

SK HYNIX, INC. and Subsidiaries

Condensed Consolidated Interim Financial Statements

**June 30, 2017 and 2016**

(Unaudited)

(With Independent Auditors' Review Report Thereon)

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## Independent Auditors' Review Report

Based on a report originally issued in Korean

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

### **Reviewed financial statements**

We have reviewed the accompanying condensed consolidated interim financial statements of SK hynix, Inc. and its subsidiaries (the "Group") which comprise the condensed consolidated statement of financial position as of June 30, 2017, the condensed consolidated statements of comprehensive income for the three and six-month periods ended June 30, 2017 and 2016, and changes in equity and cash flows for the six-month periods ended June 30, 2017 and 2016 and notes, comprising a summary of significant accounting policies and other explanatory information.

### **Management's responsibility**

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

### **Auditors' review responsibility**

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

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

### **Conclusion**

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

### **Other matters**

The consolidated statement of financial position of the Group as of December 31, 2016, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, which are not accompanying this report, were audited by us in accordance with Korean Standards on Auditing and our report thereon, dated February 17, 2017, expressed an unqualified opinion. The accompanying condensed consolidated statement of financial position of the Group as of December 31, 2016, presented for comparative purposes, is not different from that audited by us in all material respects.

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



*KPMG Samjory Accounting Corp.*

Seoul, Korea  
August 11, 2017

This report is effective as of August 11, 2017, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying condensed consolidated interim financial statements and notes thereto. Accordingly, the readers of the review report should understand that the above review report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

SK HYNIX, INC. and Subsidiaries  
Condensed Consolidated Statements of Financial Position  
As of June 30, 2017 and December 31, 2016  
(Unaudited)

(In millions of won)

	<u>Note</u>	<u>2017</u>	<u>2016</u>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	5,6 ₩	1,326,003	613,786
Short-term financial instruments	5,6,7	3,797,987	3,521,893
Trade receivables, net	5,6,8	4,257,266	3,251,652
Loans and other receivables, net	5,6,8	39,016	25,611
Inventories, net	9	2,424,006	2,026,198
Current tax assets		885	489
Other current assets	10	445,799	399,353
		<u>12,290,962</u>	<u>9,838,982</u>
<b>Non-current assets</b>			
Investments in associates and joint ventures	11	113,344	131,016
Available-for-sale financial assets	5,6,12	156,078	147,779
Loans and other receivables, net	5,6,8	40,178	39,490
Other financial assets	5,6,7	420	423
Property, plant and equipment, net	13,31	21,395,285	18,777,402
Intangible assets, net	14	2,162,731	1,915,591
Investment property, net	15	2,521	2,573
Deferred tax assets		777,879	792,368
Other non-current assets	10	562,179	570,402
		<u>25,210,615</u>	<u>22,377,044</u>
<b>Total assets</b>	₩	<u><u>37,501,577</u></u>	<u><u>32,216,026</u></u>

See accompanying notes to the condensed consolidated interim financial statements.

SK HYNIX, INC. and Subsidiaries  
Condensed Consolidated Statements of Financial Position, Continued  
As of June 30, 2017 and December 31, 2016  
(Unaudited)

(In millions of won)

	<u>Note</u>	<u>2017</u>	<u>2016</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade payables	5,6 ₩	881,924	696,144
Other payables	5,6,23	1,812,735	1,606,417
Other non-trade payables	5,6	815,782	685,154
Borrowings	5,6,16	826,811	704,860
Other financial liabilities	5,6,20	100	288
Provisions	18	50,872	42,822
Current tax liabilities		1,054,780	374,666
Other current liabilities	17	40,348	50,498
		<u>5,483,352</u>	<u>4,160,849</u>
<b>Non-current liabilities</b>			
Other non-trade payables	5,6	3,117	27,426
Borrowings	5,6,16	3,795,252	3,631,118
Defined benefit liabilities, net	19	389,962	306,488
Deferred tax liabilities		3,806	4,732
Other non-current liabilities	17	62,304	61,883
		<u>4,254,441</u>	<u>4,031,647</u>
<b>Total liabilities</b>		<u>9,737,793</u>	<u>8,192,496</u>
<b>Equity</b>			
<b>Equity attributable to owners of the Parent Company</b>			
Capital stock	1,21	3,657,652	3,657,652
Capital surplus	21	4,143,736	4,143,736
Other equity	21	(771,629)	(771,913)
Accumulated other comprehensive loss	22	(273,810)	(79,103)
Retained earnings	23	21,001,186	17,066,583
<b>Total equity attributable to owners of the Parent Company</b>		<u>27,757,135</u>	<u>24,016,955</u>
<b>Non-controlling interests</b>		<u>6,649</u>	<u>6,575</u>
<b>Total equity</b>		<u>27,763,784</u>	<u>24,023,530</u>
<b>Total liabilities and equity</b>	₩	<u>37,501,577</u>	<u>32,216,026</u>

See accompanying notes to the condensed consolidated interim financial statements.

SK HYNIX, INC. and Subsidiaries  
Condensed Consolidated Statements of Comprehensive Income  
For the three and six-month periods ended June 30, 2017 and 2016  
(Unaudited)

(In millions of won, except per share information)

	Note	2017		2016	
		Three-month period	Six-month period	Three-month period	Six-month period
<b>Revenue</b>	4 ₩	6,692,278	12,981,796	3,940,927	7,596,644
Cost of sales	25	2,858,804	5,843,626	2,689,117	5,026,789
<b>Gross profit</b>		3,833,474	7,138,170	1,251,810	2,569,855
Selling and administrative expense	24,25	782,774	1,619,871	798,957	1,555,204
<b>Operating profit</b>		3,050,700	5,518,299	452,853	1,014,651
Finance income	26	205,623	497,365	152,494	388,466
Finance expense	26	199,007	580,149	219,460	447,177
Share of profit of equity-accounted investees	11	4,730	4,503	11,110	14,181
Other income	27	32,744	38,336	6,117	14,000
Other expenses	27	25,473	38,892	19,906	42,923
<b>Profit before income tax</b>		3,069,317	5,439,462	383,208	941,198
Income tax expense	28	600,808	1,072,273	97,076	207,040
<b>Profit for the period</b>		2,468,509	4,367,189	286,132	734,158
<b>Other comprehensive income (loss)</b>					
<b>Item that will never be reclassified to profit or loss:</b>					
Remeasurements of defined benefit liability, net of tax	19	(4,141)	(8,311)	(2,151)	(4,275)
<b>Items that are or may be reclassified to profit or loss:</b>					
Foreign operations – foreign currency translation differences, net of tax	22	128,007	(187,960)	(49,094)	(62,898)
Equity-accounted investees – share of other comprehensive income (loss), net of tax	11,22	2,227	(7,347)	1,295	(366)
<b>Other comprehensive income (loss) for the period, net of tax</b>		126,093	(203,618)	(49,950)	(67,539)
<b>Total comprehensive income for the period</b>	₩	2,594,602	4,163,571	236,182	666,619

See accompanying notes to the condensed consolidated interim financial statements.

# SK HYNIX, INC. AND SUBSIDIARIES

## Condensed Consolidated Statements of Comprehensive Income, Continued

**For the three and six-month periods ended June 30, 2017 and 2016**

(Unaudited)

*(In millions of won, except per share information)*

	<i>Note</i>	<b>2017</b>		<b>2016</b>	
		<b>Three-month period</b>	<b>Six-month period</b>	<b>Three-month period</b>	<b>Six-month period</b>
<b>Profit (loss) attributable to:</b>					
Owners of the Parent Company		2,468,544	4,366,515	286,141	730,335
Non-controlling interests		(35)	674	(9)	3,823
<b>Total comprehensive income</b>					
<b>(loss) attributable to:</b>					
Owners of the Parent Company		2,594,546	4,163,497	236,238	662,907
Non-controlling interests		56	74	(56)	3,712
<b>Earnings per share</b>					
Basic earnings per share (in won)	29	3,497	6,185	405	1,034
Diluted earnings per share (in won)	29	3,497	6,185	405	1,034

*See accompanying notes to the condensed consolidated interim financial statements.*



SK HYNIX, INC. and Subsidiaries  
Condensed Consolidated Statements of Changes in Equity

For the six-month periods ended June 30, 2017 and 2016

(Unaudited)

	Attributable to owners of the Parent Company						Non-controlling interests	Total equity
	Capital stock	Capital surplus	Other equity	Accumulated other comprehensive income (loss)	Retained earnings	Total		
<i>(In millions of won)</i>								
<b>Balance at January 1, 2016</b>	₩ 3,657,652	4,143,736	(771,913)	(1,600)	14,358,988	21,386,863	840	21,387,703
<b>Total comprehensive income</b>								
Profit for the period	-	-	-	-	730,335	730,335	3,823	734,158
Remeasurements of defined benefit liability, net of tax	-	-	-	-	(4,275)	(4,275)	-	(4,275)
Other comprehensive income from joint venture and associate, net of tax	-	-	-	(366)	-	(366)	-	(366)
Foreign currency translation differences for foreign operations, net of tax	-	-	-	(62,787)	-	(62,787)	(111)	(62,898)
<b>Total comprehensive income</b>	-	-	-	(63,153)	726,060	662,907	3,712	666,619
<b>Transactions with owners of the Parent Company</b>								
Dividends paid	-	-	-	-	(353,001)	(353,001)	-	(353,001)
Disposal of a subsidiary	-	-	-	390	-	390	(889)	(499)
<b>Transactions with owners of the Parent Company</b>	-	-	-	390	(353,001)	(352,611)	(889)	(353,500)
<b>Balance at June 30, 2016</b>	₩ 3,657,652	4,143,736	(771,913)	(64,363)	14,732,047	21,697,159	3,663	21,700,822

See accompanying notes to the condensed consolidated interim financial statements.

SK HYNIX, INC. and Subsidiaries  
Condensed Consolidated Statements of Changes in Equity, Continued

For the six-month periods ended June 30, 2017 and 2016

(Unaudited)

	Attributable to owners of the Parent Company						Non-controlling interests	Total equity
	Capital stock	Capital surplus	Other equity	Accumulated other comprehensive income (loss)	Retained earnings	Total		
<i>(In millions of won)</i>								
<b>Balance at January 1, 2017</b>	₩ 3,657,652	4,143,736	(771,913)	(79,103)	17,066,583	24,016,955	6,575	24,023,530
<b>Total comprehensive income</b>								
Profit for the period	-	-	-	-	4,366,515	4,366,515	674	4,367,189
Remeasurements of defined benefit liability, net of tax	-	-	-	-	(8,311)	(8,311)	-	(8,311)
Other comprehensive income from joint venture and associate, net of tax	-	-	-	(7,347)	-	(7,347)	-	(7,347)
Foreign currency translation differences for foreign operations, net of tax	-	-	-	(187,360)	-	(187,360)	(600)	(187,960)
<b>Total comprehensive income</b>	-	-	-	(194,707)	4,358,204	4,163,497	74	4,163,571
<b>Transactions with owners of the Parent Company</b>								
Dividends paid	-	-	-	-	(423,601)	(423,601)	-	(423,601)
Share-based payment transaction	-	-	284	-	-	284	-	284
<b>Transactions with owners of the Parent Company</b>	-	-	284	-	(423,601)	(423,317)	-	(423,317)
<b>Balance at June 30, 2017</b>	₩ 3,657,652	4,143,736	(771,629)	(273,810)	21,001,186	27,757,135	6,649	27,763,784

See accompanying notes to the condensed consolidated interim financial statements.

SK HYNIX, INC. and Subsidiaries  
Condensed Consolidated Statements of Cash Flows  
For the six-month periods ended June 30, 2017 and 2016  
(Unaudited)

(In millions of won)

	<u>Note</u>	<u>2017</u>	<u>2016</u>
<b>Cash flows from operating activities</b>			
Cash generated from operating activities	32 ₩	6,528,276	2,589,295
Interest received		13,112	25,494
Interest paid		(60,946)	(64,474)
Dividends received		14,841	20,744
Income tax paid		(391,161)	(638,524)
<b>Net cash provided by operating activities</b>		<u>6,104,122</u>	<u>1,932,535</u>
<b>Cash flows from investing activities</b>			
Net change in short-term financial instruments		(269,213)	1,180,652
Collection of loans and other receivables		7,278	2,880
Increase in loans and other receivables		(8,091)	(3,002)
Proceeds from disposal of available-for-sale financial assets		672	1,455
Acquisition of available-for-sale financial assets		(9,080)	(11,424)
Decrease in other financial assets		1	-
Cash inflows from derivative transactions		410	584
Cash outflows from derivative transactions		(609)	(812)
Proceeds from disposal of property, plant and equipment		9,757	5,437
Acquisition of property, plant and equipment		(4,683,431)	(3,254,017)
Proceeds from disposal of intangible assets		985	1,577
Acquisition of intangible assets		(429,713)	(247,797)
Acquisition of investments in associates		-	(2,293)
<b>Net cash used in investing activities</b>	₩	<u>(5,381,034)</u>	<u>(2,326,760)</u>

See accompanying notes to the condensed consolidated interim financial statements.

SK HYNIX, INC. and Subsidiaries  
Condensed Consolidated Statements of Cash Flows, Continued  
For the six-month periods ended June 30, 2017 and 2016  
(Unaudited)

(In millions of won)

	<b>2017</b>	<b>2016</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	₩ 697,115	1,881,493
Repayments of borrowings	(296,171)	(1,316,912)
Dividends paid	(423,601)	(353,001)
<b>Net cash provided by (used in) financing activities</b>	<u>(22,657)</u>	<u>211,580</u>
<b>Effect of movements in exchange rates on cash and cash equivalents</b>	<u>11,786</u>	<u>(5,626)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	712,217	(188,271)
<b>Cash and cash equivalents at beginning of the period</b>	613,786	1,175,719
<b>Cash and cash equivalents at end of the period</b>	₩ <u><u>1,326,003</u></u>	<u><u>987,448</u></u>

See accompanying notes to the condensed consolidated interim financial statements.

SK HYNIX, INC. and Subsidiaries  
Notes to the Condensed Consolidated Interim Financial Statements  
**June 30, 2017 and 2016**  
(Unaudited)

**1. Reporting Entity**

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

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

As of June 30, 2017, the shareholders of the Parent Company are as follows:

<b>Shareholder</b>	<b>Number of shares</b>	<b>Percentage of ownership (%)</b>
SK Telecom Co., Ltd.	146,100,000	20.07
Share Management Council (KEB Hana Bank) <sup>1</sup>	4,707,573	0.65
National Pension Service and other investors	555,194,222	76.26
Treasury shares	22,000,570	3.02
	<u>728,002,365</u>	<u>100.00</u>

<sup>1</sup> According to the share purchase agreement dated November 14, 2011, between SK Telecom Co., Ltd. and the Share Management Council, the Share Management Council should exercise its voting right on its shares following SK Telecom Co., Ltd.'s decision in designating officers of the Company or other matters unless this conflicts with the Share Management Council's interest.

SK HYNIX, INC. and Subsidiaries  
Notes to the Condensed Consolidated Interim Financial Statements  
**June 30, 2017 and 2016**  
(Unaudited)

**1. Reporting Entity, Continued**

(2) Details of the Group's consolidated subsidiaries as of June 30, 2017 and December 31, 2016 are as follows:

Company	Location	Business	Ownership (%)	
			2017	2016
SK hyeng Inc.	Korea	Domestic subsidiary	100.00	100.00
SK hystec Inc.	Korea	Domestic subsidiary	100.00	100.00
Siliconfile Technologies Inc.	Korea	Development and manufacturing of electronic component	100.00	100.00
Happy More	Korea	Domestic subsidiary	100.00	100.00
SK hynix system ic Inc. <sup>1</sup>	Korea	Foundry business	100.00	-
SK hynix America Inc. (SKHYA)	U.S.A.	Overseas sales subsidiary	97.74	97.74
SK hynix Deutschland GmbH (SKHYD)	Germany	Overseas sales subsidiary	100.00	100.00
SK hynix U.K. Ltd. (SKHYU)	U.K.	Overseas sales subsidiary	100.00	100.00
SK hynix Asia Pte. Ltd. (SKHYS)	Singapore	Overseas sales subsidiary	100.00	100.00
SK hynix Semiconductor India Private Ltd. (SKHYIS) <sup>2</sup>	India	Overseas sales subsidiary	100.00	100.00
SK hynix Semiconductor Hong Kong Ltd. (SKHYH)	Hong Kong	Overseas sales subsidiary	100.00	100.00
SK hynix Semiconductor (Shanghai) Co., Ltd. (SKHYCS)	China	Overseas sales subsidiary	100.00	100.00
SK hynix Japan Inc. (SKHYJ)	Japan	Overseas sales subsidiary	100.00	100.00
SK hynix Semiconductor Taiwan Inc. (SKHYT)	Taiwan	Overseas sales subsidiary	100.00	100.00
SK hynix Semiconductor (China) Ltd. (SKHYCL)	China	Overseas manufacturing subsidiary	100.00	100.00
SK hynix Semiconductor (Wuxi) Ltd. (SKHYMC)	China	Overseas manufacturing subsidiary	100.00	100.00
SK hynix (Wuxi) Semiconductor Sales Ltd. (SKHYCW)	China	Overseas sales subsidiary	100.00	100.00
SK hynix Italy S.r.l (SKHYIT)	Italy	Overseas R&D center	100.00	100.00
SK hynix memory solutions Inc. (SKHMS)	U.S.A.	Overseas R&D center	100.00	100.00
SK hynix Flash Solution Taiwan (SKHYFST)	Taiwan	Overseas R&D center	100.00	100.00
SK APTECH Ltd. (SKAPTECH)	Hong Kong	Holding company	100.00	100.00
SK hynix Semiconductor (Chongqing) Ltd. (SKHYCQL) <sup>3</sup>	China	Overseas manufacturing subsidiary	100.00	100.00
Softaq Flash Solutions LLC. (SOFTEQ)	Belarus	Overseas R&D center	100.00	100.00
SK hynix Ventures Hong Kong Limited (SKH Ventures)	Hong Kong	Overseas investment subsidiary	100.00	100.00
MMT (Money Market Trust)	Korea	Money Market Trust	100.00	100.00

<sup>1</sup> SK hynix system ic Inc. was established during the six-month period ended June 30, 2017.

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

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

SK HYNIX, INC. and Subsidiaries  
Notes to the Condensed Consolidated Interim Financial Statements  
**June 30, 2017 and 2016**  
(Unaudited)

(3) Changes in consolidated subsidiaries during the six-month period ended June 30, 2017 are as follows.

	<b>Company</b>	<b>Reason</b>
Newly included	SK hynix system ic Inc.	Newly established

(4) Major subsidiaries' summarized separate statements of financial position as of June 30, 2017 and December 31, 2016 are as follows:

(In millions of won)

	<b>2017</b>			<b>2016</b>		
	<b>Assets</b>	<b>Liabilities</b>	<b>Equity</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Equity</b>
SK hynix America Inc. (SKHYA)	₩ 1,789,773	1,481,946	307,827	1,584,043	1,279,493	304,550
SK hynix Asia Pte. Ltd. (SKHYS)	523,593	447,512	76,081	337,506	253,918	83,588
SK hynix Semiconductor Hong Kong Ltd. (SKHYH)	1,132,320	1,018,675	113,645	932,437	810,556	121,881
SK hynix Semiconductor (Shanghai) Co., Ltd. (SKHYCS)	66,816	35,453	31,363	46,177	18,595	27,582
SK hynix Japan Inc. (SKHYJ)	708,824	643,459	65,365	251,274	184,504	66,770
SK hynix Semiconductor Taiwan Inc. (SKHYT)	528,876	537,371	(8,495)	310,933	290,174	20,759
SK hynix Semiconductor (China) Ltd. (SKHYCL)	3,405,199	231,094	3,174,105	3,476,086	232,117	3,243,969
SK hynix Deutschland GmbH (SKHYD)	94,601	54,191	40,410	83,388	45,575	37,813
SK hynix U.K. Ltd. (SKHYU)	272,873	256,582	16,291	146,327	128,807	17,520
SK hynix Semiconductor (Chongqing) Ltd. (SKHYCQL)	355,560	174,172	181,388	350,305	171,088	179,217

SK HYNIX, INC. and Subsidiaries  
Notes to the Condensed Consolidated Interim Financial Statements  
**June 30, 2017 and 2016**  
(Unaudited)

**1. Reporting Entity, Continued**

(5) Major subsidiaries' summarized separate statements of comprehensive income (loss) for the six-month periods ended June 30, 2017 and 2016 are as follows:

*(In millions of won)*

	2017			2016		
	Revenue	Profit (loss)	Total comprehensive income (loss)	Revenue	Profit (loss)	Total comprehensive income (loss)
SK hynix America Inc. (SKHYA)	4,448,087	20,684	20,684	2,073,721	306	306
SK hynix Asia Pte. Ltd. (SKHYS)	1,118,498	(2,777)	(2,777)	697,097	1,576	1,576
SK hynix Semiconductor Hong Kong Ltd. (SKHYH)	4,298,444	(544)	(544)	2,459,831	4,943	4,943
SK hynix Semiconductor (Shanghai) Co., Ltd. (SKHYCS)	122,164	4,614	4,614	243,846	2,761	2,761
SK hynix Japan Inc. (SKHYJ)	419,870	(164)	(164)	351,110	(5,844)	(5,844)
SK hynix Semiconductor Taiwan Inc. (SKHYT)	1,269,055	(26,581)	(26,581)	867,547	(1,817)	(1,817)
SK hynix Semiconductor (China) Ltd. (SKHYCL)	1,048,604	32,288	32,288	1,081,818	43,742	43,742
SK hynix Deutschland GmbH (SKHYD)	231,116	1,433	1,433	153,694	572	572
SK hynix U.K. Ltd. (SKHYU)	483,443	(230)	(230)	250,101	(863)	(863)
SK hynix Semiconductor (Chongqing) Ltd. (SKHYCQL)	159,492	7,765	7,765	140,967	3,517	3,517

(6) There are no significant non-controlling interests to the Group as of June 30, 2017 and December 31, 2016.



SK HYNIX, INC. and Subsidiaries  
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**2. Basis of Preparation**

(1) Statement of compliance

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

These condensed consolidated interim financial statements were prepared in accordance with K-IFRS No. 1034, 'Interim Financial Reporting' as part of the period covered by the Group's K-IFRS annual financial statements. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as of and for the year ended December 31, 2016. These condensed consolidated interim financial statements do not include all of the disclosures required for full annual financial statements.

(2) Use of estimates and judgments

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

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as of and for the year ended December 31, 2016.

**3. Significant Accounting Policies**

The accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as of and for the year ended December 31, 2016.

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

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

(1) Details of the Group's revenue for the three and six-month periods ended June 30, 2017 and 2016 are as follows:

(In millions of won)

		2017		2016	
		Three-month period	Six-month period	Three-month period	Six-month period
Sale of goods	₩	6,675,557	12,950,215	3,929,166	7,573,809
Sale of services		16,721	31,581	11,761	22,835
	₩	<u>6,692,278</u>	<u>12,981,796</u>	<u>3,940,927</u>	<u>7,596,644</u>

(2) Details of the Group's revenue by product and service types for the three and six-month periods ended June 30, 2017 and 2016 are as follows:

(In millions of won)

		2017		2016	
		Three-month period	Six-month period	Three-month period	Six-month period
DRAM	₩	5,079,453	9,734,032	2,793,368	5,559,982
NAND Flash		1,493,963	2,995,555	1,026,372	1,805,333
Other		118,862	252,209	121,187	231,329
	₩	<u>6,692,278</u>	<u>12,981,796</u>	<u>3,940,927</u>	<u>7,596,644</u>

(3) The Group's revenue information by region based on the location of selling entities for the three and six-month periods ended June 30, 2017 and 2016 are as follows:

(In millions of won)

		2017		2016	
		Three-month period	Six-month period	Three-month period	Six-month period
Korea	₩	257,666	635,181	264,792	549,333
China		2,216,747	4,417,241	1,428,898	2,680,445
Taiwan		674,089	1,266,538	458,371	862,019
Asia (other than China and Taiwan)		842,162	1,536,924	515,575	1,044,065
U.S.A.		2,321,911	4,413,798	1,083,562	2,057,843
Europe		379,703	712,114	189,729	402,939
	₩	<u>6,692,278</u>	<u>12,981,796</u>	<u>3,940,927</u>	<u>7,596,644</u>

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## Notes to the Condensed Consolidated Interim Financial Statements

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

(4) The Group's non-current assets (excluding financial assets, equity-accounted investees and deferred tax assets) information by region based on the location of subsidiaries as of June 30, 2017 and December 31, 2016 are as follows:

(In millions of won)

		<b>2017</b>	<b>2016</b>
Korea	₩	20,868,270	18,078,337
China		2,899,982	2,805,712
Taiwan		6,189	6,835
Asia (other than China and Taiwan)		1,330	1,522
U.S.A.		338,089	364,188
Europe		8,856	9,374
	₩	<u>24,122,716</u>	<u>21,265,968</u>

(5) Revenues from customers "A" and "B" that each constitute more than 10% of the Group's consolidated revenue for the six-month period ended June 30, 2017 amount to ₩1,503,427 million (2016: ₩583,737 million) and ₩1,472,969 million (2016: ₩674,698 million), respectively.

### 5. Categories of Financial Instruments

(1) Categories of financial assets as of June 30, 2017 and December 31, 2016 are as follows:

(In millions of won)

		<b>2017</b>			
		<b>Financial assets at fair value through profit or loss</b>	<b>Available-for- sale financial assets</b>	<b>Loans and receivables</b>	<b>Total</b>
Cash and cash equivalents	₩	-	-	1,326,003	1,326,003
Short-term financial instruments		1,335,095	-	2,462,892	3,797,987
Trade receivables		-	-	4,257,266	4,257,266
Loans and other receivables		-	-	79,194	79,194
Other financial assets		-	-	420	420
Available-for-sale financial assets		-	156,078	-	156,078
	₩	<u>1,335,095</u>	<u>156,078</u>	<u>8,125,775</u>	<u>9,616,948</u>

(In millions of won)

		<b>2016</b>			
		<b>Financial assets at fair value through profit or loss</b>	<b>Available-for- sale financial assets</b>	<b>Loans and receivables</b>	<b>Total</b>
Cash and cash equivalents	₩	-	-	613,786	613,786
Short-term financial instruments		1,570,172	-	1,951,721	3,521,893
Trade receivables		-	-	3,251,652	3,251,652
Loans and other receivables		-	-	65,101	65,101
Other financial assets		-	-	423	423
Available-for-sale financial assets		-	147,779	-	147,779
	₩	<u>1,570,172</u>	<u>147,779</u>	<u>5,882,683</u>	<u>7,600,634</u>

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

(2) Categories of financial liabilities as of June 30, 2017 and December 31, 2016 are as follows:

(In millions of won)

	<b>2017</b>		
	<b>Financial liabilities at fair value through profit or loss</b>	<b>Financial liabilities measured at amortized cost</b>	<b>Total</b>
Trade payables	₩ -	881,924	881,924
Other payables	-	1,812,735	1,812,735
Other non-trade payables <sup>1</sup>	-	818,899	818,899
Borrowings	-	4,622,063	4,622,063
Other financial liabilities	100	-	100
	<b>₩ 100</b>	<b>8,135,621</b>	<b>8,135,721</b>

(In millions of won)

	<b>2016</b>		
	<b>Financial liabilities at fair value through profit or loss</b>	<b>Financial liabilities measured at amortized cost</b>	<b>Total</b>
Trade payables	₩ -	696,144	696,144
Other payables	-	1,606,417	1,606,417
Other non-trade payables <sup>1</sup>	-	712,580	712,580
Borrowings	-	4,335,978	4,335,978
Other financial liabilities	288	-	288
	<b>₩ 288</b>	<b>7,351,119</b>	<b>7,351,407</b>

<sup>1</sup> Details of other non-trade payables as of June 30, 2017 and December 31, 2016 are as follows:

(In millions of won)

	<b>2017</b>	<b>2016</b>
<b>Current</b>		
Accrued expenses	₩ 815,782	685,154
<b>Non-current</b>		
Rent deposit payables	3,117	2,554
Long-term other payables	-	24,872
	<b>₩ 3,117</b>	<b>27,426</b>
	<b>₩ 818,899</b>	<b>712,580</b>

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**6. Financial Risk Management**

(1) Financial risk management

The Group's activities are exposed to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The interim financial statements do not include all the financial risk management policies and disclosures that are required in the annual financial statements. There is no significant change in risk management policies for the six-month period ended June 30, 2017.

(a) Market risk

(i) Foreign exchange risk

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

Monetary foreign currency assets and liabilities as of June 30, 2017 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	6,448	₩ 7,348,568	4,421	₩ 5,037,805
EUR	9	12,241	42	54,485
JPY	7,033	71,563	69,735	709,588

As of June 30, 2017, the impacts from foreign exchange risks on each monetary foreign currency assets and liabilities assuming change in exchange rate by 10% are as follows:

*(In millions of won)*

	<b>If increased by 10%</b>	<b>If decreased by 10%</b>
USD	₩ 231,076	(231,076)
EUR	(4,224)	4,224
JPY	(63,803)	63,803

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**6. Financial Risk Management, Continued**

(1) Financial risk management, Continued

(ii) Interest rate risk

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

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

As of June 30, 2017, the Group is partially exposed to the risk of fluctuation of net interest expenses arisen from change in interest rates. If interest rates on borrowings had been 100 basis points higher/lower with all other variables held constant, profit before income tax for the next six-month period would have been ₩ 11,178 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 June 30, 2017, there are no available-for-sale equity securities measured at fair value held by the Group. Accordingly, the Group is not exposed to any equity securities price risk.

(b) Credit risk

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

(i) Trade and other receivables

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

The Group reviews at the end of each reporting period whether trade and other receivables are impaired and maintains credit insurance policies to manage credit risk exposure from oversea customers. The maximum exposure to credit risk as of June 30, 2017 is the carrying amount of trade and other receivables.

(ii) Other financial assets

Credit risk also arises from other financial assets such as cash and cash equivalents, short-term financial instruments, and deposits with banks and financial institutions as well as short-term and long-term loans mainly due to the bankruptcy of each counterparty to those financial assets. The maximum exposure to credit risk as of June 30, 2017 is the carrying amount of those financial assets. The Group transacts only with banks and financial institutions with high credit ratings, and accordingly management does not expect any significant loss from non-performance by the counterparties.

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**6. Financial Risk Management, Continued**

(1) Financial risk management, Continued

(c) Liquidity risk

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

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

(2) Capital management

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

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

The debt-to-equity ratio and net borrowing ratio as of June 30, 2017 and December 31, 2016 are as follows:

*(In millions of won)*

	<b>2017</b>	<b>2016</b>
Total liabilities (A)	₩ 9,737,793	8,192,496
Total equity (B)	27,763,784	24,023,530
Cash and cash equivalents and short-term financial instruments (C)	5,123,990	4,135,679
Total borrowings (D)	4,622,063	4,335,978
Debt-to-equity ratio (A/B)	35%	34%
Net borrowing ratio (D-C)/B	-	1%

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**6. Financial Risk Management, Continued**

(3) Fair value

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

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

(a) The following table presents the carrying amounts and fair values of financial instruments by categories, including their levels in the fair value hierarchy, as of June 30, 2017 and December 31, 2016:

(In millions of won)

	Carrying amounts	2017			Total
		Level 1	Level 2	Level 3	
<b>Financial assets measured at fair value</b>					
Short-term financial instruments	₩ 1,335,095	-	1,335,095	-	1,335,095
	<u>1,335,095</u>	<u>-</u>	<u>1,335,095</u>	<u>-</u>	<u>1,335,095</u>
<b>Financial assets not measured at fair value</b>					
Cash and cash equivalents <sup>1</sup>	1,326,003	-	-	-	-
Short-term financial instruments <sup>1</sup>	2,462,892	-	-	-	-
Trade receivables <sup>1</sup>	4,257,266	-	-	-	-
Loans and other receivables <sup>1</sup>	79,194	-	-	-	-
Other financial assets <sup>1</sup>	420	-	-	-	-
Available-for-sale financial assets <sup>1,2</sup>	156,078	-	-	-	-
	<u>8,281,853</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Financial liabilities measured at fair value</b>					
Other financial liabilities	100	-	100	-	100
	<u>100</u>	<u>-</u>	<u>100</u>	<u>-</u>	<u>100</u>
<b>Financial liabilities not measured at fair value</b>					
Trade payables <sup>1</sup>	881,924	-	-	-	-
Other payables <sup>1</sup>	1,812,735	-	-	-	-
Other non-trade payables <sup>1</sup>	818,899	-	-	-	-
Borrowings	4,622,063	-	4,622,063	-	4,622,063
	₩ <u>8,135,621</u>	<u>-</u>	<u>4,622,063</u>	<u>-</u>	<u>4,622,063</u>



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**6. Financial Risk Management, Continued**

(In millions of won)

	Carrying amounts	2016			
		Level 1	Level 2	Level 3	Total
<b>Financial assets measured at fair value</b>					
Short-term financial instruments	₩ 1,570,172	-	1,570,172	-	1,570,172
	<u>1,570,172</u>	<u>-</u>	<u>1,570,172</u>	<u>-</u>	<u>1,570,172</u>
<b>Financial assets not measured at fair value</b>					
Cash and cash equivalents <sup>1</sup>	613,786	-	-	-	-
Short-term financial instruments <sup>1</sup>	1,951,721	-	-	-	-
Trade receivables <sup>1</sup>	3,251,652	-	-	-	-
Loans and other receivables <sup>1</sup>	65,101	-	-	-	-
Other financial assets <sup>1</sup>	423	-	-	-	-
Available-for-sale financial assets <sup>1,2</sup>	147,779	-	-	-	-
	<u>6,030,462</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Financial liabilities measured at fair value</b>					
Other financial liabilities	288	-	288	-	288
	<u>288</u>	<u>-</u>	<u>288</u>	<u>-</u>	<u>288</u>
<b>Financial liabilities not measured at fair value</b>					
Trade payables <sup>1</sup>	696,144	-	-	-	-
Other payables <sup>1</sup>	1,606,417	-	-	-	-
Other non-trade payables <sup>1</sup>	712,580	-	-	-	-
Borrowings	4,335,978	-	4,366,234	-	4,366,234
	<u>₩ 7,351,119</u>	<u>-</u>	<u>4,366,234</u>	<u>-</u>	<u>4,366,234</u>

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

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

(b) The valuation techniques used to measure financial instruments with fair value level 2 are the same as those applied by the Group in its consolidated financial statements as of and for the year ended December 31, 2016.

(c) There was no transfer between fair value hierarchy levels for the six-month period ended June 30, 2017.

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**7. Restricted Financial Instruments**

Details of restricted financial instruments as of June 30, 2017 and December 31, 2016 are as follows:

*(In millions of won)*

	<b>2017</b>	<b>2016</b>	<b>Description</b>
Short-term financial instruments	₩ 77,500	77,500	Restricted for supporting small businesses
	6,105	6,220	Pledged for consumption tax
	<u>83,605</u>	<u>83,720</u>	
Other financial assets	308	308	Pledged for borrowings
	11	12	Bank overdraft guarantee deposit
	101	104	Others
	<u>420</u>	<u>424</u>	
	<u>₩ 84,025</u>	<u>84,144</u>	

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

(1) Details of loans and other receivables as of June 30, 2017 and December 31, 2016 are as follows:

(In millions of won)

	<b>2017</b>	<b>2016</b>
<b>Current</b>		
Other receivables	₩ 18,897	11,571
Accrued income	15,969	9,732
Short-term loans	2,810	3,145
Short-term guarantees	1,340	1,163
	<u>39,016</u>	<u>25,611</u>
<b>Non-current</b>		
Long-term other receivables	59	60
Long-term loans	5,657	6,008
Guarantee deposits	34,310	33,261
Others	152	161
	<u>40,178</u>	<u>39,490</u>
	<u>₩ 79,194</u>	<u>65,101</u>

(2) Trade receivables and loans and other receivables, net of provision for impairment, as of June 30, 2017 and December 31, 2016 are as follows:

(In millions of won)

	<b>2017</b>		
	<b>Gross amount</b>	<b>Provision for impairment</b>	<b>Carrying amount</b>
Trade receivables	₩ 4,259,366	(2,100)	4,257,266
Current loans and other receivables	40,541	(1,525)	39,016
Non-current loans and other receivables	41,605	(1,427)	40,178
	<u>₩ 4,341,512</u>	<u>(5,052)</u>	<u>4,336,460</u>

(In millions of won)

	<b>2016</b>		
	<b>Gross amount</b>	<b>Provision for impairment</b>	<b>Carrying amount</b>
Trade receivables	₩ 3,253,489	(1,837)	3,251,652
Current loans and other receivables	26,982	(1,371)	25,611
Non-current loans and other receivables	40,966	(1,476)	39,490
	<u>₩ 3,321,437</u>	<u>(4,684)</u>	<u>3,316,753</u>

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

(3) Details of provision for impairment

Movements in the provision for impairment of trade receivables for the six-month periods ended June 30, 2017 and 2016 are as follows:

*(In millions of won)*

	<b>2017</b>	<b>2016</b>
<b>Beginning balance</b>	₩ 1,837	2,974
Provision	263	-
Unused amounts reversed	-	(151)
Foreign exchange difference	-	6
<b>Ending balance</b>	₩ 2,100	2,829

Movements in the provision for impairment of current loans and other receivables for the six-month periods ended June 30, 2017 and 2016 are as follows:

*(In millions of won)*

	<b>2017</b>	<b>2016</b>
<b>Beginning balance</b>	₩ 1,371	1,433
Provision	154	-
Unused amounts reversed	-	(54)
<b>Ending balance</b>	₩ 1,525	1,379

Movements in the provision for impairment of non-current loans and other receivables for the six-month periods ended June 30, 2017 and 2016 are as follows:

*(In millions of won)*

	<b>2017</b>	<b>2016</b>
<b>Beginning balance</b>	₩ 1,476	6,143
Provision	12	17
Foreign exchange difference	(61)	(7)
<b>Ending balance</b>	₩ 1,427	6,153

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**9. Inventories**

Details of inventories as of June 30, 2017 and December 31, 2016 are as follows:

(In millions of won)

		<b>2017</b>		
		<b>Acquisition cost</b>	<b>Inventory valuation allowance</b>	<b>Carrying amount</b>
Finished goods	₩	575,197	(88,317)	486,880
Work-in-process		1,436,151	(26,369)	1,409,782
Raw materials		295,201	(16,604)	278,597
Supplies		222,624	(25)	222,599
Goods in transit		26,148	-	26,148
	₩	<u>2,555,321</u>	<u>(131,315)</u>	<u>2,424,006</u>

(In millions of won)

		<b>2016</b>		
		<b>Acquisition cost</b>	<b>Inventory valuation Allowance</b>	<b>Carrying amount</b>
Finished goods	₩	429,348	(37,845)	391,503
Work-in-process		1,153,100	(22,607)	1,130,493
Raw materials		264,402	(3,725)	260,677
Supplies		194,701	(23)	194,678
Goods in transit		48,847	-	48,847
	₩	<u>2,090,398</u>	<u>(64,200)</u>	<u>2,026,198</u>

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

Details of other current and non-current assets as of June 30, 2017 and December 31, 2016 are as follows:

(In millions of won)

		<b>2017</b>	<b>2016</b>
<b>Current</b>			
Advance payments	₩	3,068	1,853
Prepaid expenses		221,400	238,831
Value added tax refundable		213,811	148,756
Others		7,520	9,913
		<u>445,799</u>	<u>399,353</u>
<b>Non-current</b>			
Long-term prepaid expenses		562,179	568,907
Others		-	1,495
		<u>562,179</u>	<u>570,402</u>
	₩	<u>1,007,978</u>	<u>969,755</u>

# SK HYNIX, INC. and Subsidiaries

## Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2017 and 2016

(Unaudited)

### 11. Investments in Associates and Joint Ventures

(1) Details of investments in associates and joint ventures as of June 30, 2017 and December 31, 2016 are as follows:

(In millions of won)

Type	Investee	Ownership (%) in 2017	2017		2016
			Net asset Value	Carrying amount	Carrying amount
Associate	Stratio, Inc. <sup>1</sup>	9.10	₩ 137	2,137	2,151
	Gemini Partners Pte. Ltd.	20.00	3,086	4,781	5,199
	TCL Fund <sup>2</sup>	11.06	2,154	2,154	2,219
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd. (HITECH)	45.00	104,272	104,272	121,447
			₩	113,344	131,016

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

<sup>2</sup> TCL Fund is classified as an associate because the Parent Company has significant influence over TCL Fund's financial and operating policies through its right to appoint a member of the board of directors.

(2) Changes in investments in associates and joint ventures for the six-month periods ended June 30, 2017 and 2016 are as follows:

(In millions of won)

		2017					Ending balance
		Beginning balance	Acquisition	Share of profit (loss)	Other equity movement	Dividend	
Stratio, Inc.	₩	2,151	-	(5)	(9)	-	2,137
Gemini Partners Pte. Ltd.		5,199	-	(386)	(32)	-	4,781
TCL Fund		2,219	-	6	(71)	-	2,154
HITECH		121,447	-	4,888	(7,235)	(14,828)	104,272
	₩	131,016	-	4,503	(7,347)	(14,828)	113,344

(In millions of won)

		2016					Ending balance
		Beginning balance	Acquisition	Share of profit (loss)	Other equity movement	Dividend	
Stratio, Inc.	₩	2,171	-	(4)	(2)	-	2,165
Gemini Partners Pte. Ltd.		7,976	-	(492)	371	-	7,855
TCL Fund		-	2,293	-	(106)	-	2,187
HITECH		112,462	-	14,677	(629)	(20,727)	105,783
	₩	122,609	2,293	14,181	(366)	(20,727)	117,990

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

(3) Condensed statements of financial position of associates and joint ventures as of June 30, 2017 and December 31, 2016 are as follows:

(In millions of won)

		<b>2017</b>			
		<b>Current assets</b>	<b>Non-current assets</b>	<b>Current liabilities</b>	<b>Non-current liabilities</b>
Stratio, Inc.	₩	1,439	72	1	-
Gemini Partners Pte. Ltd.		11,311	4,198	80	-
TCL Fund		15,729	3,740	-	-
HITECH		210,163	353,796	92,546	239,697

(In millions of won)

		<b>2016</b>			
		<b>Current assets</b>	<b>Non-current assets</b>	<b>Current liabilities</b>	<b>Non-current liabilities</b>
Stratio, Inc.	₩	998	686	27	-
Gemini Partners Pte. Ltd.		13,047	4,467	93	-
TCL Fund		16,388	3,993	329	-
HITECH		184,048	350,094	82,581	181,679

(4) Condensed statements of comprehensive income (loss) of associates and joint ventures for the six-month periods ended June 30, 2017 and 2016 are as follows:

(In millions of won)

		<b>2017</b>		<b>2016</b>	
		<b>Revenue</b>	<b>Profit (loss) for the period</b>	<b>Revenue</b>	<b>Profit (loss) for the period</b>
Stratio, Inc.	₩	30	(52)	-	(34)
Gemini Partners Pte. Ltd		182	(1,932)	-	(2,460)
TCL Fund		-	56	-	-
HITECH		290,044	10,863	290,649	32,614

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

Changes in the carrying amount of available-for-sale financial assets for the six-month periods ended June 30, 2017 and 2016 are as follows:

(In millions of won)

	<b>2017</b>	<b>2016</b>
<b>Beginning balance</b>	₩ 147,779	131,354
Acquisition	9,080	11,424
Disposal	(672)	(1,455)
Foreign exchange difference	(109)	-
<b>Ending balance</b>	₩ 156,078	141,323

**13. Property, Plant and Equipment**

(1) Changes in property, plant and equipment for the six-month periods ended June 30, 2017 and 2016 are as follows:

(In millions of won)

	<b>2017</b>	<b>2016</b>
<b>Beginning balance</b>	₩ 18,777,402	16,966,252
Acquisition	4,932,739	3,068,443
Disposal	(5,597)	(10,941)
Depreciation	(2,220,296)	(2,018,425)
Impairment	-	(3,746)
Foreign exchange difference and other	(88,963)	(64,795)
<b>Ending balance</b>	₩ 21,395,285	17,936,788

(2) Certain property, plant and equipment are pledged as collaterals for borrowings of the Group as of June 30, 2017 (Note 31).

(3) Finance lease and operating lease

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

The book value of the machinery and others subject to finance lease agreement amounted to ₩80,301 million as of June 30, 2017 (as of December 31, 2016: ₩67,245 million). The machinery and others are pledged as collateral for the finance lease liabilities.

As of June 30, 2017, the Group is using machinery and equipment from Macquarie Capital, etc. under operating lease contracts. The payment schedule for each period is as follows.

(In millions of won)

	<b>Minimum lease payments</b>
Within 1 year	₩ 140,328
After 1 year	125,231
	₩ 265,559



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**14. Intangible Assets**

(1) Changes in intangible assets for the six-month periods ended June 30, 2017 and 2016 are as follows:

(In millions of won)

	<b>2017</b>	<b>2016</b>
<b>Beginning balance</b>	₩ 1,915,591	1,704,896
Acquisition	429,713	247,797
Disposal	(4,181)	(3,273)
Amortization	(158,692)	(186,600)
Impairment	-	(37)
Foreign exchange difference and other	(19,700)	(2,219)
<b>Ending balance</b>	<u>₩ 2,162,731</u>	<u>1,760,564</u>

(2) Among costs associated with development activities, ₩295,605 million that met capitalization criteria were capitalized as development cost for the six-month period ended June 30, 2017 (2016: ₩160,390 million). In addition, costs associated with research activities and other development expenditures that did not meet the criteria and amounted to ₩866,977 million were recognized as expenses for the six-month period ended June 30, 2017 (2016: ₩871,602 million).

**15. Investment Property**

(1) Changes in investment property during the six-month periods ended June 30, 2017 and 2016 are as follows:

(In millions of won)

	<b>2017</b>	<b>2016</b>
<b>Beginning balance</b>	₩ 2,573	2,679
Depreciation	(52)	(53)
<b>Ending balance</b>	<u>₩ 2,521</u>	<u>2,626</u>

(2) The depreciation expense of ₩52 million was charged to cost of sales for the six-month period ended June 30, 2017 (2016: ₩53 million).

(3) Rental income from investment property during the six-month period ended June 30, 2017 was ₩248 million (2016: ₩252 million).

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**16. Borrowings**

(1) Details of borrowings as of June 30, 2017 and December 31, 2016 are as follows:

(In millions of won)

	<b>2017</b>	<b>2016</b>
<b>Current</b>		
Short-term borrowings	₩ 125,327	-
Current installments of long-term borrowings	351,763	384,124
Current installments of debentures	349,721	320,736
	<u>826,811</u>	<u>704,860</u>
<b>Non-current</b>		
Long-term borrowings	2,408,805	2,095,737
Debentures	1,386,447	1,535,381
	<u>3,795,252</u>	<u>3,631,118</u>
	<u>₩ 4,622,063</u>	<u>4,335,978</u>

(2) Changes in borrowings during the six-month periods ended June 30, 2017 and 2016 are as follows:

(In millions of won)

	<b>2017</b>	<b>2016</b>
<b>Beginning balance</b>	₩ 4,335,978	3,818,595
Borrowings	697,115	1,881,493
Repayments	(296,171)	(1,316,912)
Other <sup>1</sup>	(114,859)	(27,801)
<b>Ending balance</b>	<u>₩ 4,622,063</u>	<u>4,355,375</u>

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

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

Details of other current and non-current liabilities as of June 30, 2017 and December 31, 2016 are as follows:

(In millions of won)

	<b>2017</b>	<b>2016</b>
<b>Current</b>		
Advance receipts	₩ 6,325	3,781
Unearned income	154	228
Withholdings	30,489	42,622
Deposits received	822	1,539
Others	2,558	2,328
	<u>40,348</u>	<u>50,498</u>
<b>Non-current</b>		
Other long-term employee benefits	62,304	61,883
	<u>₩ 102,652</u>	<u>112,381</u>

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**18. Provisions**

(1) Changes in provisions for the six-month periods ended June 30, 2017 and 2016 are as follows:

(In millions of won)

		<b>2017</b>				
		<b>Beginning Balance</b>	<b>Increase</b>	<b>Utilization</b>	<b>Reversal</b>	<b>Ending Balance</b>
Warranty	₩	2,997	1,613	(553)	-	4,057
Sales returns		13,317	56,355	(46,173)	-	23,499
Legal claims		400	-	-	-	400
Emission allowances		26,108	-	(694)	(2,498)	22,916
	₩	<u>42,822</u>	<u>57,968</u>	<u>(47,420)</u>	<u>(2,498)</u>	<u>50,872</u>

(In millions of won)

		<b>2016</b>				
		<b>Beginning balance</b>	<b>Increase</b>	<b>Utilization</b>	<b>Others<sup>1</sup></b>	<b>Ending Balance</b>
Warranty	₩	2,936	14,568	(14,396)	-	3,108
Sales returns		14,736	18,047	(20,265)	-	12,518
Legal claims		1,523	-	(1,097)	(426)	-
Emission allowances <sup>2</sup>		6,081	8,679	(1,339)	-	13,421
	₩	<u>25,276</u>	<u>41,294</u>	<u>(37,097)</u>	<u>(426)</u>	<u>29,047</u>

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

(2) Provisions for warranty

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

(3) Provisions for sales returns

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

(4) Provisions for legal claims

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

(5) Provision for emission allowances

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

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**19. Defined Benefit Liabilities**

(1) Details of defined benefit liabilities as of June 30, 2017 and December 31, 2016 are as follows:

(In millions of won)

	<b>2017</b>	<b>2016</b>
Present value of defined benefit obligations	₩ 1,271,687	1,195,047
Fair value of plan assets	(881,725)	(888,559)
	<u>₩ 389,962</u>	<u>306,488</u>

(2) Principal actuarial assumptions as of June 30, 2017 and December 31, 2016 are as follows:

	<b>2017</b>	<b>2016</b>
Discount rate for defined benefit obligations	3.09 ~ 4.10%	3.09% ~ 4.10%
Expected rate of salary increase	2.20 ~ 5.48%	2.20% ~ 5.48%

(3) Changes in defined benefit obligations for the six-month periods ended June 30, 2017 and 2016 are as follows:

(In millions of won)

	<b>2017</b>	<b>2016</b>
<b>Beginning balance</b>	₩ 1,195,047	1,055,340
Current service cost	76,844	76,266
Interest cost	23,502	20,767
Past service credit	(1,213)	-
Transferred from associates	220	158
Benefits paid	(22,714)	(17,044)
Others	1	77
<b>Ending balance</b>	<u>₩ 1,271,687</u>	<u>1,135,564</u>

(4) Changes in plan assets for the six-month periods ended June 30, 2017 and 2016 are as follows:

(In millions of won)

	<b>2017</b>	<b>2016</b>
<b>Beginning balance</b>	₩ 888,559	570,363
Interest income	17,461	11,177
Contributions	-	77
Transferred from associates	226	135
Benefits paid	(16,210)	(12,140)
Remeasurements	(8,311)	(4,275)
<b>Ending balance</b>	<u>₩ 881,725</u>	<u>565,337</u>

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**19. Defined Benefit Liabilities, Continued**

(5) The amounts recognized in profit or loss for the three and six-month periods ended June 30, 2017 and 2016 are as follows:

(In millions of won)

	<b>2017</b>		<b>2016</b>	
	<b>Three-month period</b>	<b>Six-month period</b>	<b>Three-month period</b>	<b>Six-month period</b>
Current service cost	₩ 38,409	76,844	38,114	76,266
Net interest cost	3,020	6,041	4,795	9,590
Past service credit	(1,213)	(1,213)	-	-
	₩ <u>40,216</u>	<u>81,672</u>	<u>42,909</u>	<u>85,856</u>

(6) Details of plan assets as of June 30, 2017 and December 31, 2016 are as follows:

(In millions of won)

	<b>2017</b>	<b>2016</b>
Deposits	₩ 880,330	887,074
Other	1,395	1,485
	₩ <u>881,725</u>	<u>888,559</u>

Actual return on plan assets for the six-month periods ended June 30, 2017 and 2016 amounted to ₩9,149 million and ₩6,902 million, respectively.

(7) The Group adopted defined contribution retirement pension for the employees subject to peak wage system. Contributions to defined contribution plans amounting to ₩32 million was recognized as cost of sales for the six-month period ended June 30, 2017.

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**20. Derivative Financial Instruments**

(1) The Group has managed financial risk including interest rate risk through interest rates swaps. Details of derivative financial assets and liabilities as of June 30, 2017 and December 31, 2016 are as follows:

(In millions of won)

		2017	2016
<b>Current</b>			
Interest rates swap	₩	100	288

(2) Details of gains and losses from derivative instruments for the three and six-month periods ended June 30, 2017 and 2016 are follows:

(In millions of won)

	Gain on valuation			
	2017		2016	
	Three-month period	Six-month period	Three-month period	Six-month period
Interest rates swap	₩ 89	188	60	120

(In millions of won)

	Loss on valuation			
	2017		2016	
	Three-month period	Six-month period	Three-month period	Six-month period
Interest rates swap	₩ -	-	-	-

(In millions of won)

	Gain on transaction			
	2017		2016	
	Three-month period	Six-month period	Three-month period	Six-month period
Interest rates swap	₩ 207	410	297	584

(In millions of won)

	Loss on transaction			
	2017		2016	
	Three-month period	Six-month period	Three-month period	Six-month period
Interest rates swap	₩ 301	609	406	812

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

(1) Details of capital stock, capital surplus and other equity as of June 30, 2017 and December 31, 2016 are as follows:

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

	<b>2017</b>	<b>2016</b>
Authorized shares	9,000,000	9,000,000
Issued shares <sup>1</sup>	731,530	731,530
Capital stock:		
Common stock	₩ 3,657,652	3,657,652
Capital surplus:		
Additional paid-in capital	3,625,797	3,625,797
Others	517,939	517,939
	₩ <u>4,143,736</u>	<u>4,143,736</u>
Other equity:		
Acquisition cost of treasury shares	₩ (771,913)	(771,913)
Stock option	284	-
	₩ <u>(771,629)</u>	<u>(771,913)</u>
Number of treasury shares	22,001	22,001

<sup>1</sup> As of June 30, 2017, the number of outstanding shares is 728,002 thousand shares, which differs from total issued shares due to stock retirement.

(2) There are no changes in number of outstanding shares for the six-month period ended June 30, 2017 and for the year ended December 31, 2016.

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**22. Accumulated Other Comprehensive Loss**

(1) Details of accumulated other comprehensive loss as of June 30, 2017 and December 31, 2016 are as follows:

(In millions of won)

	<u>2017</u>	<u>2016</u>
Equity-accounted investees – share of other comprehensive income (loss)	₩ (1,403)	5,944
Foreign operations – foreign currency translation differences	(272,407)	(85,047)
	<u>₩ (273,810)</u>	<u>(79,103)</u>

(2) Changes in accumulated other comprehensive income (loss) for the six-month periods ended June 30, 2017 and 2016 are as follows:

(In millions of won)

	<u>2017</u>		
	<u>Beginning</u>	<u>Change</u>	<u>Ending</u>
Equity-accounted investees – share of other comprehensive income (loss)	₩ 5,944	(7,347)	(1,403)
Foreign operations – foreign currency translation differences	(85,047)	(187,360)	(272,407)
	<u>₩ (79,103)</u>	<u>(194,707)</u>	<u>(273,810)</u>

(In millions of won)

	<u>2016</u>		
	<u>Beginning</u>	<u>Change</u>	<u>Ending</u>
Equity-accounted investees – share of other comprehensive income	₩ 1,856	(366)	1,490
Foreign operations – foreign currency translation differences	(3,456)	(62,397)	(65,853)
	<u>₩ (1,600)</u>	<u>(62,763)</u>	<u>(64,363)</u>

**23. Retained Earnings**

Retained earnings as of June 30, 2017 and December 31, 2016 are as follows:

(In millions of won)

	<u>2017</u>	<u>2016</u>
Legal reserve <sup>1</sup>	₩ 108,354	65,994
Discretionary reserve <sup>2</sup>	235,506	235,506
Unappropriated retained earnings <sup>3</sup>	20,657,326	16,765,083
	<u>₩ 21,001,186</u>	<u>17,066,583</u>

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

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

<sup>3</sup> Dividends in the amount of ₩423,601 million were approved at shareholders' meeting held on March 24, 2017 and paid during the six-month period ended June 30, 2017.



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**24. Selling and Administrative Expenses**

Selling and administrative expenses for the three and six-month periods ended June 30, 2017 and 2016 are as follows:

(In millions of won)

	2017		2016	
	Three-month period	Six-month period	Three-month period	Six-month period
Salaries	₩ 94,999	221,020	72,156	155,149
Defined benefit plan	6,547	13,287	8,189	16,255
Employee benefits	21,481	40,884	21,031	43,196
Commission	54,112	113,282	55,932	111,113
Depreciation	23,447	45,945	18,578	41,273
Amortization	66,844	132,949	82,615	167,854
Freight and custody charge	8,529	18,331	8,152	15,625
Legal cost	10,303	16,742	1,890	3,627
Rental	3,695	7,212	3,601	7,461
Taxes and dues	3,459	7,428	5,732	10,512
Training	5,488	10,261	5,842	10,290
Advertising	13,543	21,379	12,303	15,989
Sales promotion	16,715	29,823	12,415	20,561
Supplies	17,200	32,036	12,662	22,455
Repair	4,633	6,616	1,528	3,163
Travel and transportation	2,499	5,199	2,683	5,242
Sales repair	857	1,613	14,511	14,562
Other	₩ 12,677	28,887	8,277	19,275
	<u>367,028</u>	<u>752,894</u>	<u>348,097</u>	<u>683,602</u>
<b>Research and development:</b>				
Expenditure on research and development	570,727	1,162,582	531,214	1,031,992
Development cost capitalized	(154,981)	(295,605)	(80,354)	(160,390)
	<u>415,746</u>	<u>866,977</u>	<u>450,860</u>	<u>871,602</u>
	<u>782,774</u>	<u>1,619,871</u>	<u>798,957</u>	<u>1,555,204</u>

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**25. Expenses by Nature**

Nature of expenses for the three and six-month periods ended June 30, 2017 and 2016 is as follows:

(In millions of won)

		2017		2016 <sup>2</sup>	
		Three-month period	Six-month period	Three-month period	Six-month period
Changes in finished goods and work-in-process	₩	(345,315)	(374,666)	179,167	(56,530)
Raw materials and consumables		1,026,230	1,938,957	861,279	1,575,389
Labor costs		666,180	1,448,347	520,541	1,066,338
Depreciation and amortization		1,181,887	2,317,102	1,112,773	2,178,638
Royalty		51,575	107,745	57,374	115,448
Commission		299,506	556,198	242,270	475,948
Utilities		222,803	444,877	197,240	405,218
Repair		248,079	403,614	144,155	277,346
Outsourcing		219,110	434,495	172,041	374,683
Others		71,523	186,828	1,234	169,515
Total <sup>1</sup>	₩	<u>3,641,578</u>	<u>7,463,497</u>	<u>3,488,074</u>	<u>6,581,993</u>

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

<sup>2</sup> Expenses for the three and six-month periods ended June 30, 2016 were reclassified to conform with the classification for the three and six-month periods ended June 30, 2017.

**26. Finance Income and Expense**

Finance income and expense for the three and six-month periods ended June 30, 2017 and 2016 are as follows:

(In millions of won)

		2017		2016	
		Three-month period	Six-month period	Three-month period	Six-month period
<b>Finance income</b>					
Interest income	₩	9,839	19,352	7,593	19,198
Dividend income		13	13	-	18
Foreign exchange differences		191,644	470,406	141,000	358,349
Gain from derivative instruments		296	598	357	704
Gain on valuation of financial assets at fair value through profit or loss		1,301	1,735	-	932
Gain on disposal of financial assets at fair value through profit or loss		2,530	5,261	3,544	9,265
		<u>205,623</u>	<u>497,365</u>	<u>152,494</u>	<u>388,466</u>
<b>Finance expense</b>					
Interest expenses		34,451	64,026	31,073	64,741
Foreign exchange differences		164,255	515,514	187,981	381,624
Loss from derivative instruments		301	609	406	812
		<u>199,007</u>	<u>580,149</u>	<u>219,460</u>	<u>447,177</u>
<b>Net finance income (expense)</b>	₩	<u>6,616</u>	<u>(82,784)</u>	<u>(66,966)</u>	<u>(58,711)</u>

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**27. Other Income and Expenses**

(1) Other income for the three and six-month periods ended June 30, 2017 and 2016 are as follows:

(In millions of won)

	2017		2016	
	Three-month period	Six-month period	Three-month period	Six-month period
Gain on disposal of property, plant and equipment	₩ 7,489	9,489	1,480	2,179
Others	25,255	28,847	4,637	11,821
	₩ <u>32,744</u>	<u>38,336</u>	<u>6,117</u>	<u>14,000</u>

(2) Other expenses for the three and six-month periods ended June 30, 2017 and 2016 are as follows:

(In millions of won)

	2017		2016	
	Three-month period	Six-month period	Three-month period	Six-month period
Loss on disposal of property, plant and equipment	₩ 639	5,329	1,088	4,859
Loss on disposal of intangible assets	1,403	3,196	712	1,696
Loss on disposal of trade receivables	1,531	3,625	302	617
Donation	19,425	21,336	3,892	4,104
Loss on impairment of property, plant and equipment	-	-	3,746	3,746
Loss on impairment of intangible assets	-	-	37	37
Others	2,474	5,406	10,129	27,864
	₩ <u>25,472</u>	<u>38,892</u>	<u>19,906</u>	<u>42,923</u>

**28. Income Tax Expense**

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

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#### 29. Earnings per Share

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

(1) Basic earnings per share for the three and six-month periods ended June 30, 2017 and 2016 are as follows:

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

	2017		2016	
	Three-month period	Six-month period	Three-month period	Six-month period
Profit attributable to ordinary shareholders of the Parent company	₩ 2,468,544	4,366,515	286,141	730,335
Weighted average number of outstanding ordinary shares <sup>1</sup>	706,001,795	706,001,795	706,001,795	706,001,795
<b>Basic earnings per share (in won)</b>	₩ <u>3,497</u>	<u>6,185</u>	<u>405</u>	<u>1,034</u>

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

(In shares)

	2017		2016	
	Three-month period	Six-month period	Three-month period	Six-month period
Outstanding ordinary shares	728,002,365	728,002,365	728,002,365	728,002,365
Acquisition of treasury shares	(22,000,570)	(22,000,570)	(22,000,570)	(22,000,570)
<b>Weighted average number of outstanding common shares</b>	<u>706,001,795</u>	<u>706,001,795</u>	<u>706,001,795</u>	<u>706,001,795</u>

(2) There is no potential ordinary shares with dilutive effect during the three and six-month periods ended June 30, 2017 and 2016. Accordingly, diluted earnings per share for the three and six-month periods ended June 30, 2017 and 2016 are the same as basic earnings per share.

#### 30. Related Party Transactions

(1) Details of related parties as of June 30, 2017 are as follows:

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

# SK HYNIX, INC. and Subsidiaries

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### 30. Related Party Transactions, Continued

(2) Significant transactions for the three and six-month periods ended June 30, 2017 and 2016 are as follows:

(In millions of won)

		<b>For the three-month period ended June 30, 2017</b>				
	<b>Company</b>	<b>Operating revenue and others</b>	<b>Operating expense and others</b>	<b>Asset acquisition</b>	<b>Dividend income</b>	
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	₩ 4,454	147,767	-	-	
Other related parties	SK Telecom Co., Ltd. <sup>1</sup>	114	1,787	4,012	-	
	SK Holdings Co., Ltd. <sup>2</sup>	264	38,189	50,726	-	
	ESSENCORE Limited	160,317	-	-	-	
	SK Engineering & Construction Co., Ltd.	2,740	103	211,608	-	
	SK Energy Co., Ltd.	1,226	12,612	-	-	
	SK Networks Co., Ltd.	-	1,076	-	-	
	SKC solmics Co., Ltd.	-	9,189	313	-	
	Chungcheong energy service Co., Ltd.	-	2,516	10	-	
	HAPPYNARAE Co., Ltd.	8	119,425	8,299	-	
	SK Materials Co., Ltd.	-	12,042	-	-	
	Others	157	41,081	5,249	-	
			<u>₩ 169,280</u>	<u>385,787</u>	<u>280,217</u>	<u>-</u>

(In millions of won)

		<b>For the six-month period ended June 30, 2017</b>				
	<b>Company</b>	<b>Operating revenue and others</b>	<b>Operating expense and others</b>	<b>Asset acquisition</b>	<b>Dividend income</b>	
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	₩ 5,496	288,476	-	14,828	
Other related parties	SK Telecom Co., Ltd. <sup>1</sup>	213	91,822	5,546	-	
	SK Holdings Co., Ltd. <sup>2</sup>	452	80,196	78,522	-	
	ESSENCORE Limited	347,815	-	-	-	
	SK Engineering & Construction Co., Ltd.	8,689	226	334,303	-	
	SK Energy Co., Ltd.	2,488	33,319	-	-	
	SK Networks Co., Ltd.	-	1,987	-	-	
	SKC solmics Co., Ltd.	-	20,395	577	-	
	Chungcheong energy service Co., Ltd.	-	10,321	10	-	
	HAPPYNARAE Co., Ltd.	17	186,153	12,902	-	
	SK Materials Co., Ltd.	-	22,948	-	-	
	Others	427	77,020	14,802	-	
			<u>₩ 365,597</u>	<u>812,863</u>	<u>446,662</u>	<u>14,828</u>

<sup>1</sup> Operating expense and others include dividends of ₩87,660 million (2016: ₩73,050 million).

<sup>2</sup> The Group entered into a contract with SK Holdings Co., Ltd. under which the Group pays royalty for the use of SK brand in proportion to sales amount. For the six-month period ended June 30, 2017, royalty on the use of the SK brand amounted to ₩17,441 million (2016: ₩18,943 million).

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**30. Related Party Transactions, Continued**

(In millions of won)

<b>For the three-month period ended June 30, 2016</b>					
<b>Company</b>	<b>Operating revenue and others</b>	<b>Operating expense and others</b>	<b>Asset acquisition</b>	<b>Dividend income</b>	
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	₩ 115	133,696	-	20,726
Other related parties	SK Telecom Co., Ltd. <sup>1</sup>	198	1,757	3,616	-
	SK Holdings Co., Ltd. <sup>2</sup>	434	31,426	44,371	-
	ESSENCORE Limited	130,982	-	-	-
	SK Engineering & Construction Co., Ltd.	130	9,037	110,165	-
	SK Energy Co., Ltd.	1,201	11,338	-	-
	SK Networks Co., Ltd.	-	1,099	-	-
	SKC solmics Co., Ltd.	-	7,456	65	-
	Chungcheong energy service Co., Ltd.	-	2,036	-	-
	HAPPYNARAE Co., Ltd.	6	27,434	1,237	-
	SK Materials Co., Ltd.	-	10,822	-	-
	Others	90	21,467	7,568	-
	<u>₩ 133,156</u>	<u>257,568</u>	<u>167,022</u>	<u>20,726</u>	

(In millions of won)

<b>For the six-month period ended June 30, 2016</b>					
<b>Company</b>	<b>Operating revenue and others</b>	<b>Operating expense and others</b>	<b>Asset acquisition</b>	<b>Dividend income</b>	
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	₩ 289	291,197	18,291	20,726
Other related parties	SK Telecom Co., Ltd. <sup>1</sup>	207	76,841	4,255	-
	SK Holdings Co., Ltd. <sup>2</sup>	976	55,149	75,443	-
	ESSENCORE Limited	236,226	-	-	-
	SK Engineering & Construction Co., Ltd.	233	20,437	129,387	-
	SK Energy Co., Ltd.	2,417	31,415	-	-
	SK Networks Co., Ltd.	-	2,056	-	-
	SKC solmics Co., Ltd.	-	15,494	166	-
	Chungcheong energy service Co., Ltd.	-	11,264	-	-
	HAPPYNARAE Co., Ltd.	10	46,676	2,711	-
	SK Materials Co., Ltd.	-	21,266	-	-
	Others	179	53,494	12,785	-
	<u>₩ 240,537</u>	<u>625,289</u>	<u>243,038</u>	<u>20,726</u>	

SK HYNIX, INC. and Subsidiaries  
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**30. Related Party Transactions, Continued**

(3) The balances of significant transactions as of June 30, 2017 and December 31, 2016 are as follows:

(In millions of won)

		<b>2017</b>	
<b>Company</b>		<b>Trade receivables and others</b>	<b>Other payables and others</b>
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	₩ 300	99,829
Other related parties	SK Telecom Co., Ltd.	119	5,889
	SK Holdings Co., Ltd.	6,344	112,538
	ESSEN CORE Limited	58,003	-
	SK Engineering & Construction Co., Ltd.	96	240,589
	SK Energy Co., Ltd.	481	2,541
	SK Networks Co., Ltd.	-	382
	SKC solmics Co., Ltd.	-	8,732
	Chungcheong energy service Co., Ltd.	-	669
	HAPPYNARAE Co., Ltd.	3	34,803
	SK Materials Co., Ltd.	-	10,424
	Others	227	46,634
		₩ 65,573	563,030

(In millions of won)

		<b>2016</b>	
<b>Company</b>		<b>Trade receivables and others</b>	<b>Other payables and others</b>
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	₩ -	99,328
Other related parties	SK Telecom Co., Ltd.	92	4,281
	SK Holdings Co., Ltd.	6,343	98,396
	ESSEN CORE Limited	72,507	-
	SK Engineering & Construction Co., Ltd.	2,016	530,940
	SK Energy Co., Ltd.	417	6,544
	SK Networks Co., Ltd.	-	1,143
	SKC Solmics Co., Ltd.	-	10,067
	Chungcheong energy service Co., Ltd.	-	1,804
	HAPPYNARAE Co., Ltd.	3	23,046
	SK Materials Co., Ltd.	-	9,205
	Others	5	45,656
		₩ 81,383	830,410

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**30. Related Party Transactions, Continued**

(4) Key management compensation

Key management includes directors, members of the board of directors, chief financial officer and internal auditors. The compensation paid to key management for employee services for the three and six-month periods ended June 30, 2017 and 2016 are as follows:

(In millions of won)

Details	2017		2016	
	Three-month period	Six-month period	Three-month period	Six-month period
Salaries	₩ 29,229	46,583	7,333	23,936
Defined benefit plan	2,227	4,454	2,058	4,117
Share-based payment	261	284	-	-
Others	4	7	3	6
	₩ 31,721	51,328	9,394	28,059

(5) The significant transactions between the Group and the companies that are in the same conglomerate group according to 'Fair Trade Law' for the three-month periods ended June 30, 2017 and 2016 are as follows. These entities are not related parties according to K-IFRS No. 1024, 'Related Party Disclosures'.

(In millions of won)

Company	2017			
	Operating revenue		Operating expense	
	Three-month period	Six-month period	Three-month period	Six-month period
Companies in the Conglomerate				
SK Chemicals Co., Ltd.	₩ -	-	311	560

(In millions of won)

Company	2016			
	Operating revenue		Operating expense	
	Three-month period	Six-month period	Three-month period	Six-month period
Companies in the Conglomerate				
SK Chemicals Co., Ltd.	₩ -	-	92	140



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**30. Related Party Transactions, Continued**

(6) The balances of significant transactions between the Group and the companies that are in the same conglomerate group designated by 'Fair Trade Law'. The details of the balances as of June 30, 2017 and December 31, 2016 are as follows. These entities are not related parties according to K-IFRS No. 1024, 'Related Party Disclosures'.

(In millions of won)

		<b>2017</b>	
<b>Company</b>		<b>Trade receivables and others</b>	<b>Payables and others</b>
Companies in the Conglomerate	SK Chemicals Co., Ltd. ₩	-	301

(In millions of won)

		<b>2016</b>	
<b>Company</b>		<b>Trade receivables and others</b>	<b>Payables and others</b>
Companies in the Conglomerate	SK Chemicals Co., Ltd. ₩	-	183

**31. Commitments and Contingencies**

(1) The details of pending litigations and claims related to the Group as of June 30, 2017 are as follows.

(a) Lawsuit from Netlist, Inc. Netlist, Inc. filed a lawsuit against SK hynix, the Parent Company, and SK hynix America Inc., SK hynix memory solutions Inc., which are subsidiaries of the Parent Company alleging infringement of multiple patents to U.S. District Court for the Central District of California, on August 31, 2016 and June 14, 2017, and to the U.S. International Trade Commission on September 1, 2016. As of June 30, 2017, the patent infringement lawsuit filed by Netlist, Inc. in the U.S. has not been finalized and the final result cannot be predicted due to its early stage in the litigation.

(b) Other patent infringement claims and litigation

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

(2) Technology and patent license agreements

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

(3) Contract for supply of industrial water

The Group has entered into a contract with Veolia Water Industrial Development Co., Ltd. ("VWID") under which the Group purchases industrial water by March 2018. According to the contract, the Group is obligated to pay base service charges which are predetermined and additional service charges which are variable according to the amount of water used.

(4) Post-process service contract with HITECH

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

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**31. Commitments and Contingencies, Continued**

(5) Assets provided as collateral

Details of assets provided as collateral as of June 30, 2017 are as follows:

(In millions of won)

	<b>Book value</b>	<b>Pledged amount</b>	<b>Remark</b>
Land	₩ 43,742		Borrowings for equipment and others
Buildings	156,286	1,970,210	
Machinery	1,458,796		
	₩ 1,658,824	1,970,210	

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

(6) Financing agreements

Details of credit lines with financial institutions as of June 30, 2017 are as follows:

(In millions of won and millions of foreign currencies)

	<b>Financial Institution</b>	<b>Commitment</b>	<b>Currency</b>	<b>Amount</b>
The Parent Company	KEB Hana Bank and others	Import finance including usance	USD	265
		Export finance including bills bought	USD	350
		Comprehensive limit contract for import and export	USD	1,060
SK hynix Semiconductor (China) Ltd. (SKHYCL)	Agricultural Bank of China and others	Import finance including usance	RMB	1,300
			USD	232
SK hynix America Inc. (SKHYA) and other sales entities	Citibank and others	Accounts receivable factoring contracts which have no right to recourse	USD	324
Domestic subsidiaries	KEB Hana Bank and others	Export finance including bills bought	KRW	500
		Finance secured by accounts receivable	KRW	10,000
		Agency agreement for payment of goods received	KRW	15,000

(7) Details of guarantees provided to others as of June 30, 2017 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 June 30, 2017, the Group has ₩1,174,557 million (as of December 31, 2016: ₩293,730 million) of commitments in relation to the capital expenditures on property, plant and equipment.

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**32. Cash Generated from Operating Activities**

(1) Reconciliations between profit and net cash inflow from operating activities for the six-month periods ended June 30, 2017 and 2016 are as follows:

(In millions of won)

	<b>2017</b>	<b>2016</b>
<b>Profit for the period</b>	₩ 4,367,189	734,158
<b>Adjustment</b>		
Income tax expense	1,072,273	207,040
Defined benefit plan	81,672	85,856
Depreciation	2,220,296	2,018,425
Depreciation of investment property	52	53
Amortization	158,692	186,600
Loss on disposal of property, plant and equipment	5,329	4,859
Loss on disposal of intangible assets	3,196	1,696
Loss on impairment of property, plant, and equipment	-	3,746
Interest expense	64,026	64,741
Loss on foreign currency translation	55,474	63,359
Gain on valuation of equity-accounted investees	(4,503)	(14,181)
Gain on disposal of property, plant and equipment	(9,489)	(2,179)
Gain on valuation of financial assets at fair value through profit or loss	(1,735)	(932)
Gain on disposal of financial assets at fair value through profit or loss	(5,261)	(9,265)
Loss on derivative instruments, net	11	108
Interest income	(19,352)	(19,198)
Gain on foreign currency translation	(203,227)	(61,045)
Others, net	4,322	3,566
<b>Changes in operating assets and liabilities</b>		
Decrease (increase) in trade receivables	(1,185,746)	157,698
Decrease (increase) in loans and other receivables	(12,153)	51,799
Increase in inventories	(408,380)	(90,428)
Increase in other assets	(43,051)	(42,109)
Increase (decrease) in trade payables	323,309	(122,748)
Decrease in other payables	(30,973)	(74,909)
Increase (decrease) in other non-trade payables	108,008	(545,245)
Increase in provisions	8,097	3,767
Decrease in other liabilities	(8,806)	(4,213)
Contributions to plan assets	-	(53)
Payment of defined benefit liabilities	(10,994)	(11,671)
<b>Cash generated from operating activities</b>	₩ <u>6,528,276</u>	<u>2,589,295</u>

(2) Details of significant transactions without inflows and outflows of cash for the six-month periods ended June 30, 2017 and 2016 are as follows:

(In millions of won)

	<b>2017</b>	<b>2016</b>
Increase in other payables related to acquisition of property, plant and equipment	₩ 246,479	-

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**33. Share-based payment**

(1) The Group granted equity-settled stock options to the Group's key management during the six-month period ended June 30, 2017 and the stock options as of June 30, 2017 are as follows.

(In shares)

	<b>Total numbers of share option granted</b>	<b>Exercised</b>	<b>Forfeited or Cancelled</b>	<b>Outstanding at June 30, 2017</b>
1 <sup>st</sup>	99,600	-	-	99,600
2 <sup>nd</sup>	99,600	-	-	99,600
3 <sup>rd</sup>	99,600	-	-	99,600
	<b>298,800</b>	<b>-</b>	<b>-</b>	<b>298,800</b>

	<b>Grant date</b>	<b>Service Period for Vesting</b>	<b>Exercisable Period</b>	<b>Exercise price (in won)</b>
1 <sup>st</sup>	March 24, 2017	March 24, 2017 - March 24, 2019	March 25, 2019 - March 24, 2022	48,400
2 <sup>nd</sup>	March 24, 2017	March 24, 2017 - March 24, 2020	March 25, 2020 - March 24, 2023	52,280
3 <sup>rd</sup>	March 24, 2017	March 24, 2017 - March 24, 2021	March 25, 2021 - March 24, 2024	56,460

(2) Measurement of fair value

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

	<b>1st</b>	<b>2nd</b>	<b>3rd</b>
Expected volatility	23.23%	23.23%	23.23%
Estimated fair value of share option (in won)	10,026	9,613	9,296
Dividend yield ratio	1.20%	1.20%	1.20%
Risk free ratio	1.86%	1.95%	2.07%

(3) The compensation expense for the six-month period ended June 30, 2017 was ₩284 million.