citizens

SK Pro Bono

We are actively engaging in pro bono activities that support social enterprises based on employees’ talent and expertise. In 2016, 18 employees joined pro bono activities and they received the Pro Bono Marathoner Award in recognition of their active involvement. We will continue our efforts to create social values in the future.



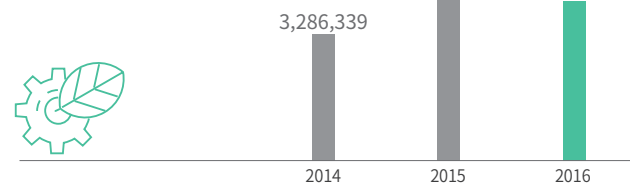
# SHE Management

## INPUT

### Resource

Resource use at all worksites

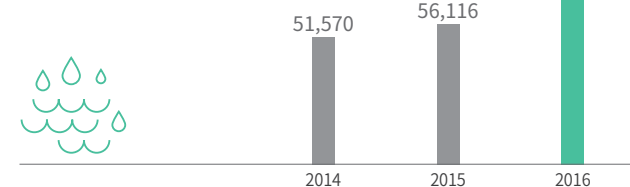
(Unit: KRW in millions)



### Water resource

Water supply at all worksites

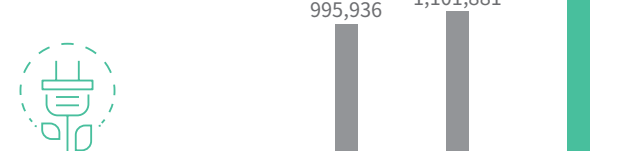
(Unit: thousand m<sup>3</sup>)



### Energy

Energy use at domestic sites

(Unit: TOE)

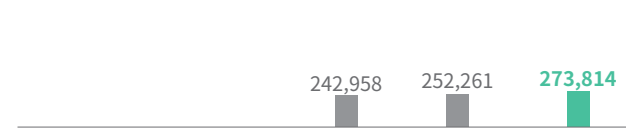


	Unit	2014	2015	2016
Energy intensity use	TOE/m <sup>2</sup>	3.71	3.41	3.48

※ Including Icheon, Cheongju, and Bundang Campus

Energy use at overseas sites

(Unit: TOE)



	Unit	2014	2015	2016
Energy intensity use	TOE/m <sup>2</sup>	2.09	2.06	2.22

※ Including Wuxi Campus

## OUTPUT

### Greenhouse gas

GHG emissions at domestic sites

(Unit: tCO<sub>2</sub>eq)

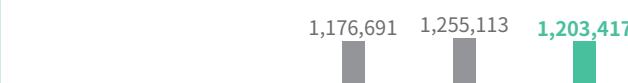


GHG intensity emissions	Unit	2014	2015	2016
Scope1	tCO <sub>2</sub> eq/m <sup>2</sup>	4.21	3.98	1.58
Scope2	tCO <sub>2</sub> eq/m <sup>2</sup>	6.74	6.83	6.97

※ Including Icheon, Cheongju, and Bundang worksites

GHG emissions at overseas sites

(Unit: tCO<sub>2</sub>eq)



GHG intensity emissions	Unit	2014	2015	2016
Scope1	tCO <sub>2</sub> eq/m <sup>2</sup>	3.41	3.63	3.82
Scope2	tCO <sub>2</sub> eq/m <sup>2</sup>	6.35	6.60	5.93

※ Including Wuxi Campus

### Wastewater at all worksites



	Unit	2014	2015	2016
Wastewater generated	Thousand m <sup>3</sup>	44,227	48,857	54,025
Wastewater intensity generated	m <sup>3</sup> /sheet	7.1	7.3	7.9

### Waste



Domestic	Unit	2014	2015	2016
Waste generated	ton	114,945	142,345	144,967
Recycled waste	ton	110,776	134,162	139,331
Recycling rate	%	96	94	95

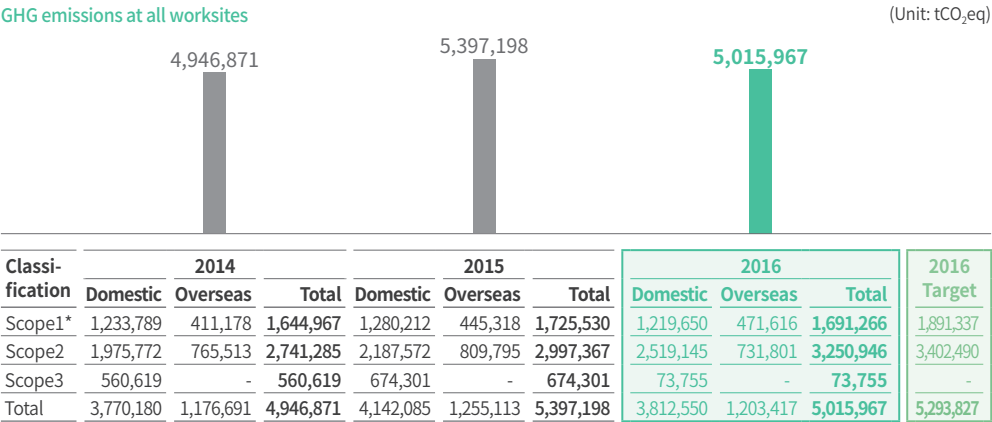
### Overseas

	Unit	2014	2015	2016
Waste generated	ton	43,509	46,761	46,640
Recycled waste	ton	30,089	27,772	26,305
Recycling rate	%	69	59	56

SHE Management

GHG Emissions Management

GHG emissions



GHG intensity emissions at domestic worksites

(Unit: tCO<sub>2</sub>eq/m<sup>2</sup>)

Classification	2014	2015	2016
Scope1*	4.21	3.98	1.58
Scope2	6.74	6.83	6.97

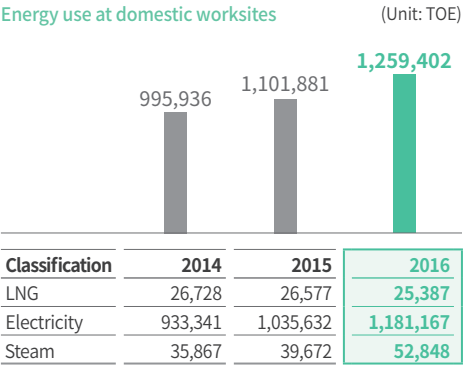
\* Including the use of NF<sub>3</sub>  
※ Domestic: Including Icheon and Cheongju Campus,  
Overseas: Including Wuxi Campus and Chongqing P&T

GHG intensity emissions at overseas worksites

(Unit: tCO<sub>2</sub>eq/m<sup>2</sup>)

Classification	2014	2015	2016
Scope1	3.41	3.63	3.82
Scope2	6.35	6.60	5.93

Energy Use

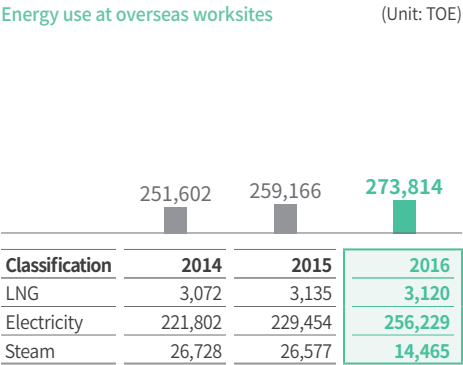


Energy intensity use at domestic worksites

(Unit: TOE/m<sup>2</sup>)

Classification	2014	2015	2016
LNG	0.10	0.08	0.07
Electricity	3.48	3.21	3.27
Steam	0.13	0.12	0.15

※ Including Icheon, Cheongju, and Bundang Campus



Energy intensity use at overseas worksites

(Unit: TOE/m<sup>2</sup>)

Classification	2014	2015	2016
LNG	0.03	0.03	0.03
Electricity	1.90	1.87	2.08
Steam	0.16	0.16	0.12

※ Including Wuxi Campus

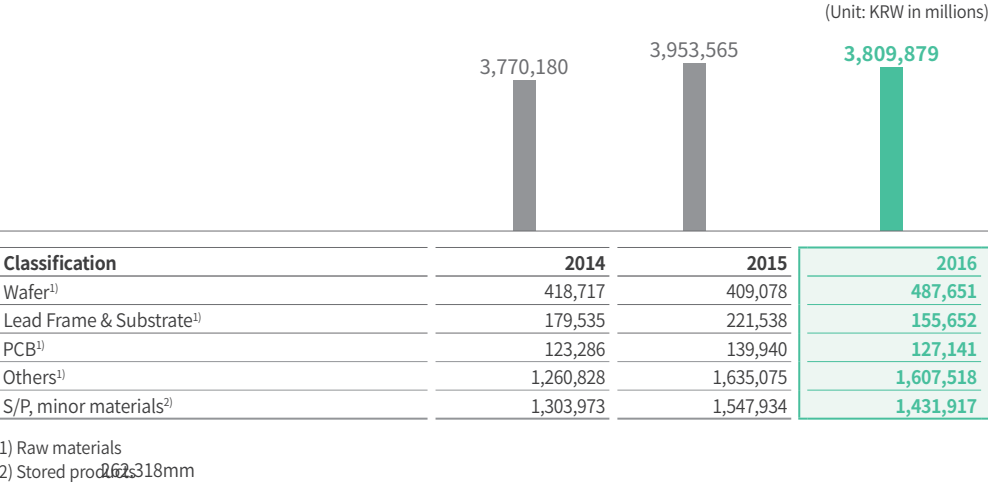
Rate of Recycled Resource Use

(Unit: %)

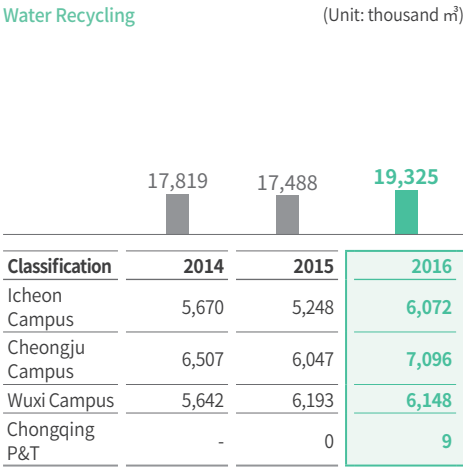
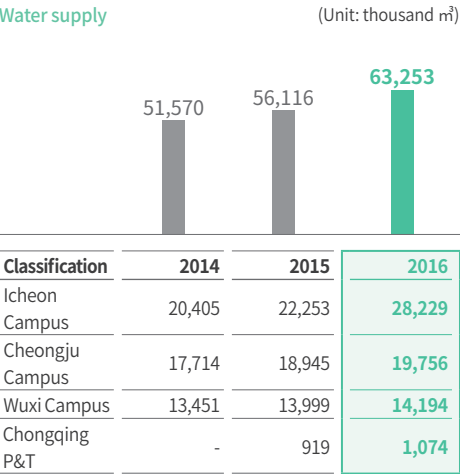
Classification	2014	2015	2016
300mm	4.0	2.8	1.4
200mm	5.0	1.9	0.3

Resource Management

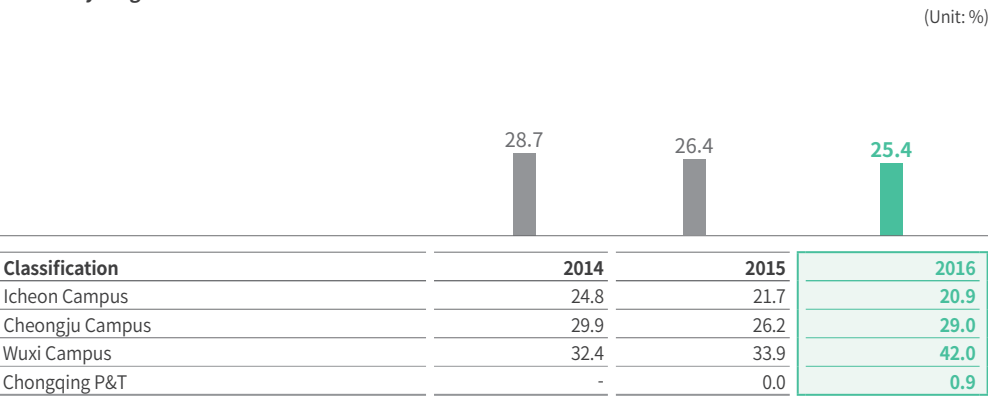
Total resource use



Water Use



Water recycling



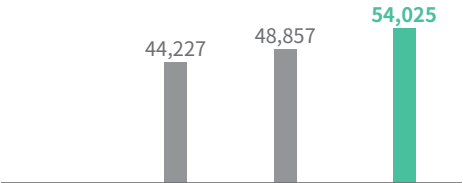


SHE Management

Pollutants Management

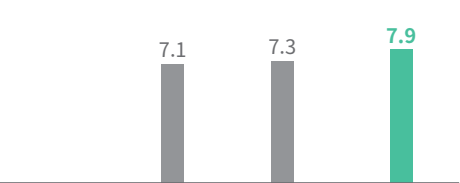
Wastewater generated

Wastewater generated at all worksites (Unit: thousand m³)



Classification	2014	2015	2016
Icheon Campus	17,183	19,086	22,964
Cheongju Campus	15,288	17,075	17,344
Wuxi Campus	11,756	12,051	12,890
Chongqing P&T	-	645	827

Wastewater intensity generated at all worksites (Unit: m³/sheet)



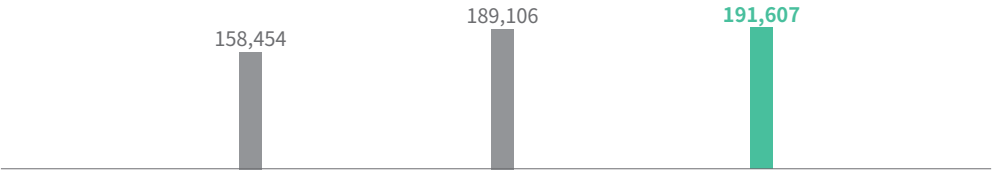
Classification	2014	2015	2016
Domestic	7.1	7.3	7.9
Overseas	7.1	7.2	7.3

※ Domestic: Including Icheon and Cheongju Campus,  
Overseas: Including Wuxi Campus and Chongqing P&T

Waste generated

Waste generated at all worksites

(Unit: Tons)



Classifica- tion	2014			2015			2016			2016 Target
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total	
Common waste	48,582	17,704	66,286	75,490	18,812	94,302	79,807	16,776	96,583	-
Designated waste	66,363	25,805	92,168	66,855	27,949	94,804	65,160	29,864	95,024	-
Sub total	114,945	43,509	158,454	142,345	46,761	189,106	144,967	46,640	191,607	210,490
Recycled waste	110,776	30,089	140,865	134,162	27,772	161,934	139,331	26,305	165,636	-
Rate of recycling (%)	96	69	89	94	59	86	96	56	86	-

※ Domestic: Including Icheon and Cheongju Campus  
※ Overseas: Including Wuxi Campus and Chongqing P&T

Air pollutants intensity emissions

Icheon Campus

(Unit: g/cm³)

Classification	2014	2015	2016
SOx	0.005	0.005	0.003
NH <sub>3</sub>	0.005	0.005	0.004
NOx	0.037	0.032	0.027
HF	0.006	0.004	0.004
HCl	0.001	0.002	0.001

Cheongju Campus

(Unit: g/cm³)

Classification	2014	2015	2016
SOx	0.002	0	0
NH <sub>3</sub>	0.003	0.004	0.002
HF	0.003	0.003	0.002

Wuxi Campus

(Unit: g/cm³)

Classification	2014	2015	2016
SOx	0.001	0.001	0.0011
NH <sub>3</sub>	0.005	0.001	0.0058
NOx	0.001	0.000	0.0001
HF	0.003	0.001	0.0017
HCl	0.005	0.002	0.0047

Chongqing P&T

(Unit: g/cm³)

Classification	2014	2015	2016
SOx	-	22.0	3.0
NOx	-	70.3	53.0
HF	-	1.6	0.1
HCl	-	9.6	3.1

Employee Health

Support for employees' health checkup



Rate of industrial accidents

(Unit: %)

Classification	2014	2015	2016
Icheon Campus	0.00	0.02	0.02
Cheongju Campus	0.06	0.04	0.03
Wuxi Campus	0.03	0.02	0.18
Chongqing P&T	-	0.30	0.15

# Human Rights Management

## Human Rights and Labor Policy

SK hynix respects human rights of all employees and ensures full compliance with international human rights protection and labor standards, including Universal Declaration of Human Rights, UN Guiding Principles on Business and Human Rights, and Dhaka Principles for Migration with Dignity, in every aspect of our business practices. We also established our own Code of Conduct and Human Rights & Labor Policy of SK hynix and declared our commitment to these principles. The Human Rights & Labor Policy of SK hynix contains eight articles\* that reflect the EICC Code of Conduct and UN Global Compact as well as our determination to ensure compliance with global standards on human rights and labor. Our commitment to human rights management is extended to entire supply chain including overseas subsidiaries and suppliers.

\* Eight articles: Respect for human rights, prohibition of forced labor, prohibition of child labor, employment of minors, working hours, wage, non-discrimination, and freedom of association

### Human Rights & Labor Policy of SK hynix

- First,

SK hynix respects the human dignity and values of all employees and members of its supply chains in pursuing sustainable happiness.
- Second,

SK hynix is committed to upholding humanism in maintaining good working conditions for all employees and members of its supply chains to enable them to pursue happiness.
- Third,

SK hynix upholds and respects human rights and labor standards set forth by international organizations such as the UN and ILO and does not discriminate against any individual based on gender, race, nationality, religion, or age.
- Fourth,

SK hynix complies with the EICC Code of Conduct and labor laws of all countries and regions where it operates, and such compliance is a basic duty of all members of its supply chains.

### Guide Line

Respect for human rights

SK hynix respects all employees as equal human beings, and prohibits violation of human rights under all and any circumstances.

Prohibition of forced labor

SK hynix does not compel any employee to work against their will by mental and physical bondage including slavery or trafficking of persons, and will not demand that employees surrender any government-issued identification, such as passport, to the company as a condition of employment.

Prohibition of child labor

SK hynix does not employ children and youths under the age of 15 or younger.

Employment of minors

SK hynix may employ individuals under the age of 18 or younger in compliance with labor laws, though must not place them in hazardous and dangerous location..

Working Hours

SK hynix shall comply with local labor laws in respect to regular working hours, overtime and allowance for overtime.

Wage

SK hynix's labor wage shall exceed the minimum wage standard set forth by the local labor law.

Non-discrimination

SK hynix does not discriminate against any individuals in employment, wage and promotions because of their gender, race, national origin, religion, or age.

Freedom of Association

SK hynix guarantees freedom of association and collective bargaining without distinction, and no retaliation may arise as a consequence of the exercise of such rights.

### SDGs

- Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
- Ensure sustainable consumption and production patterns

Time spent on sexual harassment prevention education (Unit: minutes/employee)			
Classification	2014	2015	2016
Domestic	27	27	27
Overseas	10	10	7

## Manangement of Human Rights and Labor Impact in Supply Chain

### Human Rights and Labor Impact Management of SK hynix

SK hynix identifies negative impacts influencing human rights and labor practices at worksites and make necessary improvements on a regular basis. To identify risks related to human rights and labor, internal reviews and risk assessments are conducted through the survey system, and the identified risks are addressed by each team in a timely manner. The result of risk assessment conducted at the Icheon and Cheongju Campuses in May 2016 showed that there is no serious risk, and it was shared with relevant teams to identify causes and make improvements. In 2017, we will develop more items for better risk assessment that can increase its effectiveness and adopt individual item-based rating system to address the limited scoring system. We will also improve labor conditions by analyzing assessment results and these processes will be adopted to the Wuxi Campus and Chongqing P&T as well.

### Human Rights and Labor Impact Management in Supply Chain

To efficiently manage risks related to human rights and labor in our supply chain, we apply a high standard meeting the EICC VAP (Validated Audit Process) to regular audit on suppliers' human rights management. In 2015, we commissioned an independent verification institution to implement actual audit on human rights and labor issues of 15 suppliers in Korea. The results were used for identifying improvement tasks and we have checked their correction action on a regular basis. Suppliers have completed about 65% of correction action and we plan to encourage them for higher achievement rate. SK hynix will be proactive in inspecting and training major suppliers to help them comply with global standards in human rights and labor issues, while striving to solve their structural problems.

## Educations on Human Rights

SK hynix offers educations on human rights to employees with the aim of embedding a culture of respecting human rights throughout the company. As part of this, in 2016, we revised the Code of Conduct to prevent any unethical behavior that harms our corporate culture. Particularly, we provide employees with intensive sexual harassment prevention trainings and the violation is reported through an exclusive channel. The sexual harassment case is strictly handled in accordance with the guidelines. We also distributed "Security Work Process Manual" to security guard and train them about industrial safety and sexual harassment prevention to avoid violations of human rights.

## Respect for Diversity

At SK hynix, any discrimination based gender, race, nationality, religion, and age is prohibited in employment and recruitment process. And we respect diversity in SK hynix.

### Employment of social minorities

Classification	Unit	2014	2015	2016
Ratio of female employees	%	44.9	43.7	42.6
Ratio of female managers <sup>1)</sup>	%	14.9	14.9	15.3
Employees with disabilities	Persons	120	129 <sup>2)</sup>	132
National Veterans	Persons	269	264	244

1) (Female managers and above + Female supervisors)/(Company-wide managers and above + Supervisors of production employees) × 100  
2) The figure of 2015 was modified as the number of employees with disabilities was changed due to the adoption of adjusted disability rating.



Human Rights Management

Promote Female Employees

The company runs various maternity protection programs to make sure that female employees do not experience difficulties in their work life due to pregnancy and childbirth. For example, the “Childcare Leave Automatic Switch System” helps female employees use parental leave and maternity leave freely so that they can maintain their careers. We place restrictions on overtime for female employees during their pregnancy and within 1 year after childbirth. Pregnant women are required to have 2 hours of break time when working shifts. Other programs include reduction of working hours, the “DoDami Room” for pregnant employees, postnatal care service, discount in visiting ob/gyn, and supports for nutritional items.

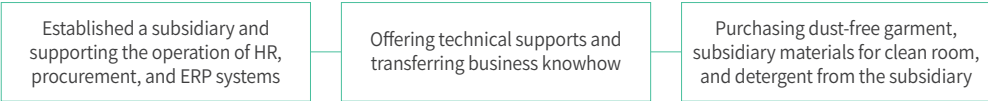
Use of maternity leave and childcare leave

Classification	Unit	2014	2015	2016
Rate of return to work after childcare leave	%	95	97	97
No. of employees who used maternity leave	Persons	724	926	823
No. of employees who used childcare leave	Persons	873	1,033	1,083
Subsidy for childcare leave	KRW in thousands	898,279	623,291	715,694
Rate of working for over 12 months after return to work	%	89	90	91

Employment of the Disabled

In the semiconductor business, it is difficult to find jobs suitable for people with disabilities as those require precision skills. However, we seek a variety of ways to fulfill our social responsibilities for the employment of people with disabilities. As part of this, we established “Haengbokmoa Co., Ltd.,” a standardized social enterprise, in October 2016 after signing an MOU with the Korea Employment Agency for the Disabled. This company manufactures cleanroom garment and take an outsourcing of cleaning operation for parts. SK hynix will continue to expand its business to the distribution of materials used in the clean room. We plan to hire more than 100 people with disabilities by 2018 through Haengbokmoa Co., Ltd.

Supports for the Standard Workplace for the Disabled



Enhancing Working Environment

Wage Policy

Wage and welfare benefits are provided in compliance with local regulations. Currently, the level of wage exceeds the minimum wage set by the laws applicable to each workplace. We will continue to strive to improve the quality of employees' life and contribute to economic growth by maintaining desirable wage policy.

Level of starting salary of new employees\*

Classification	2014	2015	2016
Rate of starting salary of new employees compared with statutory minimum wage	316	300	280

\* Newly hired college graduates at Icheon and Cheongju Campus

Working Hours

According to the OECD Employment Outlook 2016, the average working hours per year in Korea reach 2,113 hours, which is the second highest among OECD member countries (OECD average is 1,766 hours). Long working hours have negative effects on employees' health and their family life. SK hynix complies with local laws and regulations related to working hours while managing the information on the wages for working hours and overtime through the e-HR System. In addition, we broadened the options for the flexible working hour system to ensure a better work-life balance.

Working hours

Classification	Unit	2014	2015	2016
Annual working hours <sup>1)</sup>	Hours	2,119	2,028	2,106
Average weekly working hours <sup>2)</sup>	Hours	40.7	39.0	40.5
No. of employees who joined the flexible working system <sup>3)</sup>	Persons	439	1,667	2,093

1) Annual working hours at workplaces in Korea and China

2) Annual working hours per employee / 52 weeks

3) Job-absorbing employees, pregnant employees, and flextime employees

Healthy Labor-Management Relation

Labor-Management Communication

SK hynix ensures the rights of association, collective bargaining, and collective action. With the spirit of “No Sa Bul Ui (The company and the labor union are intertwined and cooperate with each other),” SK hynix has established cooperative labor-management relations without any labor dispute for 34 years since its founding. There are various communication channels where the labor and management can discuss labor issues and handle grievances and complaints. In 2016, we reached agreements on the job, competency, and performance-based wage system and ways to create more sustainable working conditions in response to rapidly-changing business environment. We also systemized 4-stage labor-management discussion channels while building a system to resolve labor-related issues and advance our bargaining practices. Healthy labor-management relation is promoted at overseas worksites as well. The Wuxi Campus shares its corporate systems and policies between the labor and management through regular presentations, while the Chongqing P&T also started a monthly seminar in 2016.

Labor union

Classification	Unit	Domestic		Overseas	
		Icheon Campus	Cheongju Campus	Wuxi Campus	Chongqing P&T
Employees who are eligible to join the labor union	Persons	7,331	4,964	3,017	1,284
No. of labor union members	Persons	7,061	4,940	3,008	1,139
Labor union enrollment rate	%	96.3	99.5	99.7	88.7

Four-stage labor-management discussion channel

Classification	Details	Discussion meetings in 2016
(1st stage) Weekly labor-management meeting	Channel for sharing labor-management issues	85 times
2nd stage) Monthly task division meeting	Handling on-site complaints and delivering management issues and messages	16 times
(3rd stage) Quarterly labor-management council	Channel for discussing labor-management issues by business site	8 times
(4th stage) Central labor-management council	Channel for discussing company-wide labor management issues	4 times

※ Based on Icheon and Cheongju Campus

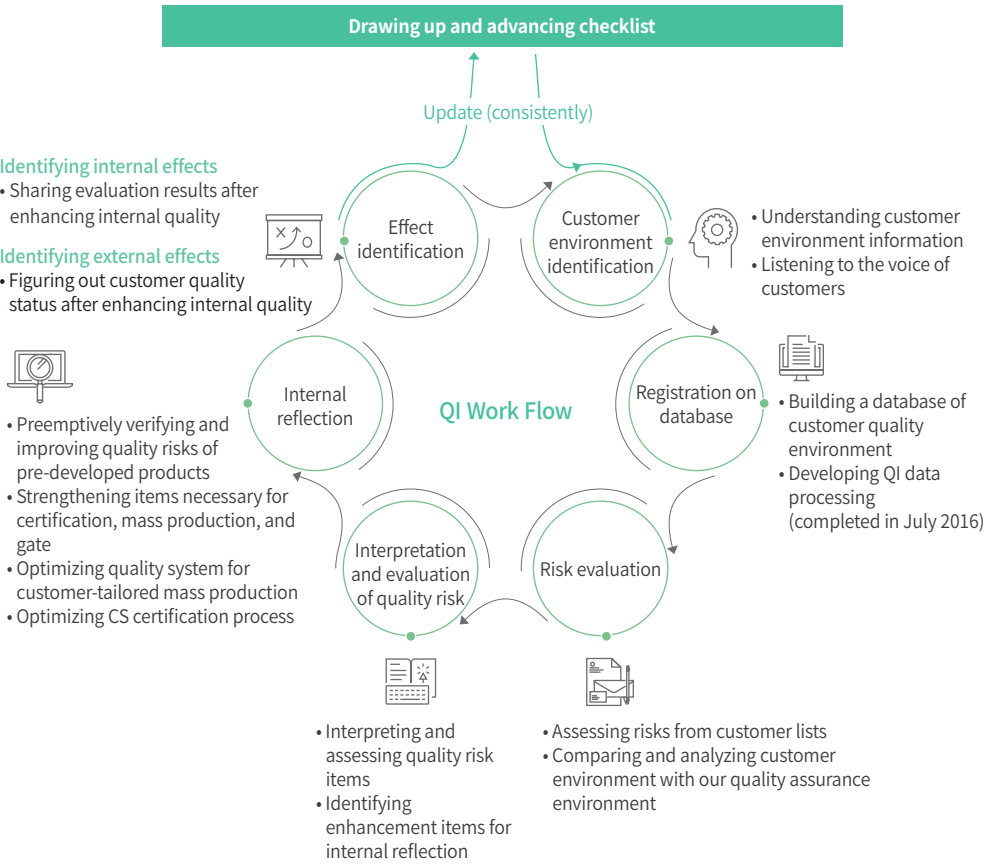
# Quality Management

## Maximization of Customer Satisfaction

### Quality Assurance

We pursue the highest level of customer satisfaction through continuous quality innovation and product development. It is driven by the customer-oriented Quality Intelligence (QI) activity that establishes high quality standards to satisfy customers and then takes proactive approaches to meet them. The QI activity aims to enhance our product quality to the highest level where any quality issue is not brought up by end-users by considering customers' usage conditions and SK hynix's quality assurance system. To this end, we are identifying risk factors in our mass-produced products and take initiatives in quality improvement while securing product margins by taking lessons from the products to be developed in the future. Introduced in 2016, the QI activity has been carried out at the enterprise level (Development/Manufacturing/QRA sectors). As a result, we see that defects caused by a lack of awareness of customer quality environment are declining. In 2017, we are going to develop more improvement items together with customers and enhance our quality assurance system to earn trust from customers.

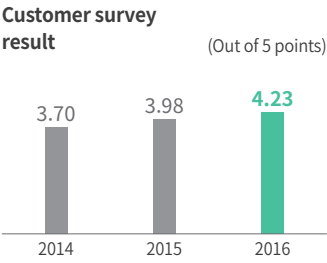
### QI Work Flow



## Improvement of Customer Satisfaction

### Customer Satisfaction

To prevent quality issues in the fast-changing customer quality environment, we are upgrading our quality support system by continuously listening to the voices of customers. In 2016, we surveyed 152 persons from 56 customers about existing quality items along with the VOC items. Customer satisfaction in 2016 scored 4.23 points, an increase from the previous year, and VOC index by application also increased. Particularly, the level of Chinese customer satisfaction made a significant progress as we strengthened the technical support system and collaboration with customers by recruiting local FAE (Field Applications Engineer) manpower and dispatching our engineers.



### Customer survey results by application

(Out of 5 points)

Classification	2014	2015	2016
Computing DRAM	4.02	3.99	4.16
Mobile DRAM	3.32	3.95	4.29
Mobile Solution	-	3.95	4.17
Storage Solution	-	4.04	4.37

※ Survey in 2014 was focused on DRAM products.

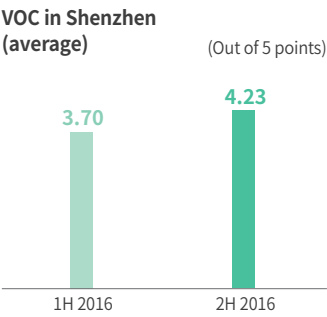
### Customer survey result by subsidiary

(Out of 5 points)

Classification	2014	2015	2016
China subsidiary	2.90	3.52	4.20
US subsidiary	3.97	4.02	4.10
Japan subsidiary	4.10	4.08	3.95
Domestic subsidiaries	3.39	4.42	4.66

### Customer Satisfaction Improvement in Chinese Region

To improve the low level of customer satisfaction in the Chinese region, we have been proactive in collecting requirements of local customers. Particularly, in Shenzhen where major customers in the mobile device field are located, we dispatched one project team per one site for intensive technical supports, which resulted in increasing the satisfaction index from 3.3 to 4.2 points. In 2017, we plan to recruit more on-site project manpower in order to offer faster and more efficient technical supports for customers in Beijing, thereby maximizing customer satisfaction.





# Information Security and Protection

## Reinforcement of Industrial Security

### Industrial Security Policies

We recognize the importance of protecting our tangible and intangible assets and reinforcing industrial security as those have been designated as core technologies by the government. Therefore, we have managed our industrial security system based on the security framework organized by SK Group until 2016, and proactively responded to customer audits and EICC compliance reviews. In 2017, the company plans to obtain the ISO 27001 certification to further enhance the level of its industrial security.

### Enhancing Security against Outsiders

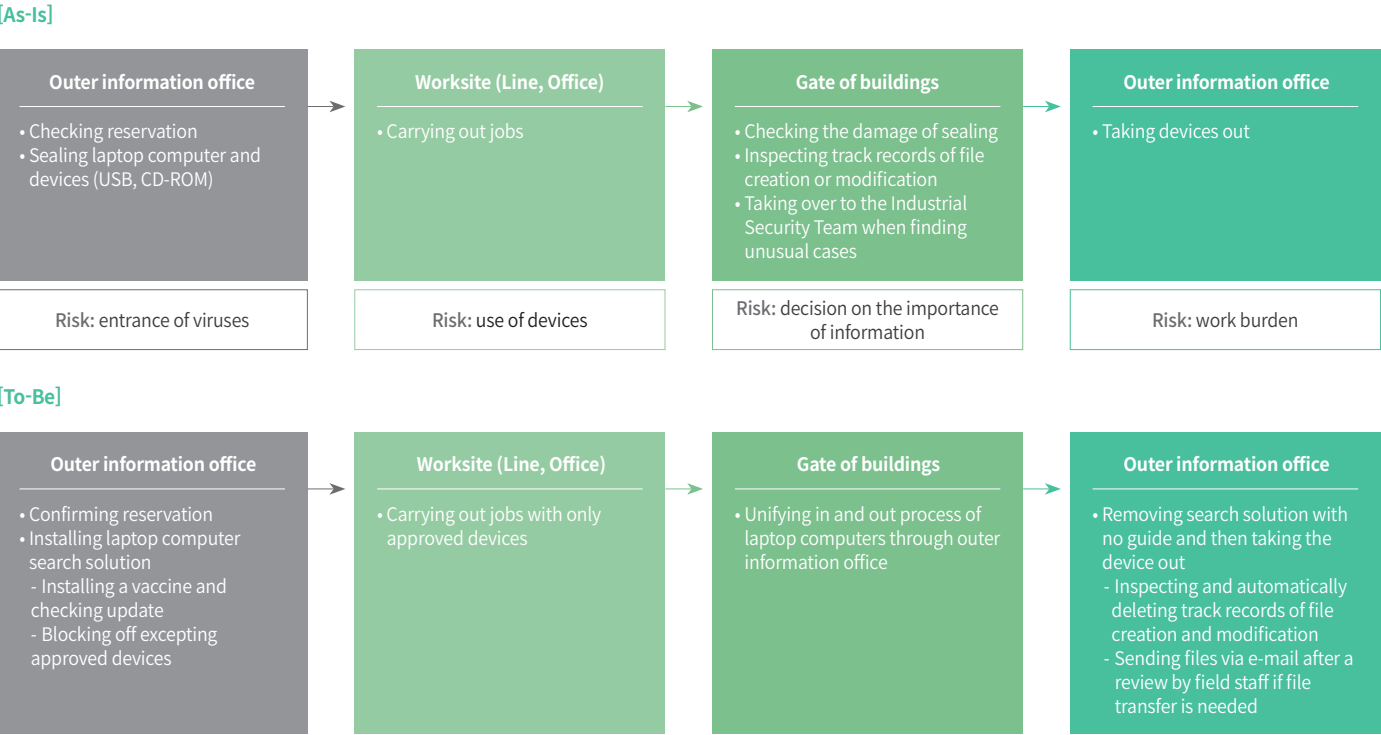
#### Enhancement of Entrance Procedure

SK hynix reinforced the control of visitor access by creating a mobile reservation system and computerizing vulnerable factors in 2016. The ability to monitor abnormal access has been added, and any violation is strictly penalized as part of our advanced access control to prevent harm to our businesses. We also enhanced the entry card issuance system and established reservation procedure while integrating the visitor's pass and building entry pass to prevent security risks due to their loss.

#### Establishment of a Laptop Search Solution

The company prevents security risks caused by outsiders' laptop computers by limiting their access and control. Using the laptop search solution, we check the availability of security software and the last date of scanning to prevent viruses. In addition, only USB memory devices and LAN ports that were previously registered can be used on our company premises. Any files that have been worked on inside the office can only be transferred by email after review by the manager in charge.

### Risk reduction by upgrading in and out process of laptop computers



## Security Training and Inspection

### Security Training for Employees

Security training had been offered to requested departments, however in 2016, we conducted on-site training for the departments with high potential security risks. Online security training programs were provided to shift workers, employees working at overseas subsidiaries, and executives who couldn't join visiting training programs. We also held small-group workshops for security staff to raise their awareness of security.

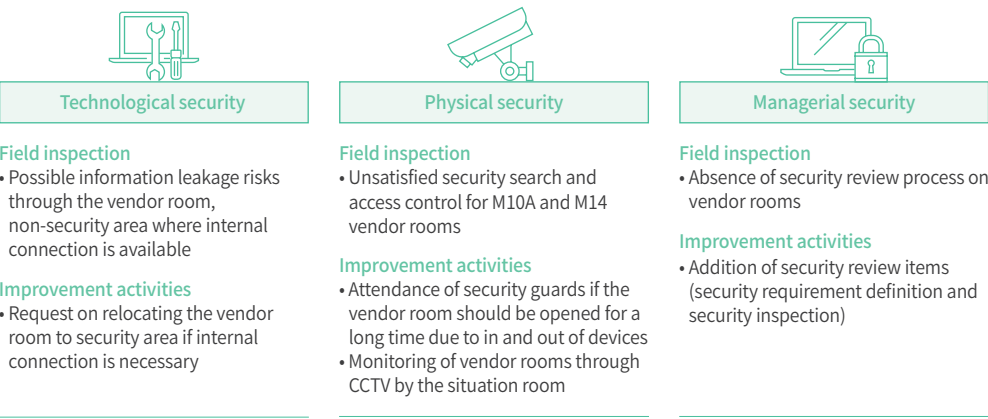
### Security Training for Suppliers

We provide trainings and inspections on security to residential employees of equipment suppliers with easy access to information. In June 2016, a total of 92 participants from 60 suppliers took our security trainings on industrial security policies and guidelines. In addition, weekly training is conducted for outsiders who enter our business premises on a regular basis.

### On-site Inspection on Suppliers

We have strengthened trainings and management systems aimed at helping residential employees of equipment suppliers take more responsibility for security. In 2016, we visited 29 suppliers to carry out on-site inspections on 25 items including confidentiality agreement, storage devices, and document control. As a result, we identified 7 areas of improvement in terms of administrative, physical, and technical security.

### Field inspection and improvement activities



## Information Protection

### Personal Information Protection

SK hynix and its overseas subsidiaries comply with laws, regulations, and requirements of each country with regard to information protection. We have also established necessary measures and guidelines for the protection of personal information. Despite providing B2B services, we are allowed to collect personal information of employees of our customers and suppliers. However, the company restricts the collection of personal information to a reasonable range to avoid risks and comply with relevant regulations.

### Customer Information Protection

We recognize the importance of protecting the information of our customers. When it comes to collecting, using, and disclosing our customers' information through our website or service, we make sure to follow the guidelines we set for those purposes.





## MOVING FORWARD WITH CONFIDENCE

## APPENDIX

SK hynix is committed to creating values for stakeholders including customers, employees, and shareholders, thereby contributing to the development of social and economic development and eventually the happiness of mankind. To this end, we are proactive in driving innovation in all business areas, increasing quality competitiveness and brand value, and practicing shared growth with suppliers and local communities. By doing so, SK hynix will fulfill its responsibility as a corporate citizen and realize sustainable growth.

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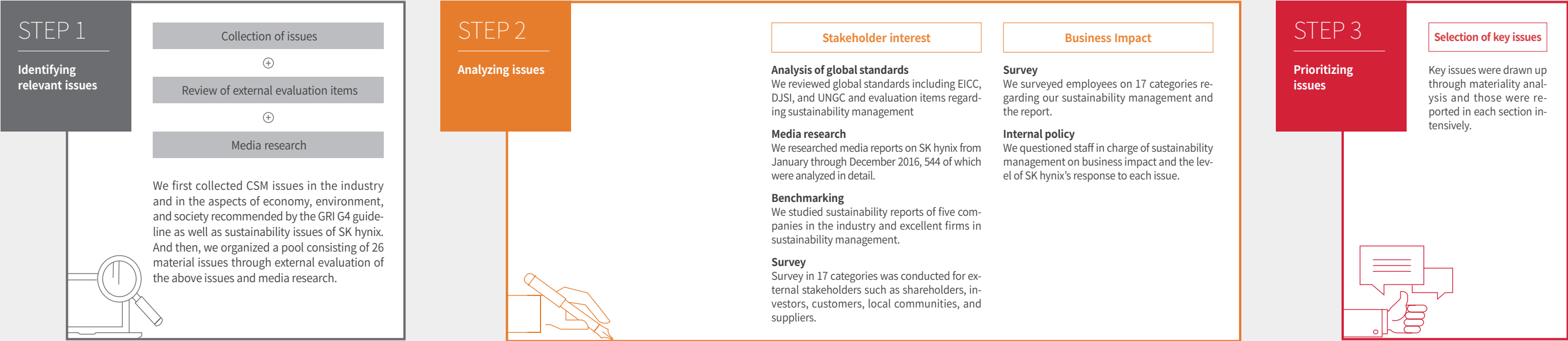


# Materiality Analysis

## Summary of Materiality Analysis

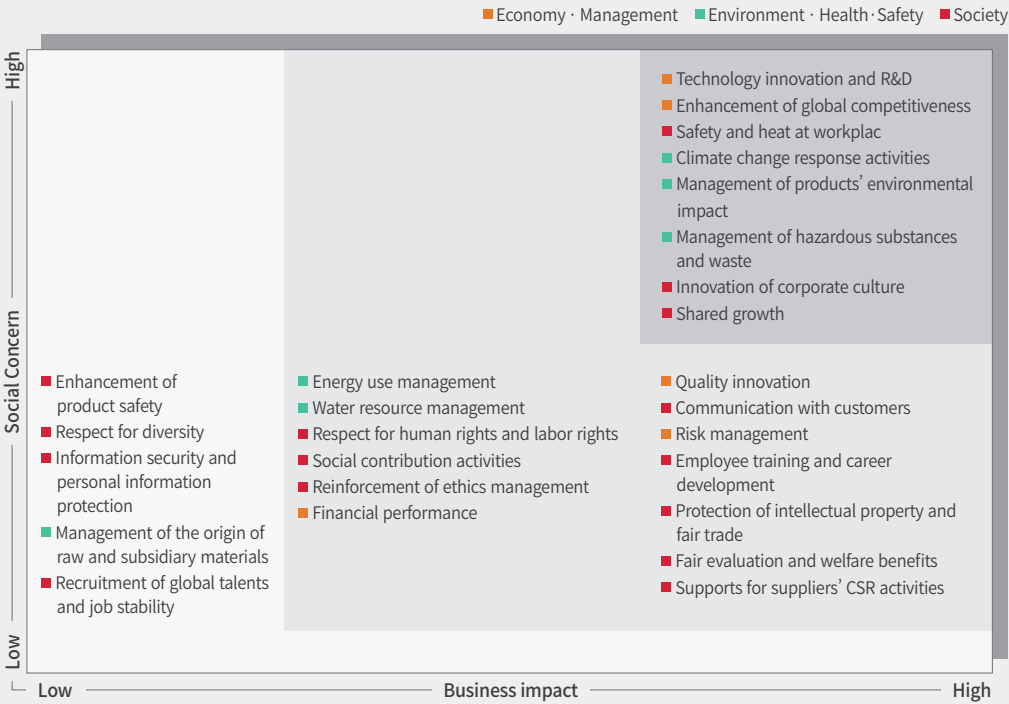
We organized an issue pool regarding sustainability management through the review of global initiatives, benchmarking, and media research, and then implemented materiality analysis based on business impact and stakeholder interest to identify key issues.

Materiality analysis process



## Materiality analysis results

Key issues identified through materiality analysis were safety and health at workplace, climate change response activities, technology innovation and R&D, enhancement of global competitiveness, management of products' environmental impact management, management of hazardous substances and waste, innovation of corporate culture, and shared growth.



Boundary of key issues and response direction

Key issue	Aspect and boundary						Response direction of SK hynix	Reporting section
	Custom-ers	Employees	Shareholders/ investors	Suppliers	Local communities	Government/ NGO		
Technology innovation and R&D	●		●	●			Securing growth engines by innovating technology, enhancing R&D cooperation, and developing products that market and customers want	Business Model
Enhancement of global com-petitiveness	●		●	●	●	●	Contributing to the growth of national economy and semiconductor ecosystem by preemptive large investment aimed at responding to ICT-based market growth	
Safety and heat at workplace	●	●	●	●	●	●	Preventing financial damage and fall of corporate reputation from accidents and disease by enhancing safety and health of employees of both SK hynix and suppliers	Issue 01. Safety and health at workplace
Climate change response activities	●		●	●	●	●	Preemptively responding to environmental regulations to reduce relevant costs and creating profits by securing emission trade rights	Issue 02. Response to climate change
Management of products' environmental impact	●				●	●	Satisfying stakeholders' needs for eco-friendly products and securing future technologies meeting product efficiency regulations to preoccupy the market and increase profits	Issue 03. Reduction of environmental impact
Management of hazardous substances and waste	●			●	●	●	Focusing on preventing environmental accidents and reducing costs through waste recycling	
Innovation of corporate culture		●		●			Recruiting talents and fostering valuable corporate culture where employees contribute to elevating corporate competitiveness through passion and innovative ideas	Issue 04. Innovation of corporate culture
Shared growth				●		●	Actively responding to government-led shared growth policy and helping suppliers sharpen their competitiveness by spreading our CSR management throughout the supply chain	Issue 05. Shared growth with suppliers

Financial performance

Consolidated Statements of Financial PositionAs of December 31, 2016 and 2015

SK hynix, Inc. and Subsidiaries		(Unit: KRW in millions)	
	2015	2016	
Assets			
Current assets	9,760,030	9,838,982	
Cash and cash equivalents	1,175,719	613,786	
Short-term financial instruments	3,615,554	3,521,893	
Trade receivables, net	2,628,448	3,251,652	
Loans and other receivables, net	61,613	25,611	
Inventories, net	1,923,376	2,026,198	
Current tax assets	1,394	489	
Other current assets	353,926	399,353	
Non-current assets	19,917,876	22,377,044	
Equity-accounted investees	122,609	131,016	
Available-for-sale financial assets	131,354	147,779	
Loans and other receivables, net	62,919	39,490	
Other financial assets	430	423	
Property, plant and equipment, net	16,966,252	18,777,402	
Intangible assets, net	1,704,896	1,915,591	
Investment property, net	2,679	2,573	
Deferred tax assets	361,204	792,368	
Other non-current assets	565,533	570,402	
Total assets	29,677,906	32,216,026	
Liabilities			
Current liabilities	4,840,698	4,160,849	
Trade payables	791,373	696,144	
Other payables	1,337,803	1,606,417	
Other non-trade payables	1,001,171	685,154	
Borrowings	1,013,372	704,860	
Other financial liabilities	-	288	
Defined benefit liabilities, net	25,276	42,822	
Deferred tax liabilities	627,260	374,666	
Other non-current liabilities	44,443	50,498	
Non-current liabilities	3,449,505	4,031,647	
Other non-trade payables	89,891	27,426	
Borrowings	2,805,223	3,631,118	
Other financial liabilities	683	-	
Defined benefit liabilities	484,977	306,488	
Deferred tax liabilities	7,582	4,732	
Other non-current liabilities	61,149	61,883	
Total liabilities	8,290,203	8,192,496	
Equity			
Equity attributable to owners of the Parent Company	21,386,863	24,016,955	
Capital stock	3,657,652	3,657,652	
Capital surplus	4,143,736	4,143,736	
Other equity	(771,913)	(771,913)	
Accumulated other comprehensive loss	(1,600)	(79,103)	
Retained earnings	14,358,988	17,066,583	
Non-controlling interests	840	6,575	
Total equity	21,387,703	24,023,530	
Total liabilities and equity	29,677,906	32,216,026	

Consolidated Statements of Comprehensive IncomeFor the years ended December 31, 2016 and 2015

SK hynix, Inc. and Subsidiaries		(Unit: KRW in millions, except per share information)	
	2015	2016	
Revenue	18,797,998	17,197,975	
Cost of sales	10,515,353	10,787,139	
Gross profit	8,282,645	6,410,836	
Selling and administrative expense	2,946,545	3,134,090	
Operating profit	5,336,100	3,276,746	
Finance income	846,752	814,892	
Finance expenses	829,913	846,328	
Share of profit of equity-accounted investees	24,642	22,752	
Other income	40,479	52,371	
Other expenses	148,939	103,979	
Profit before income tax	5,269,121	3,216,454	
Income tax expense	945,526	255,971	
Profit of the year	4,323,595	2,960,483	
Other comprehensive income	18,095	28,844	
Item that will never be reclassified to profit or loss:			
Remeasurements of defined benefit liability, net of tax	(21,871)	106,822	
Item that are or may be reclassified to profit or loss:			
Foreign operations - foreign currency translation differences, net of tax	33,479	(82,066)	
Equity-accounted investees - share of other comprehensive income, net of tax	6,487	4,088	
total comprehensive income of the year	4,341,690	2,989,327	
Profit attributable to:			
Owners of the Parent Company	4,322,356	2,953,774	
Non-controlling interests	1,239	6,709	
Total comprehensive income attributable to:			
Owners of the Parent Company	4,340,700	2,982,703	
Non-controlling interests	990	6,624	
Earnings per share			
Basic and diluted earnings per share (in won)	6,002	4,184	



# Independent Auditors’ Report

The Board of Directors and Shareholders  
SK Hynix Inc.:

We have audited the accompanying consolidated financial statements of SK Hynix Inc. and its subsidiaries (the “Group”) which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management’s Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Korean International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Korean Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of counting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2016 and 2015 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

Other Matter



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



KPMG Samjong Accounting Corp.  
Seoul, Korea  
February 17, 2017

This report is effective as of February 17, 2017, the audit report date. Certain subsequent events or circumstances, which may occur between the audit date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes there to. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

# Greenhouse Gas Verification Report



## Verification Opinion

### SK HYNIX INC.

**Domestic Operation Sites under greenhouse gas emission verification**  
**- Icheon Campus, Cheongju Compus & Boondang Campus**

**Scope:**  
The annual GHG emission for the 2016 calendar year inclusive  
The physical scope is limited within the boundary of Domestic Area for **SK HYNIX INC.**  
GHG emissions for Scope 1(Direct-emissions), Scope 2(Indirect-energy related) and partially Scope 3(Indirect-emissions from logistic, waste dispatch & disposal, business trip and employee commuting) as defined in WBCSD/WRI GHG protocol Chapter 4 "Setting Operational Boundaries"

**Data Verified:**  
GHG Emissions for the Scope 1 and Scope 2 for 2016 calendar year as follows.

Scopes	Sites	Icheon Campus	Cheongju Compus	Boondang Campus	Sub Total
<b>Direct Emissions (Scope 1)</b>		259,915	312,916	92	572,923
<b>In-direct Emissions (Scope 2)</b>		1,443,747	1,072,958	2,440	2,519,145
<b>Optional Information (Used the NF<sub>3</sub>)</b>		219,745	426,982	-	646,727
<b>Total (tCO<sub>2</sub>e/y)</b>		<b>1,923,407</b>	<b>1,812,856</b>	<b>2,532</b>	<b>3,738,795</b>

※ The total Emissions can differ to a cut-off decimal point.

GHG Emissions of the scope 3 as from logistic, waste dispatch & disposal, business trip and employee commuting for 2016 calendar year.

Category	International transport(Export)	International transport(Import)	Waste disposal	Business trip	Employee commuting	Total (tCO <sub>2</sub> e/y)
<b>tCO<sub>2</sub>e/y</b>	<b>42,947</b>	<b>15,910</b>	<b>3,845</b>	<b>1,115</b>	<b>9,938</b>	<b>73,755</b>

**GHG Criteria & Protocols used for Verification:**  
The verification was performed at the request of **SK HYNIX INC.** using the followings:


- GHG-Energy Target Management Operating Guideline (Act No. 2016-255) – Revised Oct 2016
- The Corporate Value Chain (Scope 3) Accounting & Reporting Standard (WRI & WBCSD, 2011)
- IPCC Guideline for National Greenhouse Gas Inventories - Revised 2006
- ISO14064 Part 1 & 3 - Issued 2006
- BSI GHGEV Manual (KM007, R8)

The standard confidentiality principle of BSI Group Korea is applied to the all verification activities

**Verification Opinion:**  
As a result of the verification in accordance with the protocols and the best practice listed above, it is the opinion of BSI that:

- The verification was conducted to provide reasonable verification in accordance with GHG Energy Target Management Scheme
- No material misstatement in the GHG emission calculations was detected, related records were maintained appropriately
- The data quality was considered corresponding to the international key principles for GHG emissions verification

For and on behalf of BSI:

  
Managing Director Korea, **JongHo Lee**

Issue: 28/04/2017

Page: 1 of 1

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BSI Group Korea Limited, 8th Floor Tasehwa Building, Insadong 5gil 28, Jongno-gu, Seoul, 03162, Korea  
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# Third Party’s Assurance Statement

Messrs. SK hynix Executives and Stakeholders

PREFACE

The Korean Standards Association (hereinafter referred to as “the Verifier”) received a request from SK hynix for independent assurance of the 2017 SK hynix Sustainability Management Report (the “Report”). The Verifier reviewed the validity of the data contained in the Report prepared by SK hynix and presented independently verified opinions. SK hynix accepts responsibility for all the claims and outcomes included in the Report.

INDEPENDENCE

As an independent assurance body, the Verifier is not involved in providing the third party assurance of the Report, neither has any interest in the business activities of SK Hynix, nor has no affiliation that may impede its independence or anything that is intended for profit.

STANDARDS AND LEVELS OF ASSURANCE

In accordance with the assurance standards of AA1000AS (2008) the Verifier assured the compliance status of the principles of inclusiveness, materiality, and responsiveness and the reliability of the information contained in the Report at the ‘moderate’ level and with the application of the GRI G4 Guidelines, Mining and Metals Sector Disclosure, and ISO 26000.

TYPE AND SCOPE OF ASSURANCE

The Verifier conducted Type-2 assurance according to the AA1000 Assurance Standard (AA1000AS), which means that the accuracy of the performance information included in the SK hynix claims and Report has been evaluated. The scope of assurance covered the information from January 1, 2016 to December 31, 2016. During the reporting period, The Verifier focused on assuring the systems and operations such as policies, targets, projects, standards for SK hynix’s sustainability management. In addition, the Verifier assured financial data on environmental, social and broad economic outcomes, whereas the assurance of stakeholder engagement was limited to reviewing the materiality assessment process.

ASSURANCE METHOD

The Verifier used the following methods to collect information, data, and evidence related to the scope of the verification:

- Review of management systems and processes used in sustainability management outcome improvement and Report preparation
- Review on whether financial performance data and whether or not the audit Report and disclosure data for 2016 financial statements match up.
- Interviews with SK hynix’s sustainability management managers and other managers by issue
- Follow-up Review of Internal Documents and Basic Data

ASSURANCE RESULTS AND OPINIONS [ASSURANCE PRINCIPLE / PROCESS DIMENSION]

The Verifier reviewed and presented opinions on the content of the draft Report, and then the Report was revised accordingly. The Verifier also could not find any material errors or inaccurate descriptions in the contents of the Report. The Verifier presents the following opinions on SK hynix’s 2017 Sustainability Management Report:

**Inclusivity**  
- Has SK hynix included stakeholders in its strategic response to sustainability?  
The Verifier confirmed that SK hynix is striving to engage with key stakeholders in promoting sustainability management and has set aside various types of communication channels to operate. The Verifier also has not found any significant group of stakeholders missing in the process.

**Materiality**  
- Was important information facilitating the informed judgment of stakeholders included in the Report?  
The Verifier determines that SK hynix did not omit or exclude any information important for stakeholders. In addition, the Verifier confirmed that SK hynix conducted materiality evaluations as a major issue derived from internal and external environmental analysis and reported the results accordingly.

**Responsiveness**  
- Has SK hynix responded appropriately to the needs and interests of stakeholders?  
The Verifier confirmed that SK hynix was making efforts to respond to the needs and concerns of stakeholders by reflecting the opinions gathered from stakeholders in the Report. The Verifier also has not found any evidence that SK hynix’s responses to key stakeholder issues have been reported inadequately.

REVIEW OF GRI G4 APPLICATION LEVEL

The Verifier assured that the Report was prepared in accordance with the Core Options of GRI G4, and that according to the data provided by SK hynix, the content related to the following general standard disclosure and specific standard disclosure index were based on the presented data:

- General Standard Disclosures  
The Verifier confirmed that the Report was compliant with the general standard disclosure requirements of the core options and reviewed the following indices.

G4-1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 32, 33, 34, 56

- Specific Standard Disclosures  
The Verifier confirmed the DMA for the material aspect derived through the decision process for the report items, and reviewed the following indices.

G4-EC1, EC2, EC3, EC5, EC7, EC8, EC9, EN1, EN2, EN3, EN4, EN5, EN6, EN7, EN8, EN9, EN10, EN15, EN16, EN17, EN18, EN19, EN21, EN22, EN23, EN26, EN27, EN29, EN31, EN32, EN33, LA1, LA2, LA3, LA5, LA6, LA9, LA11, LA12, LA13, LA14, LA15, LA16, HR2, HR3, HR4, HR5, HR6, HR7, HR9, HR10, HR11, HR12, SO1, SO2, SO4, SO5, SO8, SO9, SO10, PR1, PR2, PR3, PR4, PR5

OPINIONS AND RECOMMENDATIONS FOR IMPROVEMENT BY SECTOR [PERFORMANCE OUTCOME / ISSUE DIMENSION]

The Verifier recommends that SK hynix consider the following issues in order to establish sustainability management strategies for the entire organization and to respond to ongoing issues

- Economics  
The main trend of Reporting financial information is to provide financial information based on the consolidated financial statements, and many companies that publish sustainability reports reflect this trend provide financial information according to the consolidation standards and the business contents about the consolidated substance. SK hynix prepares business reports and financial statements based on the consolidated standards, and the Report also describes the financial outcomes of the consolidated group in detail. In the future, please make sure to list the financial and business contents of the consolidated groups to offer target-oriented information to stakeholders.

- Environment  
In the field of environment, SK hynix established the SHE (Safety, Health, and Environment) management strategy in order to become a company with priority on safety in the field of safety and environment, managed the environment and safety systems integrally, and continued to expand investment to relieve the relevant risks. This systematic management seems to be the best domestic practice. It is expected that sustainability reports will be more effective in terms of continuous improvement of the environmental impact if SK hynix sets up quantitative targets by activity in the future and discloses them in the reports to establish the environmental outcome index management and reporting system.

- Social Field  
In order to implement mutual growth with business partners and to reinforce the fairness of transactions, SK hynix put focused efforts into revising the existing standard contract by complying with the Articles of the standard contract proposed by the Fair Trade Commission, disclosing fair and transparent business practices through the win-win portals, and supporting professional consulting and equipment purchase even for the secondary business partners. The Verifier hopes SK hynix will maximize its effects in social and economic value creation activities in the future by expanding long-term investment to resolve the polarization conflict, the biggest issue facing this country, through which corporates have social responsibility, through job creation and so forth.



**AA1000**  
Licensed Assurance Provide  
000-70

June 2017  
**Su-Hyeon Baek**, President of the Korean Standards Association

서현백

The Korean Standards Association is a specialized legal entity established under the Korean Industrial Standardization Act in 1962. It is a knowledge service organization that propagates and spreads industry standardization, quality management, sustainable management, KS and ISO certification, etc. In particular, it is contributing to the sustainable development of this country as an ISO 26000 domestic secretariat organization, GRI-designated educational institution, AA1000 assurance organization, Korea Sustainability Index (KSI) management organization, UN CDM management organization and GHG energy target management assurance organization.



GRI Index

1. General Standard Disclosures

Aspects	Index	Core	Description	Assurance	Page
Strategy and Analysis	G4-1	Core	A general strategic view of the organizations's sustainability, in order to providd context for subsequent, more detailed reporting against other sections of the Guidelines	●	15
	G4-2		A description of key impacts, risks, and opportunities	●	18-23, 50, 56, 58-59, 62, 68, 74
Organizational Profile	G4-3	Core	Name of the organization	●	24
	G4-4	Core	Primary brands, products, and services	●	18-23, 24, 28
	G4-5	Core	Location of the organization's headquarters	●	24-25
	G4-6	Core	The number of countries where the organization operates, and names of countries where either the organization has significant operatios or that are specifically relevant to the sustainability topics covered in the report	●	24-25
	G4-7	Core	Nature of ownership and legal form	●	38
	G4-8	Core	Markets served (including geographic breakdown, sectors served, and types of customers and beneficiaries)	●	18-25
	G4-9	Core	Scale of the organization	●	8, 18-25, 28-29, 106-107
	G4-10	Core	Total number of employees by employment contract, gender, region, work scope of non-permanent employees, significant changes in number of employees	●	72
	G4-11	Core	Percentage of total employees covered by collective bargaining agreements	●	97
	G4-12	Core	The organization's supply chain	●	28-29, 76-79
	G4-13	Core	Significant changes during the reporting period egarding the organization's size, structure, ownership or supply chain	●	8-13, 40, 76-77
	G4-14	Core	Reporting whether and how the precautionary approach or principle is addressed by the organization	●	42-47, 95, 100-101
	G4-15	Core	Externally developed economic, environmental and social charters, or other initiatives to which the organization subscribes or which it endorses	●	116
	G4-16	Core	Memberships of association and national or international advocacy organizations	●	117
	G4-17	Core	Entities included in the organization's consolidated financial statements or equivalent documents	●	38, Refer to FY2016 Business Report (pp.3-4)
	G4-18	Core	Process for defining the report content and the Aspect Boundaries and how they are implemented	●	104
Identified Material Aspects and Boundaries	G4-19	Core	All the material Aspects identified in the process for defining report content	●	105
	G4-20	Core	Report on whether the Aspect is material within the organization	●	105
	G4-21	Core	Report on whether the Aspect is material outside of the organization	●	105
	G4-22	Core	Effect of any restatements of information provided in previous reports, and the reasons for such restatements	●	4
	G4-23	Core	Significant changes in the Aspect Boundaries and the Aspect in post-reporting period	●	4
Stakeholder Engagement	G4-24	Core	List of stakeholder groups engaged by the organization	●	41
	G4-25	Core	Basis for identification and selection of stakeholders with whom to engage	●	41
	G4-26	Core	The organization's approach to stakeholder engagement	●	4, 104
	G4-27	Core	Key topics and concerns that havae been raised through stakeholder engagement and how the organization has responded to those key topic and concerns	●	4, 30-31, 105
Report Profile	G4-28	Core	Reporting period for information provided	●	4
	G4-29	Core	Date of most recent previous report	●	4
	G4-30	Core	Reporting cycle	●	4
	G4-31	Core	Contact point for questions regarding the report for its contents	●	118
	G4-32	Core	Report on 'in accordance' option the organization has chosen, the GRI Content Index for the chosen option, the reference to the External Assurance Report, if the report has been externally assured	●	4, 110-111
	G4-33	Core	Report on the organization's policy and current practice with regard to seeking external assurance for the report, the relationship between the organization and the assurance providers, and whether the highest governance body or senior executives are involved in seeking assurance for the organization's sustainability report	●	4, 110-111

	Overview	Special Theme	Corporate Governance	Focus Areas	Performance	Appendix	Materiality Analysis Financial performance Independent Auditors' Report Greenhouse Gas Verification Report Third Party's Assurance Statement <b>GRI Index</b> UN Global Compact / UN SDGs Awards, Recognition and Association Memberships
Aspects	Index	Core	Description	Assurance	Page		
Governance	G4-34	Core	The governance structure of the organization, including committees of the highest governance body	●	38-40, 52		
	G4-35		The process for delegating authority for economic, environmental and social topics from the highest governance body to senior executives and other employees		40		
	G4-36		(1) Report on whether the organization has appointed an executive-level position or positions with responsibility for economic, environmental and social topics, and whether post holders report directly to the highest governance body (2) System that enable responsible executives directly report to governance organization		40, 50, 56, 62, 68, 74		
	G4-38		Composition of the highest governance body and its committees		38-39		
	G4-39		Report on whether the Chair of the highest governance body is also an executive officer		38		
	G4-40		Report on the nomination and selection processes for the highest governance body and its committees and the criteria used for nominating and selecting highest governance body members		38-39		
	G4-41		Report on processes for the highest governance body to ensure conflicts of interest are avoided and managed		39		
	G4-43		The measures taken to develop and enhance the highest governance body's collective knowledge of economic, environmental and social topics		39		
	G4-44		(1) The processes for evaluation of the highest governance body's performance with respect to governance of economic, environmental and social topics (2) Actions taken in response to evaluation of the highest governance body's performance with respect to governance of economic, environmental and social topics, including, as a minimum, changes in membership and organizational practice		39		
	G4-45		(1) The highest governance body's role in the identification and management of economic, environmental and social impacts, risks, and opportunities (2) Report whether stakeholder consultation is used to support the highest governance body's identification and management of economic, environmental and social impacts, risks, and opportunities		39		
	G4-47		The frequency of the highest governance body's review of economic, environmental and social impacts, risks, and opportunities		39		
	G4-51		(1) The remuneration policies for the highest governance body and senior executives for the below types of remuneration (2) How performance criteria in the remuneration policy relate to the highest governance body's and senior executives' economic, environmental and social objectives		39, Refer to FY2016 Business Report (pp.277-278)		
	G4-54		The ratio of the annual total compensation for the organization's highest-paid individual in each country of significant operations to the median annual total compensation for all employees (excluding the highest-paid individual) in the same country		39		
Ethics and Integrity	G4-56	Core	The Organization's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics	●	42, 46-47		
	G4-57		Internal and external mechanisms for seeking advice on ethical and lawful behavior, and matters related to organizational integrity, such as advice lines		47		
	G4-58		Internal and external mechanisms for seeking advice on unethical and unlawful behavior, and matters related to organizational integrity, such as escalation through line management, whistleblowing mechanisms or hotlines		47		

Aspects	Index	Description	Assurance	Page	ISO 26000
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	G4-EC3	Coverage of the organization's defined benefit plan obligations		Under the Defined Benefit (DB) retirement pension system	6.8.7
Market Presence	G4-EC5	Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation		96	
Indirect Economic Impacts	G4-EC7	Development and impact of infrastructure investment and services supported	●	84-87, 96	6.3.9, 6.8.1-6.8.2, 6.8.7, 6.8.9
	G4-EC8	Significant indirect economic impacts, including the extent of impacts	●	83	6.3.9, 6.6.6, 6.6.7, 6.7.8, 6.8.1-6.8.2, 6.8.5, 6.8.7, 6.8.9
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	G4-EN5	Energy intensity	●	88, 90	6.5.4
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	G4-EN8	Total water withdrawal by source	●	64, 91	
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Supplier	G4-EN32	Percentage of new suppliers that were screened using environmental criteria		67, 79	
Environmental Assessment	G4-EN33	Significant actual and potential negative environmental impacts in the supply chain and actions taken		67, 79	
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GRI Index

Aspects	Index	Description	Assurance	Page	ISO 26000
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# UN Global Compact

SK hynix has been complying with the ten principles of the UN Global Compact in the areas of human rights, labor, the environment and anti-corruption since joining the initiative in 2009.



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# UN SDGs

SK hynix advocates the sustainable development goals (SDGs) proposed by the UN for the sustainable development of international society. To this end, we are engaging in diverse activities to realize 17 goals aimed at solving environmental, economic, and social problems by 2030, while joining the spread of SDGs to the international society as a member of the Korean Association for Supporting SDGs for the UN. For more information on 17 major goals and 169 detailed goals, please visit the website (<https://sustainabledevelopment.un.org>).



# Awards, Recognition and Association Memberships

## Awards in 2016

Awards	Organization	Awardee & Title		Date
Merit for Trade Day	Ministry of Trade, Industry and Energy	Director, Kim Ki-hyun	Industrial Award	Dec. 5, 2016
Merit for Trade Day	Ministry of Trade, Industry and Energy	Engineer, Kwon Younng-dae	Minister Award	Dec. 5, 2016
National Quality Award	Ministry of Trade, Industry and Energy	Executive Vice President, Lee Sang-sun	Iron Tower Order of Industrial Service Merit	Nov. 23, 2016
National Quality Award	Ministry of Trade, Industry and Energy	Engineer, Lee Sung-woo	Quality Master	Nov. 23, 2016
National Quality Award	Ministry of Trade, Industry and Energy	Engineer, Cha Chang-ho	Quality Master	Nov. 23, 2016
Korea's Engineer Award	Ministry of Science, ICT and Future Planning	Vice President, Kwon Jae-soon	Minister Award	Nov. 16, 2016
Award for Semiconductor Day	Ministry of Trade, Industry and Energy	Vice President, Jeon Joon-hyun	Industrial Award	Oct. 27, 2016
Award for Semiconductor Day	Ministry of Trade, Industry and Energy	Vice President, Han Young-soo	Minister Award	Oct. 27, 2016
Award for Semiconductor Day	Ministry of Trade, Industry and Energy	Director, Chung Hong-kyo	Minister Award	Oct. 27, 2016
Award for Semiconductor Day	Ministry of Trade, Industry and Energy	Director, Kang Dae-hee	Minister Award	Oct. 27, 2016
Merit for Invention Promotion on the Invention Day	Ministry of Trade, Industry and Energy	Director, Lee Hee-yeol	Minister Award	May 19, 2016
Merit for Science Day	Ministry of Science, ICT and Future Planning	Vice President, Kim Hyung-soo	Science Technology Award	Apr. 21, 2016
Tax Tower for Taxpayers' Day	Ministry of Strategy and Finance	Group	KRW 700 billion	Mar. 3, 2016

## Association Memberships

Classification	Association
MARKETING	SEMI (Semiconductor Equipment and Materials Institute, Inc)
PRODUCTION	The National Quality Award Winners Council, Korea Standards Association (Icheon and Cheongju), Korea Occupational Hygiene Association, Korea Chemicals Management Association, Chungbuk Association of Environmental and Engineering, Chungbuk Branch of Environment Preservation Association
RESEARCH	Korea Invention Promotion Association, Korea Intellectual Property Association, The Institute of Semiconductor Test of Korea, JEDEC (Joint Electron Device Engineering Council), UFSA (Universal Flash Storage Association), SATA-IO (Serial ATA International Organization), TCG (Trusted Computing Group), PCI-SIG (Peripheral Component Interconnect Special Interest Group), SNIA (The Storage Networking Industry Association), T13, NVMe, T10, UNH-IOL, KMEPS (The Korean Microelectronics and Packaging Society), Korea Industrial Technology Association, MIPI (Mobile Industry Processor Interface), Consortium of Semiconductor Advanced Research, Institute of Electronics and Information Engineers, Si2 (Silicon Integration Initiative), SiWEDS (Silicon Wafer Engineering and Defect Science), VCCI (Voluntary Control Council for Interference), ODCC (Open Data Center Committee), National Academy of Engineering of Korea, Gen-Z Consortium, ASPIRE, Open CAPI, GCC (Green Computing Consortium)
SUPPORT	Icheon Chamber of Commerce and Industry, Korea Electric Engineers Association (Icheon and Cheongju), Korea Fire Safety Association (Icheon), Korea Industrial Safety Association (Seongnam Branch), Cheongju Chamber of Commerce and Industry, Korea Fire Safety Association (Cheongju), Korea Industrial Safety Association (Chungbuk Branch), Korean Association Occupational Health Nurses, Korea Economic Research Institute, Korea Semiconductor Industry Association
SUPPORT	Korea AEO (Authorized Economic Operator) Association, Korean Customs Logistics Association, KILA (Korea Integrated Logistics Association), Korea Forum of Chief Information Officers, Korea International Trade Association, Korean Association for Industrial Technology Security, Korea Employers Federation, Emergency Planning Team of MOTIE, Korea Fair Competition Federation, WSTS (World Semiconductor Trade Statistics), Institute for Industrial Policy Studies Yoon-Kyung SM Forum, UNGC (UN Global Compact) Korea Network, EICC (Electronic Industry Citizenship Coalition), Korea Listed Companies Association, Korea IR Service, Chungbuk Employers Federation, Chungcheong Green Business Council, OpenPOWER Foundation, GSA (Global Semiconductor Alliance), Gyeonggi Employers Federation, UN SDGs Association, Korea IoT Association, Institute of Internal Auditors, Korea Quality Master Association, BISD (Business Institute for Sustainable Development), Chungcheong Council of Chemical Safety Community

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