

SK HYNIX, INC.

Separate Financial Statements

**December 31, 2015 and 2014**

(With Independent Auditors' Report Thereon)

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## Independent Auditors' Report

Based on a report originally issued in Korean

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

We have audited the accompanying separate financial statements of SK hynix, Inc. (the Company) which comprise the separate statements of financial position as of December 31, 2015 and 2014, the separate 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 Separate Financial Statements**

Management is responsible for the preparation and fair presentation of these separate 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 separate 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 separate 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 separate financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the separate 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 separate 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 the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the separate 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 separate financial statements present fairly, in all material respects, the separate financial position of the Company as of December 31, 2015 and 2014 and its separate financial performance and its separate 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 separate financial statements may differ from those generally accepted and applied in other countries.



*KPMG Samjong Accounting Corp.*

Seoul, Korea  
February 17, 2016

This report is effective as of February 17, 2016, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying separate financial statements and notes thereto. 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.

SK HYNIX, INC.  
Separate Statements of Financial Position  
As of December 31, 2015 and 2014

(In millions of won)

	<b>Note</b>	<b>2015</b>	<b>2014</b>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	4,5 W	1,014,939	252,078
Short-term financial instruments	4,5,6	2,808,102	3,172,173
Trade receivables, net	4,5,7,31	2,800,904	3,540,213
Loans and other receivables, net	4,5,7,31	87,757	138,549
Inventories, net	8	1,407,614	1,217,282
Other current assets	9	302,668	320,779
		<u>8,421,984</u>	<u>8,641,074</u>
<b>Non-current assets</b>			
Investments in subsidiaries, associates, and joint ventures	10	4,229,002	3,973,889
Available-for-sale financial assets	4,5,11	130,645	126,605
Loans and other receivables, net	4,5,7,31	52,662	48,601
Other financial assets	4,5,6	319	319
Property, plant and equipment, net	12,19,28,32	13,853,549	10,862,530
Intangible assets, net	13,28	1,299,257	971,316
Investment property, net	12,14	2,679	28,456
Deferred tax assets	19,29	187,991	190,595
Other non-current assets	9	564,110	505,515
		<u>20,320,214</u>	<u>16,707,826</u>
<b>Total assets</b>	W	<u>28,742,198</u>	<u>25,348,900</u>

See accompanying notes to the separate financial statements.

SK HYNIX, INC.

Separate Statements of Financial Position, Continued

As of December 31, 2015 and 2014

(In millions of won)

	<b>Note</b>	<b>2015</b>	<b>2014</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade payables	4,5, W	1,014,961	910,521
Other payables	4,5,31	1,441,232	1,296,900
Other non-trade payables	4,5	875,588	1,042,160
Borrowings	4,5,15,31	743,293	956,049
Other financial liabilities	4,5,20	-	30
Provisions	17,32	31,953	33,328
Current tax liabilities		615,844	512,247
Other current liabilities	16	28,021	61,293
		<u>4,750,892</u>	<u>4,812,528</u>
<b>Non-current liabilities</b>			
Other non-trade payables	4,5	87,826	132,649
Borrowings	4,5,15	2,689,326	2,216,231
Other financial liabilities	4,5,20	683	708
Defined benefit liabilities, net	18	472,490	455,301
Other non-current liabilities	16	58,516	56,819
		<u>3,308,841</u>	<u>2,861,708</u>
<b>Total liabilities</b>		<u>8,059,733</u>	<u>7,674,236</u>
<b>Equity</b>			
Capital stock	1,21	3,657,652	3,657,652
Capital surplus	21	4,182,016	4,182,016
Other equity	21	(771,913)	(24)
Accumulated other comprehensive income	22	-	-
Retained earnings	23	13,614,710	9,835,020
<b>Total equity</b>		<u>20,682,465</u>	<u>17,674,664</u>
<b>Total liabilities and equity</b>	W	<u>28,742,198</u>	<u>25,348,900</u>

See accompanying notes to the separate financial statements.

SK HYNIX, INC.  
Separate Statements of Comprehensive Income  
For the years ended December 31, 2015 and 2014

(In millions of won, except per share information)

	<b>Note</b>	<b>2015</b>	<b>2014</b>
<b>Revenue</b>	31 W	18,780,792	16,893,716
Cost of sales	26,31	11,002,083	9,502,113
<b>Gross profit</b>		7,778,709	7,391,603
Selling and administrative expense	25,26	2,702,202	2,344,250
<b>Operating profit</b>		5,076,507	5,047,353
Finance income	27	689,855	585,059
Finance expenses	27	653,425	685,897
Other income	28	59,081	34,638
Other expenses	28	169,539	440,041
<b>Profit before income tax</b>		5,002,479	4,541,112
Income tax expense	29	983,399	769,351
<b>Profit for the year</b>		4,019,080	3,771,761
<b>Other comprehensive loss</b>			
<b>Item that will never be reclassified to profit or loss:</b>			
Remeasurements of defined benefit liability, net of tax	18	(20,989)	(118,520)
<b>Item that is or may be reclassified to profit or loss:</b>			
Available-for-sale financial assets – unrealized net change in fair value, net of tax	11,22	-	(7,824)
<b>Other comprehensive loss for the year, net of tax</b>		(20,989)	(126,344)
<b>Total comprehensive income for the year</b>	W	3,998,091	3,645,417
<b>Earnings per share</b>			
Basic and diluted earnings per share (in won)	30	5,581	5,252

See accompanying notes to the separate financial statements.

SK HYNIX, INC.  
Separate Statements of Changes in Equity  
For the years ended December 31, 2015 and 2014

(In millions of won)

		Capital stock	Capital surplus	Other equity	Accumulated other comprehensive income	Retained earnings	Total equity
<b>Balance at January 1, 2014</b>	₩	3,568,645	3,444,363	-	7,824	6,181,779	13,202,611
<b>Total comprehensive income (loss)</b>							
Profit for the year		-	-	-	-	3,771,761	3,771,761
Remeasurements of defined benefit liability, net of tax		-	-	-	-	(118,520)	(118,520)
Unrealized net changes in fair values of available-for-sale financial assets, net of tax		-	-	-	(7,824)	-	(7,824)
<b>Total comprehensive income (loss)</b>		-	-	-	(7,824)	3,653,241	3,645,417
<b>Transactions with owners of the Company</b>							
Issue of ordinary shares related to acquisition of a subsidiary		6,793	47,277	-	-	-	54,070
Exercise of conversion rights		82,214	690,376	-	-	-	772,590
Acquisition of treasury shares		-	-	(24)	-	-	(24)
<b>Total transactions with owners of the Company</b>		89,007	737,653	(24)	-	-	826,636
<b>Balance at December 31, 2014</b>	₩	3,657,652	4,182,016	(24)	-	9,835,020	17,674,664
<b>Balance at January 1, 2015</b>	₩	3,657,652	4,182,016	(24)	-	9,835,020	17,674,664
<b>Total comprehensive income</b>							
Profit for the year		-	-	-	-	4,019,080	4,019,080
Remeasurements of defined benefit liability, net of tax		-	-	-	-	(20,989)	(20,989)
<b>Total comprehensive income</b>		-	-	-	-	3,998,091	3,998,091
<b>Transactions with owners of the Company</b>							
Dividends paid		-	-	-	-	(218,401)	(218,401)
Acquisition of treasury shares		-	-	(771,889)	-	-	(771,889)
<b>Total transactions with owners of the Company</b>		-	-	(771,889)	-	(218,401)	(990,290)
<b>Balance at December 31, 2015</b>	₩	3,657,652	4,182,016	(771,913)	-	13,614,710	20,682,465

See accompanying notes to the separate financial statements.



SK HYNIX, INC.  
Separate Statements of Cash Flows  
For the years ended December 31, 2015 and 2014

(In millions of won)

	<i>Note</i>	<b>2015</b>	<b>2014</b>
<b>Cash flows from operating activities</b>			
Cash generated from operating activities	33 W	8,660,737	5,483,275
Interest received		48,992	32,310
Interest paid		(108,852)	(131,431)
Dividends received		24,091	42,957
Income tax paid		(877,199)	(326,713)
<b>Net cash provided by operating activities</b>		<b>7,747,769</b>	<b>5,100,398</b>
<b>Cash flows from investing activities</b>			
Decrease (increase) in short-term financial instruments, net		392,106	(1,021,928)
Collection of loans and other receivables		19,086	2,440
Increase in loans and other receivables		(13,472)	(13,552)
Proceeds from disposal of available-for-sale financial assets		1,319	28,600
Acquisition of available-for-sale financial assets		(5,359)	(1,101)
Decrease in other financial assets		-	275,422
Increase in other financial assets		-	(29,612)
Cash inflows from derivative transactions		1,672	2,371
Cash outflows from derivative transactions		(2,088)	(2,928)
Proceeds from disposal of property, plant and equipment		234,798	215,570
Acquisition of property, plant and equipment		(5,980,619)	(3,530,499)
Proceeds from disposal of intangible assets		4,552	353
Acquisition of intangible assets		(576,334)	(328,198)
Receipt of government grants		378	502
Increase in investments in subsidiaries (MMT), net		(237,870)	(360,000)
Investments in subsidiaries		(7,919)	(241,209)
Investments in associates		(2,194)	-
<b>Net cash used in investing activities</b>	W	<b>(6,171,944)</b>	<b>(5,003,769)</b>

See accompanying notes to the separate financial statements.

SK HYNIX, INC.  
 Separate Statements of Cash Flows, Continued  
 For the years ended December 31, 2015 and 2014

(In millions of won)

	2015	2014
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	₩ 3,638,136	2,878,448
Repayments of borrowings	(3,460,720)	(3,094,172)
Acquisition of treasury shares	(771,889)	(24)
Dividends paid	(218,401)	-
<b>Net cash used in financing activities</b>	<b>(812,874)</b>	<b>(215,748)</b>
<b>Effect of movements in exchange rates on cash and cash equivalents</b>	<b>(90)</b>	<b>(7)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>762,861</b>	<b>(119,126)</b>
<b>Cash and cash equivalents at beginning of the year</b>	<b>252,078</b>	<b>371,204</b>
<b>Cash and cash equivalents at end of the year</b>	<b>₩ 1,014,939</b>	<b>252,078</b>

See accompanying notes to the separate financial statements.

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2015 and 2014

**1. Reporting Entity**

General information about SK hynix, Inc. ("the Company") is as follows:

The Company is engaged in the manufacture, distribution and sales of semiconductor products and its shares have been listed on the Korea Exchange since 1996. The Company's headquarters is located at 2091 Gyeongchung-daero, Bubal-eup, Icheon-si, Gyeonggi-do, South Korea, and the Company has manufacturing facilities in Icheon-si and Cheongju-si, South Korea.

As of December 31, 2015, the shareholders of the Company are as follows:

Shareholder	Number of shares	Percentage of ownership (%)
SK Telecom Co., Ltd.	146,100,000	20.07
National Pension Service	59,898,134	8.23
Share Management Council <sup>1</sup>	5,097,667	0.70
Other investors	494,905,994	67.98
Treasury shares	22,000,570	3.02
	728,002,365	100.00

<sup>1</sup> As of December 31, 2015, the number of shares held by each member of Share Management Council is as follows:

Shareholder	Number of shares	Percentage of ownership (%)
KEB Hana Bank		
(formerly, Korea Exchange Bank)	5,092,500	0.70
Other financial institutions	5,167	0.00
	5,097,667	0.70

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

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2015 and 2014

**2. Basis of Preparation**

(1) Statement of compliance

These separate financial statements were prepared in accordance with Korean International Financial Reporting Standards ("K-IFRS"), as prescribed in the *Act on External Audits of Corporations in the Republic of Korea*.

These financial statements are separate financial statements prepared in accordance with K-IFRS No.1027, 'Separate Financial Statements' presented by a parent, an investor in an associate or a venturer in a jointly controlled entity, in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees.

The separate financial statements were authorized for issuance by the board of directors on January 25, 2016, which will be submitted for approval at the shareholders' meeting to be held on March 18, 2016.

(2) Basis of measurement

The separate financial statements have been prepared on the historical cost basis, except for the following material items in the separate statement of financial position:

- derivative financial instruments are measured at fair value
- financial instruments at fair value through profit or loss are measured at fair value
- liabilities for defined benefit plans are recognized at the net of the total present value of defined benefit obligations less the fair value of plan assets

(3) Functional and presentation currency

These separate financial statements are presented in Korean won, which is the Company's functional currency and the currency of the primary economic environment in which the Company operates.

(4) Use of estimates and judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

(a) Critical judgments

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the separate financial statements is included in the following notes:

- Note 3: estimated useful lives of property, plant and equipment and intangible assets
- Note 4: classification of financial instruments

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2015 and 2014

**2. Basis of Preparation, Continued**

(b) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Note 8: net realizable value of inventories
- Note 13: goodwill impairment
- Note 17: recognition and measurement of provisions
- Note 18: measurement of defined benefit obligations
- Note 19: recognition of deferred tax assets

(c) Fair value measurement

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

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

The Company uses the best observable inputs in market when measuring fair values of assets or liabilities. Fair values are classified within the fair value hierarchy based on inputs used in valuation method as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

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

Information about assumptions used for fair value measurements are included in note 5.

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2015 and 2014

**3. Significant Accounting Policies**

The significant accounting policies applied by the Company in preparation of its separate financial statements are explained below. The accounting policies set out below have been applied consistently to all periods presented in these separate financial statements.

(1) Operating segments

The Company presents disclosures relating to operating segments on its consolidated financial statements in accordance with K-IFRS No. 1108, 'Operating Segments' and such disclosures are not separately disclosed on these separate financial statements.

(2) Investments in subsidiaries and associates

These separate financial statements are prepared and presented in accordance with K-IFRS No. 1027, 'Separate Financial Statements'. The Company applied the cost method to investments in subsidiaries and associates in accordance with K-IFRS No. 1027. Dividends from a subsidiary or associate are recognized in profit or loss when the right to receive the dividend is established.

(3) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments.

(4) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted average method (except for goods in-transit that is based on the specific identification method), and includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing inventories to their existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses. In the case of manufactured inventories and work-in-process, cost includes an appropriate share of production overheads based on the actual capacity of production facilities. However, the normal capacity is used for the allocation of fixed production overheads if the actual level of production is lower than the normal capacity.

### 3. Significant Accounting Policies, Continued

#### (5) Non-derivative financial assets

The Company recognizes and measures non-derivative financial assets by the following four categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The Company recognizes financial assets in the separate statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

Upon initial recognition, non-derivative financial assets not at fair value through profit or loss are measured at their fair value plus transaction costs that are directly attributable to the asset's acquisition.

##### (a) Financial assets at fair value through profit or loss

A financial asset is classified as financial assets at fair value through profit or loss if it is held for trading or designated as such upon initial recognition. Upon initial recognition, transaction costs are recognized in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

##### (b) Held-to-maturity investments

A non-derivative financial asset with a fixed or determinable payment and fixed maturity, for which the Company has the positive intention and ability to hold to maturity, is classified as held-to-maturity investments. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest rate method.

##### (c) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest rate method.

##### (d) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. Subsequent to initial recognition, they are measured at fair value, and changes in their fair value, net of any tax effect, are recorded in other comprehensive income. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

##### (e) De-recognition of financial assets

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. If the Company neither transfers nor retains substantially all of the risks and rewards of ownership of the financial assets, it derecognizes the financial assets when it does not retain control over the transferred financial assets. If the Company has retained control over the transferred financial assets, it continues to recognize the assets to the extent of its continuing involvement. If the Company retains substantially all the risks and rewards of ownership of the transferred financial assets, the Company continues to recognize the transferred financial assets and recognizes financial liabilities for the consideration received.

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2015 and 2014

**3. Significant Accounting Policies, Continued**

(5) Non-derivative financial assets, Continued

(f) Offsetting between financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is presented in the statement of financial position only when the Company currently has a legally enforceable right to offset the recognized amounts, and there is the intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

(6) Derivative financial instruments

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

(a) Embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately only if the following criteria have been met:

- the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid instrument is not measured at fair value with changes in fair value recognized in profit or loss.

Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

(b) Other derivative financial instruments

Changes in the fair value of other derivative financial instrument not designated as a hedging instrument are recognized immediately in profit or loss.

(7) Impairment of financial assets

A financial asset not carried at fair value through profit or loss is assessed at the end of each reporting period to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. However, losses expected as a result of future events, regardless of likelihood, are not recognized.

Objective evidence that a financial asset is impaired includes:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot be identified with the individual financial assets in the group

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.



### 3. Significant Accounting Policies, Continued

#### (7) Impairment of financial assets, Continued

If there is objective evidence that financial assets are impaired, impairment losses are measured and recognized.

##### (a) Financial assets measured at amortized cost

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective interest rate. If it is not practicable to obtain the financial asset's estimated future cash flows, impairment losses would be measured based on prices from any observable current market transactions. Impairment losses are deducted through an allowance account or directly from the carrying amount. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss either directly or by adjusting an allowance account.

##### (b) Financial assets carried at cost

The amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not be reversed.

##### (c) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

#### (8) Property, plant and equipment

Property, plant and equipment are initially measured at cost. The cost of property, plant and equipment includes expenditures arising directly from the construction or acquisition of the asset, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent to initial recognition, an item of property, plant and equipment is carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Subsequent costs are recognized in the carrying amount of property, plant and equipment at cost or, if appropriate, as separate items if it is probable that future economic benefits associated with the cost will flow to the Company and it can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day repair and maintenance are recognized in profit or loss as incurred.

Property, plant and equipment, except for land, are depreciated on a straight-line basis over estimated useful lives that appropriately reflect the pattern in which the asset's future economic benefits are expected to be consumed.

SK HYNIX, INC.  
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**3. Significant Accounting Policies, Continued**

(8) Property, plant and equipment, Continued

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized as other income or expenses.

The estimated useful lives of the Company's property, plant and equipment are as follows:

	Useful lives (years)
Buildings	10 ~ 50
Structures	10 ~ 20
Machinery	5 ~ 15
Vehicles	5
Other	5 ~ 10

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting period and, if appropriate, accounted for as changes in accounting estimates.

(9) Borrowing costs

The Company capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognized in expense as incurred. A qualifying asset is an asset that requires a substantial period of time to get ready for its intended use or sale. Financial assets and inventories that are manufactured or otherwise produced over a short period of time are not qualifying assets. Assets that are ready for their intended use or sale when acquired are not qualifying assets.

To the extent that the Company borrows funds specifically for the purpose of obtaining a qualifying asset, the Company determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. To the extent that the Company borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Company determines the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the Company that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Company capitalizes during a period does not exceed the amount of borrowing costs incurred during that period.

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**3. Significant Accounting Policies, Continued**

(10) Intangible assets

Intangible assets are measured initially at cost and, subsequently, are carried at cost less accumulated amortization and accumulated impairment losses.

Goodwill arising from business combinations is recognized as the excess of the consideration transferred in the acquisition over the net fair value of the identifiable assets acquired and liabilities assumed. Any deficit is a bargain purchase that is recognized in profit or loss. Goodwill is measured at cost less accumulated impairment losses.

Amortization of intangible assets is calculated on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The residual value of intangible assets is zero. However, certain intangible assets are determined as having indefinite useful lives and not amortized as there is no foreseeable limit to the period over which the assets are expected to be available for use.

The estimated useful lives of the Company's intangible assets are as follows:

	Useful lives (years)
Industrial rights	5 ~10
Development costs	1 ~ 2
Software	5

Useful lives and the amortization methods for intangible assets with finite useful lives are reviewed at the end of each reporting period. The useful lives of intangible assets that are not being amortized are reviewed at the end of each reporting period to determine whether events and circumstances continue to support indefinite useful life assessments for those assets. Changes are accounted for as changes in accounting estimates.

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. Other development expenditures are recognized in profit or loss as incurred.

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditures on internally generated goodwill and brands, are recognized in profit or loss as incurred.

(11) Government grants

Government grants are not recognized unless there is reasonable assurance that the Company will comply with the grant's conditions and that the grant will be received.

(a) Grants related to assets

Government grants whose primary condition is that the Company purchases, constructs or otherwise acquires non-current assets are deducted in calculating the carrying amount of the asset. The grant is recognized in profit or loss over the useful lives of depreciable assets..

### 3. Significant Accounting Policies, Continued

#### (11) Government grants, Continued

##### (b) Grants related to income

Government grants which are intended to compensate the Company for expenses incurred are recognized in profit or loss by as deduction of the related expenses.

#### (12) Investment property

Property held for the purpose of earning rental income or benefiting from capital appreciation is classified as investment property. Investment property is initially measured at its cost. Transaction costs are included in the initial measurement. Subsequently, investment property is carried at cost less accumulated depreciation and impairment losses.

Subsequent costs are recognized in the carrying amount of investment property at cost or, if appropriate, as separate items if it is probable that future economic benefits associated with the cost will flow to the Company and it can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day repair and maintenance are recognized in profit or loss as incurred.

Investment property except for land, are depreciated on a straight-line basis over estimated useful lives.

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting period and, if appropriate, accounted for as changes in accounting estimates.

#### (13) Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, other than assets arising from employee benefits, inventories, deferred tax assets and non-current assets held for sale, are reviewed at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, irrespective of whether there is any indication of impairment, are tested for impairment annually by comparing their recoverable amount to their carrying amount.

The Company estimates the recoverable amount of an individual asset; however if it is impossible to measure the individual recoverable amount of an asset, the Company estimates the recoverable amount of cash-generating unit ("CGU"). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. The value in use is estimated by applying a pre-tax discount rate that reflect current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted, to the estimated future cash flows expected to be generated by the asset or CGU.

An impairment loss is recognized in profit or loss if the carrying amount of an asset or a CGU exceeds its recoverable amount.

Goodwill acquired in a business combination is allocated to each CGU that is expected to benefit from the synergies arising from business combination. Any impairment identified at the CGU level will first reduce the carrying value of goodwill and then be used to reduce the carrying amount of the other assets in the CGU on a pro rata basis.

Except for impairment losses in respect of goodwill which are never reversed, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

SK HYNIX, INC.  
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**3. Significant Accounting Policies, Continued**

(14) Leases

The Company classifies and accounts for leases as either a finance or operating lease, depending on the terms. Leases where the Company assumes substantially all of the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases.

(a) Finance leases

At the commencement of the lease term, the Company recognizes as finance lease assets and finance lease liabilities in its separate statements of financial position, the lower amount of the fair value of the leased property and the present value of the minimum lease payments, each determined at the inception of the lease. Any initial direct costs are added to the amount recognized as an asset.

Minimum lease payments are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life. The Company reviews whether the leased asset is impaired.

(b) Operating leases

Leases where the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the period of the lease.

(c) Determining whether an arrangement contains a lease

Determining whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset) and the arrangement conveys a right to use the asset.

At inception or reassessment of the arrangement, the Company separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Company concludes for a financial lease that it is impracticable to separate the payments reliably, the Company recognizes an asset and a liability at an amount equal to the fair value of the underlying asset that was identified as the subject of the lease. Subsequently, the liability is reduced as payments are made and an imputed finance expense on the liability recognized using the purchaser's incremental borrowing rate of interest.

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**3. Significant Accounting Policies, Continued**

(15) Non-current assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. In order to be classified as held for sale, the asset (or disposal group) must be available for immediate sale in its present condition and its sale must be highly probable. The assets or disposal group that are classified as non-current assets held for sale are measured at the lower of their carrying amount and fair value less cost to sell. The Company recognizes an impairment loss for any initial or subsequent write-down of an asset (or disposal group) to fair value less costs to sell, and a gain for any subsequent increase in fair value less costs to sell, up to the cumulative impairment loss previously recognized.

A non-current asset that is classified as held for sale or part of a disposal group classified as held for sale is not depreciated (or amortized).

(16) Non-derivative financial liabilities

The Company classifies non-derivative financial liabilities into financial liabilities at fair value through profit or loss or other financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities. The Company recognizes financial liabilities in the separate statement of financial position when the Company becomes a party to the contractual provisions of the financial liability.

(a) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading or designated as such upon initial recognition. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Upon initial recognition, any directly attributable transaction costs are recognized in profit or loss as incurred.

(b) Other financial liabilities

Non-derivative financial liabilities other than financial liabilities at fair value through profit or loss are classified as other financial liabilities. At the date of initial recognition, other financial liabilities are measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest rate method. The Company derecognizes a financial liability from the separate statements of financial position when it is extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

(17) Employee benefits

(a) Short-term employee benefits

Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the reporting period in which the employees render the related service. When an employee has rendered service to the Company during an accounting period, the Company recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

(b) Other long-term employee benefits

Other long-term employee benefits include employee benefits that are settled beyond 12 months after the end of the reporting period in which the employees render the related service, and are calculated at the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods. Any changes from remeasurements are recognized through profit or loss in the period in which they arise.

### 3. Significant Accounting Policies, Continued

#### (17) Employee benefits, Continued

##### (c) Retirement benefits: defined benefit plans

As of the end of reporting period, defined benefits liabilities relating to defined benefit plans are recognized as present value of defined benefit obligations, net of fair value of plan assets.

The calculation is performed annually by an independent actuary using the projected unit credit method. When the fair value of plan assets exceeds the present value of the defined benefit obligation, the Company recognizes an asset, to the extent of the present value of any economic benefits available in the form of refunds from the plan or reduction in the future contributions to the plan.

Remeasurements of the net defined benefit liability comprise of actuarial gains and losses, the return on plan assets excluding amounts included in net interest on the net defined benefit liability, and any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability, and are recognized in other comprehensive income. The Company determines net interests on net defined benefit liability (asset) by multiplying discount rate determined at the beginning of the annual reporting period and considers changes in net defined benefit liability (asset) from contributions and benefit payments. Net interest costs and other costs relating to the defined benefit plan are recognized through profit or loss.

When the plan amendment or curtailment occurs, gains or losses on amendment or curtailment in benefits for the past service provided are recognized through profit or loss. The Company recognizes gain or loss on a settlement when the settlement of defined benefit plan occurs.

##### (d) Termination benefits

The Company recognizes a liability and expense for termination benefits at the earlier of the period when the Company can no longer withdraw the offer of those benefits and the period when the Company recognizes costs for a restructuring. If benefits are not payable within 12 months after the end of the reporting period, then they are discounted to their present value.

#### (18) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows.

Where some or all of the expenditures required to settle a provision are expected to be reimbursed by another party, the reimbursement is recognized when, and only when, it is virtually certain that reimbursement will be received if the Company settles the obligation. The reimbursement is treated as a separate asset.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimates. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

A provision is used only for expenditures for which the provision was originally recognized.

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**3. Significant Accounting Policies, Continued**

(19) Foreign currencies

Transactions in foreign currencies are translated to the functional currencies of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency using the reporting date's exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on the settlement or retranslation of monetary items are recognized in profit or loss. When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

(20) Equity capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares is recognized as a deduction from equity, net of any tax effects.

When the Company repurchases its share capital, the amount of the consideration paid is recognized as a deduction from equity and classified as treasury shares. The profits or losses from the purchase, disposal, reissue, or retirement of treasury shares are not recognized as current profit or loss. If the Company acquires and retains treasury shares, the consideration paid or received is directly recognized in equity.

(21) Revenue

Revenue from the sale of goods, rendering of services or use of assets is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates.

(a) Sale of goods

Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

(b) Sale of services

Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(22) Finance income and finance expenses

Finance income comprises interest income and dividend on funds invested (including available-for-sale financial assets), gains on the disposal of available-for-sale financial assets, and changes in the fair value of financial instruments at fair value through profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest rate method. Dividend income is recognized in profit or loss on the date that the Company's right to receive dividend is established.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, and changes in the fair value of financial instruments at fair value through profit or loss. Interest expense on borrowings and debentures are recognized in profit or loss using the effective interest rate method.



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**3. Significant Accounting Policies, Continued**

(23) Income taxes

Income tax expense comprises current and deferred tax. Current and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

(a) Current tax

Current tax is the expected tax payable or refundable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years. The taxable profit is different from the accounting profit for the period since the taxable profit is calculated excluding the temporary differences, which will be taxable or deductible in determining taxable profit (tax loss) of future periods, and non-taxable or non-deductible items from the accounting profit. The tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period.

(b) Deferred tax

Deferred tax is recognized, using the asset-liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The Company recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures except to the extent that the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The Company recognizes deferred tax assets for all deductible temporary differences including unused tax loss and tax credit to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of reporting period to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset the related current tax liabilities and assets, and they relate to income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis. If there are any additional income tax expense incurred in accordance with dividend payments, such income tax expense is recognized when liabilities relating to the dividend payments are recognized.

### 3. Significant Accounting Policies, Continued

#### (24) Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of outstanding ordinary shares, adjusted for own shares held, for the effects of all dilutive potential ordinary shares including convertible notes.

#### (25) New standards not yet adopted

The following new standards have been published and are mandatory for the Company for annual period beginning on January 1, 2018, and the Company has not early adopted them.

##### (a) K-IFRS No. 1109, *Financial Instruments*

K-IFRS 1109, published in November 2015, replaces the existing guidance in K-IFRS No. 1039, *Financial Instruments: Recognition and Measurement*. K-IFRS 1109 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from K-IFRS No. 1039. K-IFRS 1109 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

The Company is assessing the potential impact on its separate financial statements resulting from the application of K-IFRS 1109.

##### (b) K-IFRS No. 1115, *Revenue from Contracts with Customers*

K-IFRS 1115, published in December 2015, establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including K-IFRS No. 1018, *Revenue*, K-IFRS No. 1011, *Construction Contracts* and K-IFRS No. 2113, *Customer Loyalty Programmes*. K-IFRS 1115 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted.

The Company is assessing the potential impact on its separate financial statements resulting from the application of K-IFRS 1115.

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4. Categories of Financial Instruments

(1) Categories of financial assets as of December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015		
		Financial assets at fair value through profit or loss	Available-for- sale financial assets	Loans and receivables
				Total
Cash and cash equivalents	₩	-	-	1,014,939
Short-term financial instruments		440,602	-	2,367,500
Trade receivables		-	-	2,800,904
Loans and other receivables		-	-	140,419
Other financial assets		-	-	319
Available-for-sale financial assets		-	130,645	-
	₩	440,602	130,645	6,324,081

(In millions of won)

		2014		
		Financial assets at fair value through profit or loss	Available-for- sale financial assets	Loans and receivables
				Total
Cash and cash equivalents	₩	-	-	252,078
Short-term financial instruments		1,471,170	-	1,701,003
Trade receivables		-	-	3,540,213
Loans and other receivables		-	-	187,150
Other financial assets		-	-	319
Available-for-sale financial assets		-	126,605	-
	₩	1,471,170	126,605	5,680,763

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4. Categories of Financial Instruments, Continued

(2) Categories of financial liabilities as of December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015	
	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Total
Trade payables	₩ -	1,014,961	1,014,961
Other payables	-	1,441,232	1,441,232
Other non-trade payables <sup>1</sup>	-	963,414	963,414
Borrowings	-	3,432,619	3,432,619
Other financial liabilities	683	-	683
	₩ 683	6,852,226	6,852,909

(In millions of won)

		2014	
	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Total
Trade payables	₩ -	910,521	910,521
Other payables	-	1,296,900	1,296,900
Other non-trade payables <sup>1</sup>	-	1,174,809	1,174,809
Borrowings	-	3,172,280	3,172,280
Other financial liabilities	738	-	738
	₩ 738	6,554,510	6,555,248

<sup>1</sup> Details of other non-trade payables as of December 31, 2015 and 2014 are as follows:

(In millions of won)

	2015	2014
<b>Current</b>		
Accrued expenses	₩ 875,588	1,042,160
<b>Non-current</b>		
Rent deposits payable	3,228	2,740
Long-term other payables	84,598	129,909
	87,826	132,649
	₩ 963,414	1,174,809

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

(3) Details of gain and loss on financial assets and liabilities by category for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

	<b>2015</b>	<b>2014</b>
<b>Loans and receivables</b>		
Interest income	₩ 38,885	48,104
Foreign exchange differences	232,688	118,336
Impairment loss	(35,345)	(5,109)
	<u>236,228</u>	<u>161,331</u>
<b>Available-for-sale financial assets</b>		
Gain on disposal	-	6,553
Dividend income	1,265	1,229
	<u>1,265</u>	<u>7,782</u>
<b>Held-to-maturity financial assets</b>		
Interest income	-	1,318
<b>Financial assets at fair value through profit or loss</b>		
Gain on disposal	27,434	28,493
Gain on valuation	602	6,170
	<u>28,036</u>	<u>34,663</u>
<b>Financial liabilities measured at amortized cost</b>		
Interest expenses	(103,975)	(149,105)
Loss on redemption of debentures	-	(2,924)
Foreign exchange differences	(182,934)	(28,669)
	<u>(286,909)</u>	<u>(180,698)</u>
<b>Financial liabilities at fair value through profit or loss</b>		
Loss from derivative instruments	(361)	(172,071)
	<u>₩ (21,741)</u>	<u>(147,675)</u>

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**5. Financial Risk Management**

(1) Financial risk management

The Company's activities are exposed to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by the corporate finance division in accordance with policies approved by the board of directors. The Company's corporate finance division identifies, evaluates and hedges financial risks in close cooperation with the Company's operating units. The board of directors provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk; use of derivative financial instruments and non-derivative financial instruments; and the investment of excess liquidity.

(a) Market risk

(i) Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, Euro and Japanese Yen. Foreign exchange risk arises from future commercial transactions; recognized assets and liabilities in foreign currencies.

Monetary foreign currency assets and liabilities as of December 31, 2015 are as follows:

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

	<b>Assets</b>		<b>Liabilities</b>	
	<b>Foreign currencies</b>	<b>Korean won equivalent</b>	<b>Foreign currencies</b>	<b>Korean won equivalent</b>
USD	3,107 W	3,641,865	2,169 W	2,542,126
EUR	-	94	134	171,003
JPY	6,153	59,805	29,601	287,727

As of December 31, 2015, effects on profit before income tax as a result of change in exchange rate by 10% are as follows:

*(In millions of won)*

	<b>If increased by 10%</b>	<b>If decreased by 10%</b>
USD	₩ 109,974	(109,974)
EUR	(17,091)	17,091
JPY	(22,792)	22,792

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**5. Financial Risk Management, Continued**

(ii) Interest rate risk

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

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

As of December 31, 2015, the Company is partially exposed to a risk of increase in interest rates. If interest rates on borrowings were 100 basis points higher/lower with all other variables held constant, profit before income tax for the following year would be ₩14,835 million (2014: ₩9,510 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings and interest income on floating rate financial assets.

(iii) Price risk

As of December 31, 2015, there are no available-for-sale equity securities measured at fair value held by the Company. Accordingly, the Company is not exposed to any equity securities price risk.

(b) Credit risk

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

(i) Trade and other receivables

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

The Company reviews at the end of each reporting period whether trade and other receivables are impaired and maintains credit insurance policies to manage credit risk exposure from overseas customers. The maximum exposure to credit risk as of December 31, 2015 is the carrying amount of trade and other receivables.

(ii) Other financial assets

Credit risk also arises from other financial assets such as cash and cash equivalents; short-term financial instruments; and deposits with banks and financial institutions as well as short-term and long-term loans mainly due to the bankruptcy of each counterparty to those financial assets. The Company transacts only with banks and financial institutions with high credit ratings including Shinhan Bank, and accordingly management does not expect any losses from non-performance by these counterparties.

SK HYNIX, INC.  
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**5. Financial Risk Management, Continued**

(c) Liquidity risk

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

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

Contractual maturities of financial liabilities as of December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015				
		Less than 1 year	1 - 2 years	2 - 5 years	More than 5 years	Total
Borrowings (other than finance lease liabilities)	W	742,165	675,769	1,967,573	156,995	3,542,502
Finance lease liabilities		98,927	26,654	16,050	24,075	165,706
Trade payables		1,014,961	-	-	-	1,014,961
Other payables		1,449,898	-	-	-	1,449,898
Other non-trade payables		857,923	81,098	11,249	-	950,270
Derivatives		683	-	-	-	683
Financial guarantee contract		8	-	-	-	8
	W	4,164,565	783,521	1,994,872	181,070	7,124,028

(In millions of won)

		2014				
		Less than 1 year	1 - 2 years	2 - 5 years	More than 5 years	Total
Borrowings (other than finance lease liabilities)	W	952,114	708,054	1,556,462	-	3,216,630
Finance lease liabilities		107,364	92,024	24,253	-	223,641
Trade payables		910,521	-	-	-	910,521
Other payables		1,296,900	-	-	-	1,296,900
Other non-trade payables		1,024,718	78,352	54,297	-	1,157,367
Derivatives		738	-	-	-	738
Financial guarantee contract		27	-	-	-	27
	W	4,292,382	878,430	1,635,012	-	6,805,824



SK HYNIX, INC.  
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**5. Financial Risk Management, Continued**

The table above analyzes the Company's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groups based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows and includes estimated interest payments. The Company's derivative instruments have been included at their fair value of ₩683 million (2014: ₩738 million) within the less than one-year time bucket as of December 31, 2015. These contracts are managed on a net-fair value basis rather than by maturity date. Net settled derivatives comprise interest rate swaps used by the Company to manage the Company's interest rate risk.

(2) Capital management

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

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The debt-to-equity ratio and net borrowing ratio as of December 31, 2015 and 2014 are as follows:

*(In millions of won)*

	<b>2015</b>	<b>2014</b>
Total liabilities (A)	₩ 8,059,733	7,674,236
Total equity (B)	20,682,465	17,674,664
Cash and cash equivalents and short-term financial instruments (C)	3,823,041	3,424,251
Total borrowings (D)	3,432,619	3,172,280
Debt-to-equity ratio (A/B)	39%	43%
Net borrowing ratio (D-C)/B	-2%	-1%

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
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5. Financial Risk Management, Continued

(3) Fair value

(a) The following table presents the carrying amounts and fair values of financial instruments by categories, including their levels in the fair value hierarchy, as of December 31, 2015 and 2014:

(In millions of won)

(In millions of won)		2015			
	Carrying amounts	Level 1	Level 2	Level 3	Total
<b>Financial assets measured at fair value</b>					
Short-term financial instruments	₩ 440,602	-	440,602	-	440,602
	440,602	-	440,602	-	440,602
<b>Financial assets not measured at fair value</b>					
Cash and cash equivalents <sup>1</sup>	1,014,939	-	-	-	-
Short-term financial instruments <sup>1</sup>	2,367,500	-	-	-	-
Trade receivables <sup>1</sup>	2,800,904	-	-	-	-
Loans and other receivables <sup>1</sup>	140,419	-	-	-	-
Other financial assets <sup>1</sup>	319	-	-	-	-
Available-for-sale financial assets <sup>1,2</sup>	130,645	-	-	-	-
	6,454,726	-	-	-	-
<b>Financial liabilities measured at fair value</b>					
Other financial liabilities	683	-	683	-	683
	683	-	683	-	683
<b>Financial liabilities not measured at fair value</b>					
Trade payables <sup>1</sup>	1,014,961	-	-	-	-
Other payables <sup>1</sup>	1,441,232	-	-	-	-
Other non-trade payables <sup>1</sup>	963,414	-	-	-	-
Borrowings	3,432,619	-	3,483,559	-	3,483,559
₩	6,852,226	-	3,483,559	-	3,483,559

SK HYNIX, INC.  
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December 31, 2015 and 2014

5. Financial Risk Management, Continued

(In millions of won)

		2014			
	Carrying amounts	Level 1	Level 2	Level 3	Total
<b>Financial assets measured at fair value</b>					
Short-term financial instruments	W 1,471,170	-	1,471,170	-	1,471,170
	<u>1,471,170</u>	<u>-</u>	<u>1,471,170</u>	<u>-</u>	<u>1,471,170</u>
<b>Financial assets not measured at fair value</b>					
Cash and cash equivalents <sup>1</sup>	252,078	-	-	-	-
Short-term financial instruments <sup>1</sup>	1,701,003	-	-	-	-
Trade receivables <sup>1</sup>	3,540,213	-	-	-	-
Loans and other receivables <sup>1</sup>	187,150	-	-	-	-
Other financial assets <sup>1</sup>	319	-	-	-	-
Available-for-sale financial assets <sup>1,2</sup>	126,605	-	-	-	-
	<u>5,807,368</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Financial liabilities measured at fair value</b>					
Other financial liabilities	738	-	738	-	738
	<u>738</u>	<u>-</u>	<u>738</u>	<u>-</u>	<u>738</u>
<b>Financial liabilities not measured at fair value</b>					
Trade payables <sup>1</sup>	910,521	-	-	-	-
Other payables <sup>1</sup>	1,296,900	-	-	-	-
Other non-trade payables <sup>1</sup>	1,174,809	-	-	-	-
Borrowings	3,172,280	-	3,241,495	-	3,241,495
	<u>W 6,554,510</u>	<u>-</u>	<u>3,241,495</u>	<u>-</u>	<u>3,241,495</u>

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

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

SK HYNIX, INC.  
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**5. Financial Risk Management, Continued**

(b) Valuation Techniques

The valuation techniques of recurring and non-recurring fair value measurements and quoted prices classified as level 2 are as follow:

(In millions of won)

		<b>Fair value</b>	<b>Level</b>	<b>Valuation Techniques</b>
<b>Short-term financial instruments:</b>				
Financial assets at fair value through profit or loss	₩	440,602	2	The present value method
<b>Derivative financial Liabilities:</b>				
Interest swap		683	2	The present value method

(c) There was no transfer between fair value hierarchy levels for the year ended December 31, 2015.

**6. Restricted Financial Instruments**

Details of restricted financial instruments as of December 31, 2015 and 2014 are as follows:

(In millions of won)

		<b>2015</b>	<b>2014</b>	<b>Description</b>
Short-term financial instruments	₩	-	3	Restricted for government grants
		77,500	46,000	Restricted for supporting small businesses
		77,500	46,003	
Other financial assets		308	308	Pledged for borrowings
		11	11	Bank overdraft guarantee deposit
		319	319	
	₩	77,819	46,322	

SK HYNIX, INC.  
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**7. Trade Receivables and Loans and Other Receivables**

(1) Details of loans and other receivables as of December 31, 2015 and 2014 are as follows:

(In millions of won)

		<b>2015</b>	<b>2014</b>
<b>Current</b>			
Other receivables <sup>1</sup>	₩	16,831	49,912
Accrued income		17,807	27,914
Short-term loans		53,119	60,723
		<u>87,757</u>	<u>138,549</u>
<b>Non-current</b>			
Long-term other receivables		22,921	24,067
Long-term loans		1,198	1,627
Guarantee deposits		28,543	22,907
		<u>52,662</u>	<u>48,601</u>
	₩	<u>140,419</u>	<u>187,150</u>

<sup>1</sup> Some of other receivables as of December 31, 2014 were reclassified to other current assets to conform with the classification as of December 31, 2015.

(2) Trade receivables and loans and other receivables, net of provision for impairment, as of December 31, 2015 and 2014 are as follows:

(In millions of won)

		<b>2015</b>	
	<b>Gross amount</b>	<b>Provision for impairment</b>	<b>Carrying amount</b>
Trade receivables	₩ 2,803,302	(2,398)	2,800,904
Current loans and other receivables	124,051	(36,294)	87,757
Non-current loans and other receivables	57,800	(5,138)	52,662
	₩ 2,985,153	<u>(43,830)</u>	<u>2,941,323</u>

(In millions of won)

		<b>2014</b>	
	<b>Gross amount</b>	<b>Provision for impairment</b>	<b>Carrying amount</b>
Trade receivables	₩ 3,541,948	(1,735)	3,540,213
Current loans and other receivables	140,216	(1,667)	138,549
Non-current loans and other receivables	53,684	(5,083)	48,601
	₩ 3,735,848	<u>(8,485)</u>	<u>3,727,363</u>

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2015 and 2014

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

(3) Details of provision for impairment

Movements in the provision for impairment of trade receivables for the years ended December 31, 2015 and 2014 are as follows:

*(In millions of won)*

	<b>2015</b>	<b>2014</b>
<b>Beginning balance</b>	₩ 1,735	2,449
Provision for receivables impairment	663	171
Receivables written off during the period as uncollectible	-	(885)
<b>Ending balance</b>	₩ 2,398	1,735

Movements in the provision for impairment of current loans and other receivables for the years ended December 31, 2015 and 2014 are as follows:

*(In millions of won)*

	<b>2015</b>	<b>2014</b>
<b>Beginning balance</b>	₩ 1,667	2,062
Provision for receivables impairment	34,861	302
Unused amounts reversed	(234)	-
Receivables written off during the period as uncollectible	-	(697)
<b>Ending balance</b>	₩ 36,294	1,667

Movements in the provision for impairment of non-current loans and other receivables for the years ended December 31, 2015 and 2014 are as follows:

*(In millions of won)*

	<b>2015</b>	<b>2014</b>
<b>Beginning balance</b>	₩ 5,083	11,338
Provision for receivables impairment	59	4,636
Unused amounts reversed	(4)	-
Receivables written off during the period as uncollectible	-	(10,891)
<b>Ending balance</b>	₩ 5,138	5,083

SK HYNIX, INC.  
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**7. Trade Receivables and Loans and Other Receivables, Continued**

(4) The aging analyses of trade receivables and loans and other receivables as of December 31, 2015 and 2014 are as follows:

(In millions of won)

		<b>2015</b>			
		<b>Not impaired</b>		<b>Impaired</b>	<b>Total</b>
		<b>Not Past due</b>	<b>Overdue</b>		
Trade receivables	₩	2,803,302	-	-	2,803,302
Current loans and other receivables		87,896	-	36,155	124,051
Non-current loans and other receivables		32,691	-	25,109	57,800
	₩	2,923,889	-	61,264	2,985,153

(In millions of won)

		<b>2014</b>			
		<b>Not impaired</b>		<b>Impaired</b>	<b>Total</b>
		<b>Not Past due</b>	<b>Overdue</b>		
Trade receivables	₩	3,541,948	-	-	3,541,948
Current loans and other receivables		138,937	-	1,279	140,216
Non-current loans and other receivables		30,260	-	23,424	53,684
	₩	3,711,145	-	24,703	3,735,848

SK HYNIX, INC.  
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**8. Inventories**

(1) Details of inventories as of December 31, 2015 and 2014 are as follows:

*(In millions of won)*

		<b>2015</b>	
	<b>Acquisition cost</b>	<b>Inventory valuation allowance</b>	<b>Carrying amount</b>
Finished goods	₩ 428,584	(28,251)	400,333
Work-in-process	811,860	(130,917)	680,943
Raw materials	159,779	(3,629)	156,150
Supplies	101,379	-	101,379
Goods in transit	68,809	-	68,809
	₩ 1,570,411	(162,797)	1,407,614

*(In millions of won)*

		<b>2014</b>	
	<b>Acquisition cost</b>	<b>Inventory valuation allowance</b>	<b>Carrying amount</b>
Finished goods	₩ 410,049	(24,795)	385,254
Work-in-process	635,024	(32,640)	602,384
Raw materials	136,763	(1,899)	134,864
Supplies	61,870	-	61,870
Goods in transit	32,946	(36)	32,910
	₩ 1,276,652	(59,370)	1,217,282

(2) The amount of the inventories recognized as cost of sales and loss on (reversal of) valuation allowance of inventories charged to (deducted from) cost of sales are as follows:

*(In millions of won)*

	<b>2015</b>	<b>2014</b>
Inventories recognized as cost of sales	₩ 10,634,930	9,500,297
Loss on (reversal of) valuation allowance of inventories	103,427	(9,164)



SK HYNIX, INC.  
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**9. Other Current and Non-current Assets**

Details of other current and non-current assets as of December 31, 2015 and 2014 are as follows:

(In millions of won)

		<b>2015</b>	<b>2014</b>
<b>Current</b>			
Advance payments	₩	383	1,902
Prepaid expenses		190,948	134,370
Value added tax refundable <sup>1</sup>		103,894	178,526
Others		7,443	5,981
		<u>302,668</u>	<u>320,779</u>
<b>Non-current</b>			
Long-term prepaid expenses		556,634	492,059
Others		7,476	13,456
		<u>564,110</u>	<u>505,515</u>
	₩	<u>866,778</u>	<u>826,294</u>

<sup>1</sup> Value added tax refundable for the year ended December 31, 2014 was reclassified from other receivables to other current assets to conform with the classification for the year ended December 31, 2015.

SK HYNIX, INC.  
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**10. Investments in Subsidiaries, Associates and Joint Ventures**

(1) Investments in subsidiaries, associates and joint ventures as of December 31, 2015 and 2014 are as follows:

(In millions of won)

		<b>2015</b>	<b>2014</b>
Investments in subsidiaries	₩	4,134,200	3,881,281
Investments in associates and joint ventures		94,802	92,608
	₩	<u>4,229,002</u>	<u>3,973,889</u>

(2) Details of investments in subsidiaries as of December 31, 2015 and 2014 are as follows:

(In millions of won)

		<b>Percentage of ownership (%) in 2015</b>	<b>Book value</b>	
	<b>Location</b>		<b>2015</b>	<b>2014</b>
SK hyeng Inc.	Korea	100.00	7,521	7,521
SK hystec Inc.	Korea	100.00	6,760	6,760
Siliconfile Technologies Inc.	Korea	100.00	62,208	62,208
SK hynix America Inc. (SKHYA)	U.S.A.	97.74	31	31
Hynix Semiconductor Manufacturing America Inc. (HSMA) <sup>1</sup>	U.S.A.	0.05	-	-
SK hynix Deutschland GmbH (SKHYD)	Germany	100.00	22,011	22,011
SK hynix U.K. Ltd. (SKHYU)	U.K.	100.00	1,775	1,775
SK hynix Asia Pte. Ltd. (SKHYS)	Singapore	100.00	52,380	52,380
SK hynix Semiconductor India Pvt. Ltd. (SKHYIS) <sup>2</sup>	India	1.00	5	5
SK hynix Semiconductor Hong Kong Ltd. (SKHYH)	Hong Kong	100.00	32,623	32,623
SK hynix Semiconductor (Shanghai) Co., Ltd. (SKHYCS)	China	100.00	4,032	4,032
SK hynix Japan Inc. (SKHYJ)	Japan	100.00	42,905	42,905
SK hynix Semiconductor Taiwan Inc. (SKHYT)	Taiwan	100.00	37,562	37,562
SK hynix Semiconductor (China) Ltd. (SKHYCL)	China	90.26	2,520,881	2,520,881
SK hynix Semiconductor (Wuxi) Ltd. (SKHYMC)	China	100.00	238,271	238,271
SK hynix (Wuxi) Semiconductor Sales Ltd. (SKHYCW)	China	100.00	237	237
SK hynix Italy S.r.l (SKHYIT)	Italy	100.00	18	18
SK hynix memory solutions Inc. (SKHMS)	U.S.A.	100.00	311,283	311,283
SK hynix Flash Solution Taiwan (SKHYFST)	Taiwan	100.00	7,819	7,819
SK APTECH Ltd. (SKAPTECH)	Hong Kong	100.00	166,299	158,380
SK hynix Semiconductor (Chongqing) Ltd. (SKHYCQL) <sup>3</sup>	China	-	-	-
Softeq Flash Solutions LLC.(SOFTEQ)	Belarus	100.00	14,579	14,579
MMT(Money Market Trust) <sup>4</sup>	Korea	100.00	605,000	360,000
			<u>4,134,200</u>	<u>3,881,281</u>

<sup>1</sup> Subsidiary of SK hynix America Inc.

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

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

<sup>4</sup> The Company disposed the entire MMT (Money Market Trust) held at December 31, 2014 and the balance of MMT as of December 31, 2015 was acquired during the year ended December 31, 2015.

SK HYNIX, INC.  
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**10. Investments in Subsidiaries, Associates and Joint Ventures, Continued**

(3) Details of investments in associates and joint ventures as of December 31, 2015 and 2014 are as follows:

*(In millions of won)*

Type	Investee	Ownership (%) in 2015		Carrying amount	
				2015	2014
Associate	Stratio, Inc. <sup>1</sup>	9.10	₩	2,194	-
Joint venture	HITECH Semiconductor (Wuxi) Co.,Ltd. (HITECH)	45.00		92,608	92,608
			₩	94,802	92,608

<sup>1</sup> In 2015, the Company acquired 1,136,013 preferred shares of Stratio, Inc. Stratio, Inc. is classified as an associate because the Company has significant influence over Stratio, Inc.'s financial and operating policies through its right to appoint a member of the board of directors.

SK HYNIX, INC.  
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**11. Available-for-sale Financial Assets**

(1) Details of available-for-sale financial assets as of December 31, 2015 and 2014 are as follows:

(In millions of won)

		<b>2015</b>			<b>2014</b>
	<b>Number of stock</b>	<b>Ownership (%)</b>	<b>Acquisition cost</b>	<b>Book value</b>	<b>Book value</b>
ProMos	201,600,000	7.93 W	21,847	-	-
JNT Frontier Private Equity Unit	Certificate	-	1,213	1,213	1,307
SV M&A No.1 Equity Unit	Certificate	-	1,120	1,120	1,196
Daishin Aju IB Investment Co., Ltd.	Certificate	-	699	699	1,265
Seoul Investment Early & Green Venture Fund	Certificate	-	1,678	1,678	1,760
TS 2011-4 Technology Transfer & Business	Certificate	-	1,262	1,262	1,262
IMM Investment	Certificate	-	620	620	1,040
L&S Venture Capital	Certificate	-	1,849	1,849	1,899
KTC-NP-Growth	Certificate	-	2,271	2,271	516
Intellectual Discovery, Ltd.	800,000	7.05	4,000	4,000	4,000
SKY Property Mgmt. Ltd.	5,745	15.00	112,360	112,360	112,360
China Walden Venture Investments II	Certificate	-	3,573	3,573	-
		W	<u>152,492</u>	<u>130,645</u>	<u>126,605</u>

(2) Changes in the carrying amount of available-for-sale financial assets for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

	<b>2015</b>	<b>2014</b>
<b>Beginning balance</b>	W 126,605	158,374
Acquisition	5,359	1,101
Disposal	(1,319)	(32,870)
<b>Ending balance</b>	W <u>130,645</u>	<u>126,605</u>

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**12. Property, Plant and Equipment**

(1) Changes in property, plant and equipment for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015							
		Land	Buildings	Structures	Machinery	Vehicles	Others	Construction-in-progress	Total
<b>Beginning net book amount</b>	₩	540,258	1,164,759	117,015	7,299,285	744	181,753	1,558,716	10,862,530
<b>Changes during 2015</b>									
Additions		-	-	-	44,727	-	-	5,915,347	5,960,074
Receipt of government grants		-	-	-	(378)	-	-	-	(378)
Disposals		(4)	(71)	-	(222,414)	-	(41)	(3,622)	(226,152)
Depreciation		-	(74,401)	(14,906)	(2,574,025)	(313)	(81,894)	-	(2,745,539)
Transfers <sup>1</sup>		23,908	1,187,331	133,583	4,583,615	750	225,024	(6,129,147)	25,064
Impairments		-	(22,050)	-	-	-	-	-	(22,050)
<b>Ending net book amount</b>	₩	<u>564,162</u>	<u>2,255,568</u>	<u>235,692</u>	<u>9,130,810</u>	<u>1,181</u>	<u>324,842</u>	<u>1,341,294</u>	<u>13,853,549</u>
Acquisition cost		564,162	2,851,606	539,089	29,899,799	2,333	812,514	1,341,294	36,010,797
Accumulated depreciation		-	(550,289)	(284,293)	(20,517,026)	(1,152)	(486,222)	-	(21,838,982)
Accumulated impairment		-	(45,749)	(19,104)	(245,645)	-	(1,450)	-	(311,948)
Government grants		-	-	-	(6,318)	-	-	-	(6,318)
	₩	<u>564,162</u>	<u>2,255,568</u>	<u>235,692</u>	<u>9,130,810</u>	<u>1,181</u>	<u>324,842</u>	<u>1,341,294</u>	<u>13,853,549</u>

<sup>1</sup> ₩25,064 million was transferred from investment property during the year ended December 31, 2015.

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**12. Property, Plant and Equipment, Continued**

(In millions of won)

		2014							
		Land	Buildings	Structures	Machinery	Vehicles	Others	Construction-in-progress	Total
Beginning net book amount	W	502,161	1,100,650	107,884	6,830,359	110	180,126	521,740	9,243,030
Changes during 2014									
Additions		-	174	-	6,598	-	-	4,260,651	4,267,423
Receipt of government grants		-	-	-	(502)	-	-	-	(502)
Disposals		-	(1,114)	(539)	(208,112)	-	(287)	(211)	(210,263)
Depreciation		-	(44,653)	(11,705)	(2,295,447)	(96)	(58,774)	-	(2,410,675)
Transfers <sup>1</sup>		38,097	133,322	23,152	2,966,389	730	60,688	(3,223,464)	(1,086)
Impairments		-	(23,620)	(1,777)	-	-	-	-	(25,397)
Ending net book amount	W	540,258	1,164,759	117,015	7,299,285	744	181,753	1,558,716	10,862,530
Acquisition cost		540,258	1,644,208	405,516	25,833,214	1,697	605,599	1,558,716	30,589,208
Accumulated depreciation		-	(455,602)	(269,397)	(18,277,695)	(953)	(422,358)	-	(19,426,005)
Accumulated impairment		-	(23,847)	(19,104)	(249,381)	-	(1,488)	-	(293,820)
Government grants		-	-	-	(6,853)	-	-	-	(6,853)
	W	540,258	1,164,759	117,015	7,299,285	744	181,753	1,558,716	10,862,530

<sup>1</sup> W1,086 million was transferred to investment property during the year ended December 31, 2014.

(2) Depreciation expense of W2,435,754 million (2014: W2,198,109 million) has been charged to cost of sales, W252,788 million (2014: W186,872 million) to selling and administrative expenses and W56,997 million (2014: W25,694 million) was capitalized as development costs for the year ended December 31, 2015.

(3) Certain property, plant and equipment are pledged as collaterals for borrowings as of December 31, 2015 (see Note 33).

(4) In 2015, the Company capitalized borrowing costs amounting to W18,892 million (2014: W20,762 million) on qualifying assets. Borrowing costs were calculated using a capitalization rate of 4.83% (2014: 5.08%) for the year ended December 31, 2015.

SK HYNIX, INC.  
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**12. Property, Plant and Equipment, Continued**

(5) The Company leases certain machinery and others from ME Semiconductor Rental First L.L.C. and other under finance lease agreements.

The book value of the machinery and others subject to finance lease agreement amounted to ₩138,514 million as of December 31, 2015 (as of December 31, 2014: ₩169,313 million). The machinery and others are pledged as collateral for the finance lease liabilities.

The Company provides SK hyung Inc. and others with certain machinery and others under operating lease agreements. The book value of the machinery and others subject to operating lease agreement amounted to ₩40,742 million as of December 31, 2015.

The Company leases certain machinery and others from Macquarie Capital and others under operating lease agreements. The payment schedule of minimum lease payments under operating lease agreements as of December 31, 2015 is as follows:

<i>(In millions of won)</i>		<b>Minimum lease payments</b>
No later than 1 year	₩	98,682
Later than 1 year		213,617
	₩	<u>312,299</u>

(6) As of December 31, 2015, certain inventories; property, plant and equipment; and investment properties are insured and details of insured assets are as follows:

<i>(In millions of won)</i>		<b>Insured amount</b>	<b>Insurance company</b>
	<b>Insured assets</b>		
Package insurance	Property, plant and equipment, investment property		Hyundai Marine & Fire Insurance Co., Ltd. and others
	Inventories		
	Business interruption	₩ 37,806,987	
Fire insurance	Property, plant and equipment	940	
Erection all risks insurance	Property, plant and equipment	1,664,895	
		₩ <u>39,472,822</u>	

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**13. Intangible Assets**

(1) Changes in intangible assets for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

(In millions of won)		2015				
		Goodwill	Industrial property rights	Development costs	Others	Total
Beginning net book amount	₩	386,450	80,546	317,872	186,448	971,316
Changes during 2015						
Internal development		-	-	347,932	-	347,932
Separate acquisition		-	31,465	-	196,937	228,402
Disposals		-	(9,536)	-	(503)	(10,039)
Impairment		-	-	-	(163)	(163)
Amortization		-	(12,681)	(183,566)	(41,944)	(238,191)
Ending net book amount		386,450	89,794	482,238	340,775	1,299,257
Acquisition cost		386,450	159,858	1,123,300	421,227	2,090,835
Accumulated amortization and impairment		-	(70,064)	(641,062)	(80,452)	(791,578)
	₩	386,450	89,794	482,238	340,775	1,299,257

(In millions of won)

(In millions of won)		2014				
		Goodwill	Industrial property rights	Development costs	Others	Total
Beginning net book amount	₩	386,450	73,808	276,930	81,821	819,009
Changes during 2014						
Internal development		-	-	179,425	-	179,425
Separate acquisition		-	29,057	-	119,716	148,773
Disposals		-	(9,395)	-	(378)	(9,773)
Impairment		-	-	-	(529)	(529)
Amortization		-	(12,924)	(138,483)	(14,182)	(165,589)
Ending net book amount		386,450	80,546	317,872	186,448	971,316
Acquisition cost		386,450	170,011	775,368	203,893	1,535,722
Accumulated amortization and impairment		-	(89,465)	(457,496)	(17,445)	(564,406)
	₩	386,450	80,546	317,872	186,448	971,316



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**13. Intangible Assets, Continued**

(2) Amortization of ₩8,745 million (2014: ₩2,239 million) is included in the cost of sale and ₩229,157 million (2014: ₩163,350 million) in selling and administrative expenses in the statements of comprehensive income for the year ended December 31, 2015.

(3) Among costs associated with development activities, ₩347,932 million (2014: ₩179,425 million) that met capitalization criteria, were capitalized as development cost for the year ended December 31, 2015. In addition, costs associated with research activities and other development expenditures that did not meet the criteria and amounted to ₩1,641,269 million (2014: ₩1,427,372 million) were recognized as expenses for the year ended December 31, 2015.

(4) Goodwill impairment tests

Goodwill impairment tests are undertaken annually. As the Company has only one CGU, goodwill was allocated to one CGU. Recoverable amount of the CGU was determined based on fair value less costs to sell, which was determined using the current stock price as of December 31, 2015. No impairment loss of goodwill was recognized since the recoverable amount is higher than carrying value of the CGU as of December 31, 2015.

**14. Investment Property**

Details of changes in investment property for the years ended December 31, 2015 and 2014 are as follows:

*(In millions of won)*

	<b>2015</b>	<b>2014</b>
<b>Beginning balance</b>	₩ 28,456	28,609
<b>Changes for the year</b>		
Depreciation	(713)	(1,239)
Transfer <sup>1</sup>	(25,064)	1,086
<b>Ending balance</b>	₩ 2,679	28,456
Acquisition cost	5,170	50,839
Accumulated depreciation	(2,491)	(22,383)
	₩ 2,679	28,456

<sup>1</sup> Transfer from (to) property, plant and equipment.

The depreciation expense of ₩713 million (2014: ₩1,239 million) was charged to cost of sales for the year ended December 31, 2015.

Rental income from investment property for the year ended December 31, 2015 was ₩2,627 million (2014: ₩4,534 million).

SK HYNIX, INC.  
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**15. Borrowings**

(1) Details of borrowings as of December 31, 2015 and 2014, are as follows:

(In millions of won)

		<b>2015</b>	<b>2014</b>
<b>Current</b>			
Short-term borrowings	₩	-	241,913
Current portion of long-term borrowings		343,430	514,136
Current portion of debentures		399,863	200,000
		<u>743,293</u>	<u>956,049</u>
<b>Non-current</b>			
Long-term borrowings		1,396,106	1,059,264
Debentures		1,293,220	1,156,967
		<u>2,689,326</u>	<u>2,216,231</u>
	₩	<u>3,432,619</u>	<u>3,172,280</u>

(2) Details of short-term borrowings as of December 31, 2015 and 2014 are as follows:

(In millions of won)

	<b>Financial institutions</b>	<b>Interest rate per annum in 2015 (%)</b>	<b>2015</b>	<b>2014</b>
Import finance	Woori Bank	-	₩ -	22,060
Borrowings on trade receivables collateral	NongHyup Bank and others	-	-	219,853
			₩ -	<u>241,913</u>

SK HYNIX, INC.  
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15. Borrowings, Continued

(3) Details of long-term borrowings as of December 31, 2015 and 2014 are as follows:

(In millions of won)

	Financial institutions	Interest rate per annum in 2015 (%) <sup>1</sup>	2015	2014
<b>Local currency borrowings:</b>				
Borrowing for housing	Kookmin Bank	- W	-	10
Borrowings for childcare facilities	NongHyup Bank	2.00	123	185
Funds for equipment	Korea Development Bank (formerly Korea Finance Corporation)	Industrial financial debentures (4 years) + 0.93	166,667	250,000
Funds for equipment <sup>2</sup>	KEB Hana Bank (formerly Korea Exchange Bank)	CD (91 days) + 1.31	40,000	50,000
Commercial paper	KEB Hana Bank (formerly Korea Exchange Bank)	-	-	200,000
Finance lease liabilities	Hansu Technical Service Ltd.	3.70	42,775	-
Finance lease liabilities	ME Semiconductor Rental First L.L.C.	5.00	74,898	147,870
			324,463	648,065
<b>Foreign currency borrowings:</b>				
General borrowings	Export-Import Bank of Korea	3M LIBOR + 1.00 ~ 3.15	488,333	274,800
General borrowings	Standard Chartered Bank Korea Ltd.	-	-	12,366
General borrowings	Woori Bank	3M LIBOR + 0.98	175,800	-
General borrowings	Korea Development Bank	Exchange equalization fund rate + 0.60	117,200	109,920
General borrowings	Korea Development Bank	3M LIBOR + 0.95	175,800	-
General borrowings	KEB Hana Bank (formerly Korea Exchange Bank)	Exchange equalization fund rate + 0.63	93,760	87,936
General borrowings	KEB Hana Bank (formerly Korea Exchange Bank)	-	-	54,960
General borrowings	NongHyup Bank	Exchange equalization fund rate + 0.63	93,760	87,936
General borrowings	NongHyup Bank	3M LIBOR + 3.19	234,400	219,840
Mortgage loans	HITECH	-	-	18,162
Finance lease liabilities	Goodmemory First L.L.C.	4.70	36,020	59,415
			1,415,073	925,335
			1,739,536	1,573,400
Less: Current maturities			(343,430)	(514,136)
		W	1,396,106	1,059,264

SK HYNIX, INC.  
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**15. Borrowings, Continued**

<sup>1</sup> As of December 31, 2015, the benchmark interest rates are as follows:

Type	Interest rate per annum as of December 31, 2015
Exchange equalization fund rate	1.14%
Industrial financial debentures (4 years)	3.05%
CD (91 days)	1.67%
3M LIBOR	0.61%

<sup>2</sup> The Group entered into interest swap contracts with KEB Hana Bank (formerly Korea Exchange Bank) to hedge interest rate risk from the local currency loans.

(4) Details of debentures as of December 31, 2015 and 2014 are as follows:

(In millions of won)

	Maturity date	Interest rate per annum in 2015 (%)		2015	2014
<b>Unsecured notes in local currency:</b>					
210th	Jan. 14, 2015	6.35	₩	-	200,000
211th	May 6, 2016	6.20		400,000	400,000
212th	May 30, 2019	5.35		450,000	550,000
213th	Sep. 4, 2017	3.72		200,000	200,000
214-1st	Aug. 26, 2020	2.27		210,000	-
214-2nd	Aug. 26, 2022	2.63		140,000	-
215-1st	Nov. 25, 2018	2.26		70,000	-
215-2nd	Nov. 25, 2020	2.56		100,000	-
215-3rd	Nov. 25, 2020	2.75		10,000	-
<b>Secured notes in foreign currency:</b>					
Foreign 8th <sup>1</sup>	Jun. 20, 2017	3M LIBOR+2.85		117,200	109,920
				1,697,200	1,359,920
Less: Discounts on debentures				(4,117)	(2,953)
Current portion				(399,863)	(200,000)
			₩	1,293,220	1,156,967

<sup>1</sup> The Company is provided with USD100 million of bank payment guarantee from Shinhan Bank as of December 31, 2015.

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**15. Borrowings, Continued**

(5) Finance lease liability

Lease liabilities are effectively secured as the rights to the leased asset belong to the lessor.

Details of future minimum lease payments to the lessor as of December 31, 2015 and 2014 are as follows:

(In millions of won)

		<b>2015</b>	<b>2014</b>
<b>Total minimum lease payment</b>			
No later than 1 year	₩	98,927	107,364
Between 1 and 5 years		66,779	116,277
		<u>165,706</u>	<u>223,641</u>
<b>Discount on present value</b>		(12,013)	(16,355)
<b>Net minimum lease payment</b>			
No later than 1 year		93,770	98,604
Between 1 and 5 years		59,923	108,681
	₩	<u>153,693</u>	<u>207,285</u>

(6) Details of book value and fair value of non-current borrowings as of December 31, 2015 and 2014 are as follows:

(In millions of won)

(In millions of won)		2015		2014	
		Book value	Fair value	Book value	Fair value
Long-term borrowings	₩	1,396,106	1,401,785	1,059,264	1,068,210
Debentures		1,293,220	1,338,481	1,156,967	1,217,236
	₩	2,689,326	2,740,266	2,216,231	2,285,446

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

Details of other current and non-current liabilities as of December 31, 2015 and 2014 are as follows:

(In millions of won)

		<b>2015</b>	<b>2014</b>
<b>Current</b>			
Advance receipts	₩	192	273
Unearned income		219	322
Withholdings		27,256	60,641
Deposits received		354	57
		<u>28,021</u>	<u>61,293</u>
<b>Non-current</b>			
Other long-term employee benefits		58,516	56,819
	₩	<u>86,537</u>	<u>118,112</u>

SK HYNIX, INC.  
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**17. Provisions**

(1) Details of changes in provisions for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015				
		Beginning balance	Increase	Utilization	Reversal	Ending balance
Purchase commitments	₩	784	-	(784)	-	-
Warranty		6,739	2,086	(3,490)	(2,514)	2,821
Sales returns		21,405	79,870	(79,747)	-	21,528
Legal claims		4,400	1,440	(4,370)	(30)	1,523
Emission allowances		-	6,081	-	-	6,081
	₩	33,328	89,477	(88,391)	(2,544)	31,953

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

		2014			
		Beginning balance	Increase	Utilization	Ending balance
Purchase commitments	₩	157	627	-	784
Warranty		13,914	1,185	(8,360)	6,739
Sales returns		22,210	32,189	(32,994)	21,405
Legal claims		26,106	-	(21,031)	4,400
	₩	62,387	34,001	(62,385)	33,328

(2) Accrual for loss on purchase commitment

The Company is committed to purchase wafers (semi-finished goods) from its overseas subsidiary, SK hynix Semiconductor (China) Ltd. For the work-in-process that will be purchased from the subsidiary, the Company accrues provisions for expected losses if the total manufacturing costs are expected to exceed the sale price of finished goods at the end of reporting period.

(3) Provisions for warranty

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

(4) Provisions for sales returns

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

(5) Provisions for legal claims

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

(6) Provision for emission allowances

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

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**18. Defined Benefit Liabilities**

Under the defined benefit plan, the Company pays employee benefits to retired employees in the form of a lump sum that are based on their salaries and years of service at the time of their retirement. Accordingly, the Company is exposed to a variety of actuarial assumption risks such as risk associated with expected years of service, interest risk, and market (investment) risk.

(1) Details of defined benefit liabilities as of December 31, 2015 and 2014 are as follows:

(In millions of won)

		<b>2015</b>	<b>2014</b>
Present value of defined benefit obligations	₩	1,020,198	857,390
Fair value of plan assets		(547,708)	(402,089)
	₩	<u>472,490</u>	<u>455,301</u>

(2) Principal actuarial assumptions as of December 31, 2015 and 2014 are as follows:

	<b>2015</b>	<b>2014</b>
Discount rate for defined benefit obligations	4.00%	4.50%
Expected rate of salary increase	5.52%	5.81%

(3) Weighted average durations of defined benefit obligations as of December 31, 2015 and 2014 are 12.39 and 12.67 years, respectively.

(4) Changes in defined benefit obligations for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

		<b>2015</b>	<b>2014</b>
<b>Beginning balance</b>	₩	857,390	631,757
Current service cost		134,152	104,175
Interest cost		38,029	34,226
Transferred from associates		576	618
Remeasurements:			
Demographic assumption		(1,907)	-
Financial assumption		32,733	117,527
Adjustment based on experience		(18,224)	874
Benefits paid		(22,551)	(31,787)
<b>Ending balance</b>	₩	<u>1,020,198</u>	<u>857,390</u>

(5) Changes in plan assets for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

		<b>2015</b>	<b>2014</b>
<b>Beginning balance</b>	₩	402,089	4,851
Contributions		150,000	397,237
Interest income		17,749	674
Transferred from associates		123	-
Benefits paid		(13,866)	(554)
Remeasurements		(8,387)	(119)
<b>Ending balance</b>	₩	<u>547,708</u>	<u>402,089</u>

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**18. Defined Benefit Liabilities, Continued**

(6) The amounts recognized in profit or loss for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

	<b>2015</b>	<b>2014</b>
Current service cost	₩ 134,152	104,175
Net interest cost	20,280	33,552
	<u>₩ 154,432</u>	<u>137,727</u>

(7) The accounts in which defined benefit plan related expenses are included for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

	<b>2015</b>	<b>2014</b>
Cost of sales (manufacturing costs)	₩ 83,968	78,774
Selling and administrative expenses	70,464	58,953
	<u>₩ 154,432</u>	<u>137,727</u>

(8) Details of plan assets as of December 31, 2015 and December 31, 2014 are as follows:

(In millions of won)

	<b>2015</b>	<b>2014</b>
Deposits	₩ 546,135	400,461
Other	1,573	1,628
	<u>₩ 547,708</u>	<u>402,089</u>

Actual return on plan assets for the years ended December 31, 2015 and 2014 amounted to ₩9,362 million and ₩555 million, respectively.

(9) As of December 31, 2015, the Company funded defined benefit obligations through insurance plans with Mirae Asset Life Insurance Co., Ltd. and other insurance companies. The Company's minimum required contribution to the plan assets for the year ending December 31, 2016 is ₩232,324 million under the assumption that the Company maintains the defined benefit plan.

(10) The sensitivity analysis of the defined benefit obligations as of December 31, 2015 to changes in the principal assumptions is as follows:

(In millions of won)

	<b>Effects on defined benefit obligation</b>
	<b>Increase of rate      Decrease of rate</b>
Discount rate (if changed by 1%)	₩ (111,769)      132,262
Expected salary increase rate (if changed by 1%)	132,338      (113,834)

The sensitivity analysis does not consider dispersion of all cash flows that are expected from the plan and provides approximate values of sensitivity for the assumptions used.



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**18. Defined Benefit Liabilities, Continued**

(11) Information about the maturity profile of the defined benefit obligation as of December 31, 2015 is as follows:

		2015				
		Less than 1 year	1 - 5 years	5 - 10 years	10 - 20 years	Total
(In millions of won)						
Benefits paid	₩	30,413	199,788	573,756	2,491,911	3,295,868

Information about the maturity profile is based on undiscounted amount of defined benefit obligation and classified to employee's expected years of remaining services

**19. Deferred income tax**

(1) Change in deferred taxes for the years ended December 31, 2015 and 2014 are as follows:

*(In millions of won)*

		2015	2014
<b>At January 1</b>	₩	190,595	110,254
Recorded in profit or loss		(2,604)	80,341
<b>At December 31</b>	₩	187,991	190,595

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**19. Deferred Income Tax, Continued**

(2) Changes in deferred income tax assets and liabilities for the years ended December 31, 2015 and 2014, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

		2015		
		January 1, 2015	Profit or loss	December 31, 2015
<b>Deferred tax liabilities:</b>				
Advanced depreciation provision	₩	(55,666)	-	(55,666)
Valuation of derivatives		(207)	135	(72)
Gains on foreign currency translation		(1,282)	1,151	(131)
Plan assets		(96,902)	(33,524)	(130,426)
Others		(14,955)	6,657	(8,298)
		(169,012)	(25,581)	(194,593)
<b>Deferred tax assets:</b>				
Loss on valuation of inventories		17,858	21,969	39,827
Valuation of equity-method investments		214,691	(700)	213,991
Accumulated depreciation		35,819	(1,338)	34,481
Defined benefit obligations		186,346	36,614	222,960
Deemed investments and others		161,995	-	161,995
Provisions and others		1,065	(716)	349
Impairment of available-for-sale financial assets		37,238	(735)	36,503
Losses on foreign currency translation		2,524	(2,329)	195
Property, plant and equipment		3,381	(3,960)	(579)
Losses on valuation of derivative		386	(148)	238
Others		95,826	(38,084)	57,742
		757,129	10,573	767,702
Deferred tax assets, net		588,117	(15,008)	573,109
Deferred tax assets not recognized		(573,438)	65,378	(508,060)
Tax credit carryforwards recognized		175,916	(52,974)	122,942
<b>Deferred tax assets recognized</b>	₩	<u>190,595</u>	<u>(2,604)</u>	<u>187,991</u>

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19. Deferred Income Tax, Continued

		2014		
		January 1, 2014	Profit or loss	December 31, 2014
<i>(In millions of won)</i>				
<b>Deferred tax liabilities:</b>				
Advanced depreciation provision	₩	(55,666)	-	(55,666)
Valuation of derivatives		(5,451)	5,244	(207)
Gains on foreign currency translation		(1,956)	674	(1,282)
Conversion rights adjustment		(6,827)	6,827	-
Plan assets		(725)	(96,177)	(96,902)
Others		(12,110)	(2,845)	(14,955)
		(82,735)	(86,277)	(169,012)
<b>Deferred tax assets:</b>				
Loss on valuation of inventories		18,812	(954)	17,858
Valuation of equity-method investments		209,797	4,894	214,691
Accumulated depreciation		43,182	(7,363)	35,819
Defined benefit obligations		137,077	49,269	186,346
Deemed investments and others		162,390	(395)	161,995
Provisions and others		5,815	(4,750)	1,065
Impairment of available-for-sale financial assets		40,134	(2,896)	37,238
Losses on foreign currency translation		2,548	(24)	2,524
Property, plant and equipment		15,217	(11,836)	3,381
Losses on valuation of derivative		31,367	(30,981)	386
Tax loss carryforwards		41,489	(41,489)	-
Others		66,242	29,584	95,826
		774,070	(16,941)	757,129
Deferred tax assets, net		691,335	(103,218)	588,117
Deferred tax assets not recognized		(658,207)	84,769	(573,438)
Tax credit carryforwards recognized		77,126	98,790	175,916
<b>Deferred tax assets recognized</b>	₩	110,254	80,341	190,595

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**19. Deferred Income Tax, Continued**

(3) Deferred tax assets are recognized for deductible temporary differences, tax loss carryforwards and tax credit carryforwards to the extent that the realization of the related tax benefit through future taxable profits is probable.

As of December 31, 2015, the Company did not recognize deferred tax assets of ₩508,060 million (2014: ₩573,438 million) associated with deductible temporary differences amounting to ₩2,099,421 million (2014: ₩2,369,579 million).

As of December 31, 2015, the unused tax credits that were not recognized as deferred tax assets amounted to ₩234,632 million (2014: ₩387,088 million).

(4) Expiration schedule of tax credit carryforwards that were not recognized as deferred tax assets as of December 31, 2015 is as follows:

*(In millions of won)*

	<b>Tax credit carryforwards</b>
2018	₩ 10,277
2019	120,010
2020	104,345
	₩ <u>234,632</u>

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**20. Derivative Financial Instruments**

(1) Details of derivative financial liabilities as of December 31, 2015 and 2014 are as follows:

<i>(In millions of won)</i>		<b>2015</b>	<b>2014</b>
<b>Current</b>			
Interest rates swap	₩	-	30
<b>Non-current</b>			
Interest rates swap		683	708
	₩	<u>683</u>	<u>738</u>

(2) Details of gains and losses from derivative instruments for the years ended December 31, 2015 and 2014 are as follows:

<i>(In millions of won)</i>		<b>2015</b>			
		<b>Gain on valuation</b>	<b>Loss on valuation</b>	<b>Gain on transaction</b>	<b>Loss on transaction</b>
Interest rates swap	₩	25	-	1,672	2,058

<i>(In millions of won)</i>		<b>2014</b>			
		<b>Gain on valuation</b>	<b>Loss on valuation</b>	<b>Gain on transaction</b>	<b>Loss on transaction</b>
Interest rates swap		215	980	2,638	237
Embedded derivative instruments <sup>1</sup>		-	171,016	-	2,691
	₩	<u>215</u>	<u>171,996</u>	<u>2,638</u>	<u>2,928</u>

<sup>1</sup> The Company bifurcated convertible options and separately accounted for them as derivative instruments which were embedded in the foreign-currency convertible bond. These convertible options were measured at fair value and changes therein were recognized in profit or loss.

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

(1) Details of capital stock, capital surplus and other equity as of December 31, 2015 and 2014 are as follows:

*(In millions of won and thousands of shares)*

		<b>2015</b>	<b>2014</b>
Authorized shares		9,000,000	9,000,000
Issued shares <sup>1</sup>		731,530	731,530
Capital stock:			
Common stock	₩	3,657,652	3,657,652
Capital surplus:			
Additional paid in capital		3,625,797	3,625,797
Consideration for conversion rights		42,928	42,928
Others		513,291	513,291
		4,182,016	4,182,016
Other equity:			
Acquisition cost of treasury shares	₩	(771,913)	(24)
Number of treasury shares		22,001	1

<sup>1</sup> As of December 31, 2015, the number of outstanding shares is 728,002 thousand shares, which differs from total issued shares due to the effect of stock retirement.

(2) Changes in number of outstanding shares as of December 31, 2015 and December 31, 2014 are as follows:

*(In thousands of shares)*

	<b>2015</b>	<b>2014</b>
<b>Beginning</b>	728,002	710,201
Issue of ordinary shares related to the acquisition of a subsidiary	-	1,358
Exercise of conversion rights	-	16,443
Acquisition of treasury shares	(22,000)	-
<b>Ending</b>	706,002	728,002

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**22. Accumulated Other Comprehensive Income**

(1) Accumulated other comprehensive income as of December 31, 2015 and 2014 are nil, and change in accumulated other comprehensive income for the year ended December 31, 2014 is as follows:

(In millions of won)

		<b>Beginning</b>	<b>2014 Change</b>	<b>Ending</b>
Available-for-sale financial assets				
– unrealized net change in fair value	₩	7,824	(7,824)	-

**23. Retained Earnings**

(1) Details of retained earnings as of December 31, 2015 and 2014 are as follows :

(In millions of won)

		<b>2015</b>	<b>2014</b>
Legal reserve <sup>1</sup>	₩	30,694	8,854
Discretionary reserve <sup>2</sup>		235,506	235,506
Unappropriated retained earnings		13,348,510	9,590,660
	₩	<u>13,614,710</u>	<u>9,835,020</u>

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

<sup>2</sup> Discretionary reserve is a reserve for technology development.

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**23. Retained Earnings, Continued**

(2) Statement of Appropriations of Retained Earnings

(In millions of won, except for cash dividend per common stock)

		<b>2015</b>	<b>2014</b>
<b>Retained earnings before appropriations</b>			
Unappropriated retained earnings carried over from the prior year	₩	9,350,419	5,937,418
Remeasurements of defined benefit liability		(20,989)	(118,519)
Profit for the year		4,019,080	3,771,761
		<u>13,348,510</u>	<u>9,590,660</u>
<b>Appropriation of retained earnings<sup>1</sup></b>			
Earned surplus reserve		35,300	21,840
Cash dividend (2015: ₩500 per share, 10% on par value , 2014: ₩300 per share, 6% on par value)		353,001	218,401
		<u>388,301</u>	<u>240,241</u>
<b>Unappropriated retained earnings carried forward to the subsequent year</b>	₩	<u>12,960,209</u>	<u>9,350,419</u>

<sup>1</sup> For the years ended December 31, 2015 and 2014, the date of appropriation is March 18, 2016 and March 20, 2015, respectively.

**24. Dividends**

(1) Details of dividends for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won and in thousands of shares)

		<b>2015</b>	<b>2014</b>
Type of dividends		Cash dividends	Cash dividends
Outstanding ordinary shares		706,002	728,002
Par value (in won)	₩	5,000	5,000
Dividend rate		10%	6%
Total dividends	₩	<u>353,001</u>	<u>218,401</u>

(2) Dividend payout ratio for the years ended December 31, 2015 and 2014 is as follows:

(In millions of won)

		<b>2015</b>	<b>2014</b>
Dividends	₩	353,001	218,401
Profit for the year		4,019,080	3,771,761
Dividend payout ratio		<u>8.78%</u>	<u>5.79%</u>

(3) Dividend yield ratio for the years ended December 31, 2015 and 2014 is as follows:

(In won)

		<b>2015</b>	<b>2014</b>
Dividends per share	₩	500	300
Closing stock price		30,750	47,750
Dividend yield ratio		<u>1.63%</u>	<u>0.63%</u>



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**25. Selling and Administrative Expenses**

Selling and administrative expenses for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

	<b>2015</b>	<b>2014</b>
Salaries	₩ 283,107	266,307
Defined benefit plan related	24,394	21,393
Employee benefits	57,366	39,047
Commission	192,589	195,559
Depreciation	79,106	50,950
Amortization	227,437	163,350
Research and development	1,641,269	1,427,372
Legal cost	6,594	6,590
Rental	8,420	2,202
Taxes and dues	6,122	3,991
Training	18,220	16,165
Advertising	43,239	26,204
Utility	10,026	2,719
Freight and custody charges	32,089	27,081
Supplies	47,290	38,700
Repair	7,778	6,557
Travel and transportation	8,152	9,191
Other	9,004	40,872
	₩ <u>2,702,202</u>	<u>2,344,250</u>

**26. Expenses by Nature**

Nature of expenses for the years ended December 31, 2015 and 2014 is as follows:

(In millions of won)

	<b>2015</b>	<b>2014<sup>2</sup></b>
Changes in finished goods and work-in-process	₩ (93,638)	(224,582)
Raw materials and consumables	4,877,645	4,299,063
Labor costs	2,065,024	1,924,129
Depreciation and amortization	2,922,861	2,574,855
Royalty	210,902	167,167
Commission	805,487	682,609
Utilities	603,977	567,181
Repair	473,668	373,185
Outsourcing	1,333,661	1,131,850
Other	504,698	350,906
Total <sup>1</sup>	₩ <u>13,704,285</u>	<u>11,846,363</u>

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

<sup>2</sup> Expenses for the year ended December 31, 2014 were reclassified to conform with the classification for the year ended December 31, 2015.

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**27. Finance Income and Expenses**

Details of finance income and expenses for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

		<b>2015</b>	<b>2014<sup>1</sup></b>
<b>Finance Income:</b>			
Interest income	₩	38,885	49,422
Dividend income		24,091	42,957
Gain on disposal of available-for-sale financial assets		-	10,054
Foreign exchange differences		597,146	445,110
Gain from derivative instruments		1,697	2,853
Gain on disposal of financial assets at fair value through profit or loss		27,434	28,493
Gain on valuation of financial assets at fair value through profit or loss		602	6,170
	₩	<u>689,855</u>	<u>585,059</u>
		<b>2015</b>	<b>2014</b>
<b>Finance Expenses:</b>			
Interest expense	₩	103,975	149,105
Foreign exchange differences		547,392	355,444
Loss on disposal of available-for-sale financial assets		-	3,500
Loss from derivative instruments		2,058	174,924
Loss on redemption of debentures		-	2,924
		<u>653,425</u>	<u>685,897</u>
<b>Net finance expenses</b>	₩	<u>36,430</u>	<u>(100,838)</u>

<sup>1</sup> Gain on disposal of investment in subsidiaries and associates for the year ended December 31, 2014 was reclassified from finance income to other income to conform with the classification for the year ended December 31, 2015.

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**28. Other Income and Expenses**

Other income for the years ended December 31, 2015 and 2014 are as follows:

*(In millions of won)*

	<b>2015</b>	<b>2014<sup>1</sup></b>
Gain on disposal of property, plant and equipment	₩ 35,245	15,758
Gain on disposal of investment in subsidiaries and associates	7,130	327
Others	16,706	18,553
	<u>₩ 51,951</u>	<u>34,311</u>

<sup>1</sup> Gain on disposal of investment in subsidiaries and associates for the year ended December 31, 2014 was reclassified from finance income to other income to conform with the classification for the year ended December 31, 2015.

Other expenses for the years ended December 31, 2015 and 2014 are as follows:

*(In millions of won)*

	<b>2015</b>	<b>2014</b>
Loss on disposal of property, plant and equipment	₩ 26,599	10,451
Loss on disposal of intangible assets	5,487	9,421
Loss on disposal of trade receivables	201	616
Loss on impairment of property, plant and equipment	22,050	25,397
Loss on impairment of intangible assets	163	529
Donation	54,682	15,693
Bad debt for other receivables	34,920	4,938
Others <sup>1</sup>	25,437	372,996
	<u>₩ 169,539</u>	<u>440,041</u>

<sup>1</sup> For the year ended December 31, 2014, expenses related to settlement of trade secret lawsuit alleged by Toshiba Corporation amounting to USD278 million (equivalent to ₩306,161 million) are included.

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## 29. Income Tax Expense

(1) Income tax expense for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015	2014
<b>Current tax:</b>			
Current tax on profits for the year	₩	980,795	849,692
<b>Deferred tax:</b>			
Origination and reversal of temporary differences		2,604	(80,341)
<b>Income tax expense</b>	₩	983,399	769,351

(2) The relationship between tax expense and accounting profit for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015	2014
<b>Profit before income tax</b>	₩	5,002,479	4,541,112
<b>Tax calculated at statutory income tax rates</b>		1,210,138	1,098,487
<b>Tax effects of:</b>			
Tax-exempt income		(20)	(11)
Non-deductible expenses		3,500	69,196
Tax credit		(104,345)	(148,052)
Change in unrecognized deferred tax assets		(150,565)	(259,532)
Others		24,691	9,263
<b>Income tax expense</b>	₩	983,399	769,351

(3) There is no income taxes charged directly to equity for the years ended December 31, 2015 and 2014.

## 30. Earnings per Share

(1) Basic earnings per share for the years ended December 31, 2015 and 2014 are as follows:

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

		2015	2014
Profit attributable to ordinary shareholders	₩	4,019,080	3,771,761
Weighted average number of outstanding ordinary shares <sup>1</sup>		720,143,294	718,197,377
<b>Basic earnings per share (in won)</b>	₩	5,581	5,252

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

(In shares)

	2015	2014
Outstanding ordinary shares	728,002,365	710,200,891
Exercise of conversion rights	-	7,051,443
Issue of ordinary shares related to the acquisition of a subsidiary	-	945,393
Acquisition of treasury shares	(7,859,071)	(350)
<b>Weighted average number of outstanding ordinary shares</b>	720,143,294	718,197,377

(2) There is no potential ordinary shares with dilutive effect during the years ended December 31, 2015 and 2014. Accordingly, diluted earnings per share for the years ended December 31, 2015 and 2014 are the same as basic earnings per share.

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**31. Related Party Transactions**

(1) Details of related parties as of December 31, 2015 are as follows:

Type	Name of related parties
Subsidiaries	SKHYA and other 21 entities <sup>1</sup>
Associates	Stratio, Inc., Gemini Partners Pte. Ltd.
Joint venture	HITECH Semiconductor(Wuxi) Co., Ltd.
Other related parties	SK Telecom Co., Ltd., which has significant influence over the Company, SK Holdings Co., Ltd., which has control over SK Telecom Co., Ltd., and their subsidiaries

<sup>1</sup> MMT(Money Market Trust) was excluded from related to party transactions.

(2) Subsidiaries of the Company as of December 31, 2015 are as follows:

Company	Controlling company	Remarks
SK hyeng Inc.	SK hynix, Inc.	Domestic subsidiary
SK hystec Inc.	SK hynix, Inc.	Domestic subsidiary
Siliconfile Technologies Inc.	SK hynix, Inc.	Domestic subsidiary
SK hynix America Inc. (SKHYA)	SK hynix, Inc.	Overseas sales subsidiary
Hynix Semiconductor Manufacturing America Inc. (HSMA)	SKHYA	Discontinued subsidiary
SK hynix Deutschland GmbH (SKHYD)	SK hynix, Inc.	Overseas sales subsidiary
SK hynix U.K. Ltd. (SKHYU)	SK hynix, Inc.	Overseas sales subsidiary
SK hynix Asia Pte. Ltd. (SKHYS)	SK hynix, Inc.	Overseas sales subsidiary
SK hynix Semiconductor India Pvt. Ltd. (SKHYIS)	SKHYS	Overseas sales subsidiary
SK hynix Semiconductor Hong Kong Ltd. (SKHYH)	SK hynix, Inc.	Overseas sales subsidiary
SK hynix Semiconductor (Shanghai) Co., Ltd. (SKHYCS)	SK hynix, Inc.	Overseas sales subsidiary
SK hynix Japan Inc. (SKHYJ)	SK hynix, Inc.	Overseas sales subsidiary
SK hynix Semiconductor Taiwan Inc. (SKHYT)	SK hynix, Inc.	Overseas sales subsidiary
SK hynix Semiconductor (China) Ltd. (SKHYCL)	SK hynix, Inc.	Overseas manufacturing subsidiary
SK hynix Semiconductor (Wuxi) Ltd. (SKHYMC)	SK hynix, Inc.	Overseas manufacturing subsidiary
SK hynix (Wuxi) Semiconductor Sales Ltd. (SKHYCW)	SK hynix, Inc.	Overseas sales subsidiary
SK hynix Italy S.r.l (SKHYIT)	SK hynix, Inc.	Overseas R&D center
SK hynix memory solutions Inc. (SKHMS)	SK hynix, Inc.	Overseas R&D center
SK hynix Flash Solution Taiwan (SKHYFST)	SK hynix, Inc.	Overseas R&D center
SK APTECH Ltd. (SKAPTECH)	SK hynix, Inc.	Holding company
SK hynix Semiconductor (Chongqing) Ltd. (SKHYCQL)	SKAPTECH	Overseas manufacturing subsidiary
Softeq Flash Solutions LLC.(SOFTEQ)	SK hynix, Inc.	Overseas R&D center

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**31. Related Party Transactions, Continued**

(3) Significant transactions for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015			
	Company	Operating revenue and others	Operating expense and others	Asset acquisition	Dividend income
Subsidiaries	Overseas sales subsidiaries	₩ 17,654,481	254,365	548,162	7,046
	Overseas manufacturing subsidiaries <sup>1</sup>	32,257	2,484,444	140,567	-
	Overseas R&D centers	97	153,114	-	-
	Domestic subsidiaries	86,655	323,495	-	-
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	1,364	678,907	-	15,780
Other related parties	SK Telecom Co., Ltd. <sup>2</sup>	2,384	52,102	3,984	-
	SK Holdings Co., Ltd. <sup>3,4</sup>	108	62,040	73,134	-
	SK Engineering & Construction Co., Ltd.	250	800	1,075,645	-
	SK Energy Co., Ltd.	1,006	44,893	-	-
	SK Networks Co., Ltd.	-	1,577	-	-
	SKC solmics Co., Ltd.	-	25,102	205	-
	Chungcheong energy service Co., Ltd.	-	24,292	-	-
	HAPPYNARAE Co., Ltd.	10	57,485	20,000	-
	Others	8	50,650	13,026	-
		₩ 17,778,620	4,213,266	1,874,723	22,826

<sup>1</sup> Operating revenue and others for the year ended December 31, 2015 include proceeds from asset disposal that amount to ₩28,833 million.

<sup>2</sup> Operating expense and others include dividend payments of ₩43,830 million.

<sup>3</sup> The Company entered into a contract with SK Holdings Co., Ltd. under which the Company pays royalty for the use of SK brand in proportion to sales amount. For the year ended December 31, 2015, royalty on the use of the SK brand amounted to ₩33,955 million (2014: ₩28,231 million).

<sup>4</sup> On August 1, 2015, SK C&C Co., Ltd. merged with SK Holdings Co., Ltd. and changed its name to SK Holdings Co., Ltd.

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**31. Related Party Transactions, Continued**

(In millions of won)

		<b>2014</b>			
	<b>Company</b>	<b>Operating revenue and others</b>	<b>Operating expense and others</b>	<b>Asset acquisition</b>	<b>Dividend income</b>
Subsidiaries	Overseas sales subsidiaries	₩ 15,777,427	202,780	462,392	25,828
	Overseas manufacturing subsidiaries <sup>1</sup>	21,939	1,988,036	71,720	-
	Overseas R&D centers	133	124,920	-	-
	Domestic subsidiaries	48,817	280,076	-	-
	Associate	15,268	411	-	236
Joint venture	Siliconfile Technologies Inc. <sup>2</sup>				
	HITECH Semiconductor (Wuxi) Co., Ltd.	1,734	612,890	-	15,664
Other related parties	SK Telecom Co., Ltd.	3,391	7,222	2,407	-
	SK Holdings Co., Ltd.	-	32,724	-	-
	SK C&C Co., Ltd. <sup>3</sup>	70	5,879	12,225	-
	SK Engineering & Construction Co., Ltd.	223	39,058	941,981	-
	SK Energy Co., Ltd.	1,008	44,664	-	-
	SK Networks Co., Ltd.	-	1,359	2,772	-
	SKC solmics Co., Ltd.	-	19,547	593	-
	Chungcheong energy service Co., Ltd.	-	27,496	-	-
	HAPPYNARAE Co., Ltd.	10	43,151	9,075	-
	Others	6	18,630	1,456	-
		₩ <u>15,870,026</u>	<u>3,448,843</u>	<u>1,504,621</u>	<u>41,728</u>

<sup>1</sup> Operating revenue and others for the year ended December 31, 2014 include proceeds from asset disposal that amount to ₩17,843 million.

<sup>2</sup> Siliconfile Technologies Inc. became a subsidiary through the Company's additional acquisition of the remaining interest on April 22, 2014.

<sup>3</sup> SK C&C Co., Ltd. was excluded from related party since April 2014 due to change in CEO.

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**31. Related Party Transactions, Continued**

(4) The balances of significant transactions as of December 31, 2015 and December 31, 2014 are as follows:

(In millions of won)

		<b>2015</b>		
	<b>Company</b>	<b>Trade receivables and others</b>	<b>Loans</b>	<b>Other payables and others</b>
Subsidiaries	Overseas sales subsidiaries	₩ 2,511,975	52,740	238,292
	Overseas manufacturing subsidiaries	42,751	-	422,244
	Overseas R&D centers <sup>1</sup>	44	-	6,140
	Domestic subsidiaries	11,411	-	71,162
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd. <sup>2</sup>	-	-	108,519
Other related parties	SK Telecom Co., Ltd.	155	-	2,796
	SK Holdings Co., Ltd.	87	-	95,607
	SK Engineering & Construction Co., Ltd.	26	-	236,540
	SK Energy Co., Ltd.	74	-	5,962
	SK Networks Co., Ltd.	-	-	777
	SKC solmics Co., Ltd.	-	-	8,507
	Chungcheong energy service Co., Ltd.	-	-	1,425
	HAPPYNARAE Co., Ltd.	1	-	19,322
	Others	1	-	24,430
		₩ 2,566,525	52,740	1,241,723

<sup>1</sup> The Company collected loans to SK hynix memory solutions Inc. (SKHMS) in the amount of ₩10,992 million for the year ended December 31, 2015.

<sup>2</sup> The Company repaid remaining balance of borrowings from HITECH Semiconductor(Wuxi) Co., Ltd. in the amount of ₩22,552 million for the year ended December 31, 2015.



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**31. Related Party Transactions, Continued**

(In millions of won)

		2014			
	Company	Trade receivables and others	Loans	Other payables and others	Borrowings
Subsidiaries	Overseas sales subsidiaries	₩ 3,339,375	49,464	129,522	-
	Overseas manufacturing subsidiaries	46,714	-	244,166	-
	Overseas R&D centers	743	10,992	581	-
	Domestic subsidiaries	9,492	-	61,634	-
Associate	Siliconfile Technologies Inc.	10,166	-	-	-
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	-	-	113,257	22,552
Other related parties	SK Telecom Co., Ltd.	2,763	-	2,561	-
	SK Holdings Co., Ltd.	-	-	3,080	-
	SK C&C Co., Ltd.	-	-	-	-
	SK Engineering & Construction Co., Ltd.	20	-	558,594	-
	SK Energy Co., Ltd.	74	-	5,961	-
	SK Networks Co., Ltd.	-	-	332	-
	SKC solmics Co., Ltd.	-	-	7,850	-
	Chungcheong energy service Co., Ltd.	-	-	3,295	-
	HAPPYNARAE Co., Ltd.	1	-	12,208	-
	Others	1	-	12,914	-
		₩ 3,399,183	60,456	1,155,955	22,552

(5) Key management compensation

Key management includes directors, members of the board of directors, chief financial officer and internal auditors. The compensation paid to key management for employee services for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

Details	2015	2014
Salaries	₩ 60,024	65,057
Defined benefit plan related expenses	7,025	5,381
Others	15	18
	₩ 67,064	70,456

SK HYNIX, INC.  
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**32. Commitments and Contingencies**

(1) Significant pending litigations and claims of the Company as of December 31, 2015 are as follows:

(a) Lawsuit from SanDisk Corporation ("SanDisk")

SanDisk filed a lawsuit against the Company and its subsidiaries (SK hynix America Inc. and SK hynix memory solutions Inc.) in Santa Clara Superior Court of the United States of America, alleging misappropriation of trade secrets jointly owned by SanDisk and Toshiba Corporation, on March 13, 2014 ("SanDisk lawsuit"). Meanwhile on August 4, 2015, SanDisk agreed to withdraw the lawsuit against the Company and its subsidiaries, and therefore, the lawsuit has been terminated.

(b) Lawsuit regarding ordinary wages

On August 1, 2014, some of the Company's employees filed a lawsuit against the Company to the Suwon District Court, seeking additional payment of overtime allowance in relation to ordinary wages. The Company submitted a written response on September 5, 2014, and oral pleading has been processed several times after that date. The court's decision to exclude additional payment such as regular bonus from ordinary wages has been made as of November 11, 2015. Since the plaintiff decided not to appeal the case, the lawsuit has been terminated.

(c) Other patent infringement claims and litigation

The Company is involved in various alleged patent infringement claims and litigation. No provisions have been made as the final outcome of these matters cannot be determined or predicted as of December 31, 2015. However, they could have a material effect on the Company's separate financial statements when the final outcome becomes available.

(2) Technology and patent license agreements

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

(3) Contract for supply of industrial water

In March 2001, the Company and Veolia Water Industrial Development Co., Ltd. ("VWID") entered into a contract for the purpose of purchasing industrial water from VWID for 12 years from March 2001 to March 2013. In December 2006, the contract was extended to March 2018, and subsequently amended due to the establishment of additional plants. According to the amended contract, the Company is obligated to pay base service charges which are predetermined and additional service charges which are variable according to the amount of water used.

(4) Post-process service contract with HITECH

In 2009, the Company entered into an agreement with HITECH to be provided with post-process service by HITECH. The conditions of the service provided includes package, package test, modules and others. As the agreement has been expired in June, 2015, the Company extended the agreement for the next five years and main terms of the agreement such as the conditions of the service and preemptive rights to use HITECH equipments are equivalent to those of the former agreement. According to the agreement, the Company is liable to guarantee a certain level of margin to HITECH.

SK HYNIX, INC.  
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**32. Commitments and Contingencies, Continued**

(5) Assets provided as collateral

Details of assets provided as collateral as of December 31, 2015 are as follows:

(In millions of won)

		<b>Book value</b>	<b>Pledged amount</b>	<b>Remark</b>
Land	₩	25,202		
Buildings		115,194	856,141	Borrowings for equipment and others
Machinery		488,732		
	₩	629,128	856,141	

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

(6) Financing agreements

Details of credit lines with financial institutions as of December 31, 2015 are as follows:

(In millions of won, millions of U.S. dollars)

<b>Financial institution</b>	<b>Commitment</b>	<b>Currency</b>	<b>Amount</b>
KEB Hana Bank and others	Import finance including usance	USD	200
	Export finance including bills bought	USD	350
	Comprehensive limit contract for import and export	USD	1,305

The Company has entered into trade receivables discounting agreements with several financial institutions. There are no outstanding trade receivables discounted as of December 31, 2015 (as of December 31, 2014: ₩219,853 million). The Company is obliged to redeem discounted receivables to financial institutions in case of the default of the counterparties and accordingly, accounted for the above transactions as collateralized borrowings.

(7) Details of guarantees provided to others as of December 31, 2015 are as follows:

(In millions of won)

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

(8) Capital commitments

As of December 31, 2015, the Company has ₩210,036 million (as of December 31, 2014: ₩145,139 million) of commitments in relation to the capital expenditures on fixed assets.

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
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**33. Cash Generated from Operating Activities**

(1) Reconciliations between profit for the year and net cash inflow from operating activities for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

	<b>2015</b>	<b>2014</b>
<b>Profit for the year</b>	₩ 4,019,080	3,771,761
<b>Adjustment</b>		
Income tax expense	983,399	769,351
Defined benefit plan related expenses	154,432	137,727
Depreciation of property, plant and equipment and investment property	2,746,252	2,411,914
Amortization	238,191	165,589
Loss on foreign currency translation	114,197	85,372
Interest expense	103,975	149,105
Loss on derivative instruments	361	172,071
Gain on foreign currency translation	(44,503)	(39,663)
Interest income	(38,885)	(49,422)
Dividend income	(24,091)	(42,957)
Others, net	19,434	(2,855)
<b>Changes in operating assets and liabilities</b>		
Decrease (increase) in trade receivables	761,933	(1,734,396)
Decrease in loans and other receivables	1,203	17,840
Increase in inventories	(190,333)	(296,692)
Increase in other assets	(49,601)	(265,528)
Increase in trade payables	99,382	253,847
Increase (decrease) in other payables	125,876	(62,066)
Increase (decrease) in other non-trade payables	(171,546)	440,736
Decrease in provisions	(7,539)	(29,060)
Increase (decrease) in other liabilities	(24,725)	59,071
Contribution to plan assets	(150,000)	(397,237)
Payment of defined benefit liabilities	(5,755)	(31,233)
<b>Cash generated from operating activities</b>	₩ 8,660,737	5,483,275

(2) Details of significant transactions without inflows and outflows of cash for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

	<b>2015</b>	<b>2014</b>
Other payables related to acquisition of property, plant and equipment	₩ -	706,940
Issue of ordinary shares related to the acquisition of a subsidiary	-	54,070
Exercise of conversion rights	-	772,590

## **Independent Accountants' Review Report on Internal Accounting Control System**

English translation of a Report Originally Issued in Korean

To the Representative Director of  
SK Hynix, Inc.

We have reviewed the accompanying Report on the Operations of Internal Accounting Control System ("IACS") of SK Hynix, Inc. (the "Company") as of December 31, 2015. The Company's management is responsible for designing and maintaining effective IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review management's assessment and issue a report based on our review. In the accompanying report of management's assessment of IACS, the Company's management stated: "Based on the assessment on the assessment result, I believe that the Company's ICFR, as of Dec 31, 2015, is effectively designed and operating, in all material respects, in conformity with the Best Practice Guideline."

We conducted our review in accordance with IACS Review Standards, issued by the Korean Institute of Certified Public Accountants. Those Standards require that we plan and perform the review to obtain assurance of a level less than that of an audit as to whether Report on the Operations of Internal Accounting Control System is free of material misstatement. Our review consists principally of obtaining an understanding of the Company's IACS, inquiries of company personnel about the details of the report, and tracing to related documents we considered necessary in the circumstances. We have not performed an audit and, accordingly, we do not express an audit opinion.

A company's IACS is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of separate financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, however, IACS may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that Report on the Operations of Internal Accounting Control System as of December 31, 2015 is not prepared in all material respects, in accordance with IACS Framework issued by the Internal Accounting Control System Operation Committee.

This report applies to the Company's IACS in existence as of December 31, 2015. We did not review the Company's IACS subsequent to December 31, 2015. This report has been prepared for Korean regulatory purposes, pursuant to the External Audit Law, and may not be appropriate for other purposes or for other users.

*KPMG Samjong Accounting Corp.*

Seoul, Korea  
February 17, 2016

### Notice to Readers

This report is annexed in relation to the audit of the separate financial statements as of December 31, 2015 and the review of internal accounting control system pursuant to Article 2-3 of the Act on External Audit for Stock Companies of the Republic of Korea.

**Report on the Effectiveness of the Internal Control over Financial Reporting**

To the Board of Directors and Audit Committee of SK HYNIX INC.

I, as the Internal Control over Financial Reporting ("ICFR") Officer of SK HYNIX INC. ("the Company"), assessed the effectiveness of the design and operation of the Company's ICFR for the year ended Dec 31, 2015.

The Company's management, including myself, is responsible for designing and operating an ICFR. I assessed the design and operational effectiveness of the ICFR in the prevention and detection of an error or fraud which may cause a misstatement in the preparation and disclosure of reliable financial statements. I followed the Best Practice Guideline to evaluate the effectiveness of the ICFR design and operation.

Based on the assessment results, I believe that the Company's ICFR, as of Dec 31, 2015, is effectively designed and operating, in all material respects, in conformity with the Best Practice Guideline.

Jan 15, 2016

Myoung Young Lee, ICFR Officer



Sung Wook Park, Chief Executive Officer

