

SK HYNIX, INC.

Separate Financial Statements

**December 31, 2014 and 2013**

(With Independent Auditors' Report Thereon)

# Contents

	<b>Page</b>
<b>Independent Auditors' Report</b>	1
Separate Statements of Financial Position	3
Separate Statements of Comprehensive Income	5
Separate Statements of Changes in Equity	6
Separate Statements of Cash Flows	7
Notes to the Separate Financial Statements	9
Independent Auditor's Review Report on Internal Accounting Control System	77
Report on the Effectiveness of the Internal Accounting Control System	78

## 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 statement of financial position as of December 31, 2014, the separate statements of comprehensive income, changes in equity and cash flows for the year 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 audit. We conducted our audit 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 at December 31, 2014 and of its separate financial performance and its separate cash flows for the year then ended in accordance with Korean International Financial Reporting Standards.

### **Other Matter**

The separate statement of financial position of the Company as of December 31, 2013, and the related separate statements of comprehensive income, changes in equity and cash flows for the year then ended were audited by other auditors in accordance with the previous generally accepted auditing standards in the Republic of Korea, and their report thereon dated February 25, 2014, expressed an unqualified opinion.

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



*KPMG Samjong Accounting Corp.*

KPMG Samjong Accounting Corp.  
Seoul, Korea  
February 17, 2015

This report is effective as of February 17, 2015, 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, 2014 and 2013

(In millions of won)

	<u>Note</u>	<u>2014</u>	<u>2013</u>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	5,6 ₩	252,078	371,204
Short-term financial instruments	5,6	3,172,173	2,115,581
Trade receivables, net	5,6,8	3,540,213	1,803,460
Loans and other receivables, net	5,6,8	317,075	207,625
Other financial assets	5,6,7	-	245,808
Inventories, net	9	1,217,282	920,590
Current tax assets	20	-	7,731
Other current assets	10	142,253	126,910
		<u>8,641,074</u>	<u>5,798,909</u>
<b>Non-current assets</b>			
Investments in subsidiaries, associates, and joint ventures	11	3,973,889	3,326,243
Available-for-sale financial assets	5,6,12	126,605	158,374
Loans and other receivables, net	5,6,8	48,601	46,361
Other financial assets	5,6,7,21	319	594
Property, plant and equipment, net	13,20,29,33	10,862,530	9,243,030
Intangible assets, net	14,29	971,316	819,009
Investment property, net	13,15	28,456	28,609
Deferred tax assets	20,30	190,595	110,254
Other non-current assets	10	505,515	364,876
		<u>16,707,826</u>	<u>14,097,350</u>
<b>Total assets</b>	₩	<u>25,348,900</u>	<u>19,896,259</u>

See accompanying notes to the separate financial statements.

SK HYNIX, INC.

Separate Statements of Financial Position, Continued

As of December 31, 2014 and December 31, 2013

(In millions of won)

	<u>Note</u>	<u>2014</u>	<u>2013</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade payables	5,6 ₩	910,521	661,059
Other payables	5,6,32	1,296,900	595,959
Other non-trade payables	5,6	1,042,160	598,456
Borrowings	5,6,7,16	956,049	547,836
Other financial liabilities	5,6	30	267
Provisions	18	33,328	62,387
Current tax liabilities		512,247	-
Other current liabilities	17	61,293	11,033
		<u>4,812,528</u>	<u>2,476,997</u>
<b>Non-current liabilities</b>			
Other non-trade payables	5,6	132,649	168,158
Borrowings	5,6,7,16	2,216,231	3,264,565
Other financial liabilities	5,6	708	107,094
Defined benefit liabilities, net	19	455,301	626,906
Other non-current liabilities	17	56,819	49,928
		<u>2,861,708</u>	<u>4,216,651</u>
<b>Total liabilities</b>		<u>7,674,236</u>	<u>6,693,648</u>
<b>Equity</b>			
Capital stock	1,22	3,657,652	3,568,645
Capital surplus	22	4,182,016	3,444,363
Other equity	22	(24)	-
Accumulated other comprehensive income	23	-	7,824
Retained earnings	24	9,835,020	6,181,779
<b>Total equity</b>		<u>17,674,664</u>	<u>13,202,611</u>
<b>Total liabilities and equity</b>	₩	<u>25,348,900</u>	<u>19,896,259</u>

See accompanying notes to the separate financial statements.

SK HYNIX, INC.  
 Separate Statements of Comprehensive Income  
 For the years ended December 31, 2014 and 2013

(In millions of won, except per share information)

	<b>Note</b>	<b>2014</b>	<b>2013</b>
<b>Revenue</b>		₩ 16,893,716	13,896,309
Cost of sales	27	9,502,113	8,947,323
<b>Gross profit</b>		7,391,603	4,948,986
Selling and administrative expense	26,27	2,344,250	1,733,870
<b>Operating profit</b>		5,047,353	3,215,116
Finance income	28	585,386	459,701
Finance expenses	28	685,897	669,239
Other income	29	34,311	36,604
Other expenses	29	440,041	47,240
<b>Profit before income tax</b>		4,541,112	2,994,942
Income tax expense	30	769,351	197,975
<b>Profit for the year</b>		3,771,761	2,796,967
<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	(118,520)	14,222
<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	5,12	(7,824)	(655)
<b>Other comprehensive income (loss) for the year, net of tax</b>		(126,344)	13,567
<b>Total comprehensive income for the year</b>		₩ 3,645,417	2,810,534
<b>Earnings per share</b>			
Basic and diluted earnings per share (in won)	31	5,252	3,938

See accompanying notes to the separate financial statements.

SK HYNIX, INC.  
 Separate Statements of Changes in Equity  
 For the years ended December 31, 2014 and 2013

(In millions of won)

	<u>Capital stock</u>	<u>Capital surplus</u>	<u>Other equity</u>	<u>Accumulated other comprehensive income</u>	<u>Retained earnings</u>	<u>Total equity</u>
<b>Balance at January 1, 2013</b>	₩ 3,488,419	3,092,155	-	8,479	3,370,590	9,959,643
<b>Total comprehensive income</b>						
Profit for the year	-	-	-	-	2,796,967	2,796,967
Remeasurements of defined benefit liability, net of tax	-	-	-	-	14,222	14,222
Unrealized net changes in fair values of available-for-sale financial assets, net of tax	-	-	-	(655)	-	(655)
<b>Total comprehensive income</b>	-	-	-	(655)	2,811,189	2,810,534
<b>Transactions with owners of the Company</b>						
Exercise of conversion rights	80,226	352,208	-	-	-	432,434
<b>Total transactions with owners of the Company</b>	80,226	352,208	-	-	-	432,434
<b>Balance at December 31, 2013</b>	₩ 3,568,645	3,444,363	-	7,824	6,181,779	13,202,611
<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</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</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

See accompanying notes to the separate financial statements.



SK HYNIX, INC.  
 Separate Statements of Cash Flows  
 For the years ended December 31, 2014 and 2013

(In millions of won)

	<b>Note</b>	<b>2014</b>	<b>2013</b>
<b>Cash flows from operating activities</b>			
Cash generated from operating activities	34 ₩	5,483,275	5,529,830
Interest received		32,310	54,812
Interest paid		(131,431)	(185,524)
Dividends received		42,957	17,414
Income tax refund (paid)		(326,713)	3,283
<b>Net cash provided by operating activities</b>		<b>5,100,398</b>	<b>5,419,815</b>
<b>Cash flows from investing activities</b>			
Decrease in short-term financial instruments		20,908,645	3,789,918
Increase in short-term financial instruments		(21,930,573)	(4,830,838)
Collection of loans and other receivables		2,440	15,944
Increase in loans and other receivables		(13,552)	(5,685)
Proceeds from disposal of available-for-sale financial assets		28,600	331
Acquisition of available-for-sale financial assets		(1,101)	(115,565)
Decrease in other financial assets		275,422	29,670
Increase in other financial assets		(29,612)	(275,478)
Cash inflows from derivative transactions		2,371	3,656
Cash outflows from derivative transactions		(2,928)	(6,550)
Proceeds from disposal of property, plant and equipment		215,570	42,599
Acquisition of property, plant and equipment		(3,530,499)	(2,312,081)
Proceeds from disposal of intangible assets		353	200
Acquisition of intangible assets		(328,198)	(275,102)
Receipt of government grants		502	-
Decrease in investments in subsidiaries		-	2,179
Acquisition of investments in subsidiaries		(601,209)	(69,585)
<b>Net cash used in investing activities</b>	₩	<b>(5,003,769)</b>	<b>(4,006,387)</b>

See accompanying notes to the separate financial statements.

SK HYNIX, INC.  
 Separate Statements of Cash Flows, Continued  
 For the years ended December 31, 2014 and 2013

(In millions of won)

	<u>2014</u>	<u>2013</u>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	₩ 2,878,448	3,184,919
Repayments of borrowings	(3,094,172)	(4,704,890)
Acquisition of treasury shares	(24)	-
<b>Net cash used in financing activities</b>	<u>(215,748)</u>	<u>(1,519,971)</u>
<b>Effect of movements in exchange rates on cash and cash equivalents</b>	(7)	-
<b>Net decrease in cash and cash equivalents</b>	<u>(119,126)</u>	<u>(106,543)</u>
<b>Cash and cash equivalents at beginning of the year</b>	371,204	477,747
<b>Cash and cash equivalents at end of the year</b>	<u>₩ 252,078</u>	<u>371,204</u>

See accompanying notes to the separate financial statements.

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

**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, 2014, the shareholders of the 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
National Pension Service	70,243,518	9.65
Share Management Council <sup>1</sup>	7,452,667	1.02
Other investors	504,206,180	69.26
	<u>728,002,365</u>	<u>100.00</u>

<sup>1</sup> As of December 31, 2014, the number of shares held by each member of Share Management Council is as follows:

<b>Shareholder</b>	<b>Number of shares</b>	<b>Percentage of ownership (%)</b>
Korea Exchange Bank	7,092,500	0.97
Shinhan Bank	355,000	0.05
Other financial institutions	5,167	0.00
	<u>7,452,667</u>	<u>1.02</u>

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

Accordingly, in substance, SK Telecom Co., Ltd. has the voting rights over the Share Management Council's shares as of December 31, 2014.

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

**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 28, 2015, which will be submitted for approval at the shareholders' meeting to be held on March 20, 2015.

(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
- available-for-sale financial assets 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 4: estimated useful lives of property, plant and equipment and intangible assets
- Note 5: classification of financial instruments

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

**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 9: net realizable value of inventories
- Note 14: goodwill impairment
- Note 18: recognition and measurement of provisions
- Note 19: measurement of defined benefit obligations
- Note 20: 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 6.

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

**3. Changes in Accounting Policies**

Except as described below, the accounting policies applied by the Company in these separate financial statements are the same as those applied by the Company in its separate financial statements as of and for the year ended December 31, 2013.

(1) Amendment to K-IFRS No. 1032, 'Financial Instruments: Presentation'

The Company has applied the amendment to K-IFRS No. 1032, 'Financial Instruments: Presentation', since January 1, 2014. The amendment provides that a financial asset and a financial liability shall be offset and the net amount presented in the statement of financial position only when an entity currently has a legally enforceable right to set off the recognized amounts; and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

The legally enforceable right to offset must not be contingent on a future event and must be legally enforceable in all of circumstances including the normal course of business; the event of default; and the event of insolvency or bankruptcy of the entity and all of the counterparties.

The net settlement criteria can be met when the amounts are settled in a manner such that the outcome is, in effect, equivalent to net settlement, which includes case that the gross settlement mechanism has features that eliminate or result in insignificant credit and liquidity risk, and that will process receivables and payables in a single settlement process or cycle.

The amendment has no impact on the Company's financial statements.

(2) Amendment to K-IFRS No. 1036, 'Impairment of Assets'

The Company has applied the amendment to K-IFRS No. 1036, 'Impairment of Assets' since January 1, 2014. The amendment provides that the recoverable amount is required to be disclosed only when an impairment loss has been recognized or reversed.

The amendment has no impact on the Company's financial statements.

(3) K-IFRS No. 2121, 'Levies'

The Company adopted K-IFRS No. 2121, 'Levies' since January 1, 2014. The interpretation defines that an obligating event that gives rise to the recognition of a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation. If the obligating event occurs over a period of time, the liability to pay a levy is recognized progressively and if the obligating event is the reaching of a minimum activity threshold, the liability to pay a levy is recognized when that minimum activity threshold is reached. An entity shall recognize an asset if it has prepaid a levy but does not yet have a present obligation to pay that levy.

The interpretation clarifies that a levy is not recognized until the obligating event specified in the legislation occurs, even if there is no realistic opportunity to avoid the obligation.

The interpretation has no significant impact on the Company's financial statements.

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

**4. 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.

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

**4. 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, 2014 and 2013

**4. 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.

#### 4. 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.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

**4. 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:

	<u>Useful lives (years)</u>
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.

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

**4. 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:

	<u>Useful lives (years)</u>
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.

#### 4. 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.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

**4. 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.

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

**4. 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.

#### 4. 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 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 entity 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.



SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

**4. 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 on funds invested (including available-for-sale financial assets), dividend income, 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 payment 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.

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

**4. Significant Accounting Policies, Continued**

(23) Income taxes

Income tax expense comprises current and deferred tax. Current tax 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 receivable 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.

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
**December 31, 2014 and 2013**

**4. 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 ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares including convertible notes.

(25) New standards and interpretations not yet adopted

The following amendment to existing standards has been published and is mandatory for the Company for annual periods beginning on or after January 1, 2016, and the Company has not early adopted it. The Company is reviewing the impact of the adoption of the amendment.

(a) Amendments to K-IFRS No. 1027, 'Separate Financial Statements'

The amendment requires an entity preparing separate financial statements to account for those investments either at cost, in accordance with K-IFRS No. 1039, 'Financial Instrument: Recognition and Measurement', or using the equity method. The amendment is effective for annual periods beginning on or after January 1, 2016.

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

**5. Categories of Financial Instruments**

(1) Categories of financial assets as of December 31, 2014 and 2013 are as follows:

(In millions of won)

		<b>2014</b>			
	<b>Financial assets at fair value through profit or loss</b>	<b>Available-for- sale financial assets</b>	<b>Held-to- maturity financial assets</b>	<b>Loans and receivables</b>	<b>Total</b>
Cash and cash equivalents	₩ -	-	-	252,078	252,078
Short-term financial instruments	1,471,170	-	-	1,701,003	3,172,173
Trade receivables	-	-	-	3,540,213	3,540,213
Loans and other receivables	-	-	-	365,676	365,676
Other financial assets <sup>1</sup>	-	-	-	319	319
Available-for-sale financial assets	-	126,605	-	-	126,605
	<u>₩ 1,471,170</u>	<u>126,605</u>	<u>-</u>	<u>5,859,289</u>	<u>7,457,064</u>

(In millions of won)

		<b>2013</b>			
	<b>Financial assets at fair value through profit or loss</b>	<b>Available-for- sale financial assets</b>	<b>Held-to- maturity financial assets</b>	<b>Loans and receivables</b>	<b>Total</b>
Cash and cash equivalents	₩ -	-	-	371,204	371,204
Short-term financial instruments	1,045,973	-	-	1,069,608	2,115,581
Trade receivables	-	-	-	1,803,460	1,803,460
Loans and other receivables	-	-	-	253,986	253,986
Other financial assets <sup>1</sup>	272	-	245,808	322	246,402
Available-for-sale financial assets	-	158,374	-	-	158,374
	<u>₩ 1,046,245</u>	<u>158,374</u>	<u>245,808</u>	<u>3,498,580</u>	<u>4,949,007</u>

<sup>1</sup> Details of other financial assets as of December 31, 2014 and 2013 are as follows:

(In millions of won)

	<b>2014</b>	<b>2013</b>
<b>Current</b>		
Held-to-maturity financial assets	₩ -	245,808
<b>Non-current</b>		
Time deposit	308	308
Bank overdraft guarantee deposits	11	14
Derivatives	-	272
	<u>319</u>	<u>594</u>
	<u>₩ 319</u>	<u>246,402</u>

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

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

(2) Categories of financial liabilities as of December 31, 2014 and 2013 are as follows:

(In millions of won)

	<b>2014</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	₩ -	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
	₩ <u>738</u>	<u>6,554,510</u>	<u>6,555,248</u>

(In millions of won)

	<b>2013</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	₩ -	661,059	661,059
Other payables	-	595,959	595,959
Other non-trade payables <sup>1</sup>	-	766,614	766,614
Borrowings	-	3,812,401	3,812,401
Other financial liabilities	107,361	-	107,361
	₩ <u>107,361</u>	<u>5,836,033</u>	<u>5,943,394</u>

<sup>1</sup> Details of other non-trade payables as of December 31, 2014 and 2013 are as follows:

(In millions of won)

	<b>2014</b>	<b>2013</b>
<b>Current</b>		
Accrued expenses	₩ 1,042,160	598,456
<b>Non-current</b>		
Rent deposits payable	2,740	1,397
Long-term other payables	129,909	166,146
Long-term accrued expenses	-	615
	<u>132,649</u>	<u>168,158</u>
	₩ <u>1,174,809</u>	<u>766,614</u>

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

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

(3) Details of gain and loss on financial assets and liabilities by category for the years ended December 31, 2014 and 2013 are as follows:

*(In millions of won)*

	<u>2014</u>	<u>2013</u>
<b>Loans and receivables</b>		
Interest income	₩ 48,104	56,424
Foreign exchange differences	118,336	(70,827)
Reversal of impairment (loss)	(5,109)	2,412
	<u>161,331</u>	<u>(11,991)</u>
<b>Available-for-sale financial assets</b>		
Other comprehensive loss	-	(966)
Gain on disposal	6,553	205
Dividend income	1,229	2,381
	<u>7,782</u>	<u>1,620</u>
<b>Held-to-maturity financial assets</b>		
Interest income	1,318	853
<b>Financial assets at fair value through profit or loss</b>		
Interest income	-	6,296
Gain on disposal	28,493	-
Gain on valuation	6,170	-
Gain from derivative instruments	-	73
	<u>34,663</u>	<u>6,369</u>
<b>Financial liabilities measured at amortized cost</b>		
Interest expenses	(149,105)	(243,042)
Loss on redemption of debentures	(2,924)	-
Foreign exchange differences	(28,669)	131,230
	<u>(180,698)</u>	<u>(111,812)</u>
<b>Financial liabilities at fair value through profit or loss</b>		
Loss from derivative instruments	(172,071)	(94,876)
	<u>₩ (147,675)</u>	<u>(209,837)</u>

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

**6. 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 under 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, 2014 are as follows:

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

	Assets		Liabilities	
	Foreign currencies	Korean won equivalent	Foreign currencies	Korean won equivalent
USD	3,326 ₩	3,656,150	2,069 ₩	2,274,061
EUR	3	4,502	26	34,126
JPY	11,558	106,347	22,054	202,927

As of December 31, 2014, effects on profit before income tax as a result of change in exchange rate by 10% are as follows:

*(In millions of won)*

	If increased by 10%	If decreased by 10%
USD	₩ 138,209	(138,209)
EUR	(2,962)	2,962
JPY	(9,658)	9,658

## 6. 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 financial assets held at floating rates.

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, 2014, the Company is partially exposed to a risk of increase in interest rates. As of December 31, 2014, 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 ₩9,510 million (2013: ₩8,934 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings and financial assets.

### (iii) Price risk

As of December 31, 2014, 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 creditworthiness 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 creditworthiness before standard payment and delivery terms and conditions are offered. In addition, the Company consistently manages trade and other receivables by reevaluating the customer's creditworthiness 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 Global Credit Insurance Program with a credit insurance companies to manage credit risk exposure from oversea customers. The maximum exposure to credit risk as of December 31, 2014 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.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

**6. 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, 2014 and 2013 are as follows:

(In millions of won)

	<b>2014</b>				
	<b>Less than 1 year</b>	<b>1 - 2 years</b>	<b>2 - 5 years</b>	<b>More than 5 years</b>	<b>Total</b>
Borrowings (other than finance lease liabilities) ₩	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
₩	<u>4,292,382</u>	<u>878,430</u>	<u>1,635,012</u>	<u>-</u>	<u>6,805,824</u>

(In millions of won)

	<b>2013</b>				
	<b>Less than 1 year</b>	<b>1 - 2 years</b>	<b>2 - 5 years</b>	<b>More than 5 years</b>	<b>Total</b>
Borrowings (other than finance lease liabilities) ₩	578,547	1,376,357	1,423,625	564,713	3,943,242
Finance lease liabilities	126,839	106,249	111,145	-	344,233
Trade payables	661,059	-	-	-	661,059
Other payables	609,080	-	-	-	609,080
Other non-trade payables	581,402	57,238	131,565	-	770,205
Derivatives	512	-	-	-	512
Financial guarantee contract	10,724	-	-	-	10,724
₩	<u>2,568,163</u>	<u>1,539,844</u>	<u>1,666,335</u>	<u>564,713</u>	<u>6,339,055</u>

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

**6. 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 ₩738 million (2013: ₩512 million) within the less than one-year time bucket as of December 31, 2014. 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, 2014 and 2013 are as follows:

<i>(In millions of won)</i>	<b>2014</b>	<b>2013</b>
Total liabilities (A)	₩ 7,674,236	6,693,648
Total equity (B)	17,674,664	13,202,611
Cash and cash equivalents and short-term financial instruments (C)	3,424,251	2,486,785
Total borrowings (D)	3,172,280	3,812,401
Debt-to-equity ratio (A/B)	43%	51%
Net borrowing ratio (D-C)/B	-1%	10%

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

6. 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, 2014 and 2013:

(In millions of won)

	Carrying amounts	2014			Total
		Level 1	Level 2	Level 3	
<b>Financial assets measured at fair value</b>					
Short-term financial instruments	₩ 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>	365,676	-	-	-	-
Other financial assets <sup>1</sup>	319	-	-	-	-
Available-for-sale financial assets <sup>1,2</sup>	126,605	-	-	-	-
	<u>5,985,894</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>₩ 6,554,510</u>	<u>-</u>	<u>3,241,495</u>	<u>-</u>	<u>3,241,495</u>

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

6. Financial Risk Management, Continued

(In millions of won)

	Carrying amounts	2013			
		Level 1	Level 2	Level 3	Total
<b>Financial assets measured at fair value</b>					
Short-term financial instruments	₩ 1,045,973	-	1,045,973	-	1,045,973
Other financial assets	272	-	272	-	272
Available-for-sale financial assets	31,966	31,966	-	-	31,966
	<u>1,078,211</u>	<u>31,966</u>	<u>1,046,245</u>	<u>-</u>	<u>1,078,211</u>
<b>Financial assets not measured at fair value</b>					
Cash and cash equivalents <sup>1</sup>	371,204	-	-	-	-
Short-term financial instruments <sup>1</sup>	1,069,608	-	-	-	-
Trade receivables <sup>1</sup>	1,803,460	-	-	-	-
Loans and other receivables <sup>1</sup>	253,986	-	-	-	-
Other financial assets <sup>1</sup>	246,130	-	-	-	-
Available-for-sale financial assets <sup>1,2</sup>	126,408	-	-	-	-
	<u>3,870,796</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Financial liabilities measured at fair value</b>					
Other financial liabilities	107,361	-	107,361	-	107,361
	<u>107,361</u>	<u>-</u>	<u>107,361</u>	<u>-</u>	<u>107,361</u>
<b>Financial liabilities not measured at fair value</b>					
Trade payables <sup>1</sup>	661,059	-	-	-	-
Other payables <sup>1</sup>	595,959	-	-	-	-
Other non-trade payables <sup>1</sup>	766,614	-	-	-	-
Borrowings	3,812,401	-	4,047,366	-	4,047,366
	<u>₩ 5,836,033</u>	<u>-</u>	<u>4,047,366</u>	<u>-</u>	<u>4,047,366</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 methods.

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

**6. 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)*

	<u>Fair value</u>	<u>Level</u>	<u>Valuation Techniques</u>
<b>Short-term financial instruments:</b>			
Financial assets at fair value through profit or loss	₩ 1,471,170	2	The present value method
<b>Derivative financial Liabilities:</b>			
Interest swap	738	2	The present value method

(c) There was no transfer between fair value hierarchy levels for the year ended December 31, 2014.

**7. Restricted Financial Instruments**

Details of restricted financial instruments as of December 31, 2014 and 2013 are as follows:

*(In millions of won)*

	<u>2014</u>	<u>2013</u>	<u>Description</u>
Short-term financial instruments	₩ 3	8	Restricted for government grants
	46,000	34,600	Restricted for supporting small businesses
	<u>46,003</u>	<u>34,608</u>	
Other financial assets	308	308	Pledged for borrowings
	11	14	Bank overdraft guarantee deposit
	<u>319</u>	<u>322</u>	
	₩ <u>46,322</u>	<u>34,930</u>	

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

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

(1) Details of loans and other receivables as of December 31, 2014 and 2013 are as follows:

(In millions of won)

		<b>2014</b>	<b>2013</b>
<b>Current</b>			
Other receivables	₩	228,438	149,058
Accrued income		27,914	10,793
Short-term loans		60,723	47,774
		<u>317,075</u>	<u>207,625</u>
<b>Non-current</b>			
Long-term other receivables		24,067	22,292
Long-term loans		1,627	11,453
Long-term accrued income		-	9
Guarantee deposits		22,907	12,045
Long-term deposits		-	562
		<u>48,601</u>	<u>46,361</u>
	₩	<u>365,676</u>	<u>253,986</u>

(2) Trade receivables and loans and other receivables, net of provision for impairment, as of December 31, 2014 and 2013 are as follows:

(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		318,742	(1,667)	317,075
Non-current loans and other receivables		53,684	(5,083)	48,601
	₩	<u>3,914,374</u>	<u>(8,485)</u>	<u>3,905,889</u>

(In millions of won)

		<b>2013</b>		
		<b>Gross amount</b>	<b>Provision for impairment</b>	<b>Carrying amount</b>
Trade receivables	₩	1,805,909	(2,449)	1,803,460
Current loans and other receivables		209,687	(2,062)	207,625
Non-current loans and other receivables		57,699	(11,338)	46,361
	₩	<u>2,073,295</u>	<u>(15,849)</u>	<u>2,057,446</u>

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

**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 years ended December 31, 2014 and 2013 are as follows:

*(In millions of won)*

	<b>2014</b>	<b>2013</b>
<b>Beginning balance</b>	₩ 2,449	2,490
Provision for receivables impairment	171	-
Unused amounts reversed	-	(41)
Receivables written off during the period as uncollectible	(885)	-
<b>Ending balance</b>	₩ 1,735	2,449

Movements in the provision for impairment of current loans and other receivables for the years ended December 31, 2014 and 2013 are as follows:

*(In millions of won)*

	<b>2014</b>	<b>2013</b>
<b>Beginning balance</b>	₩ 2,062	5,034
Provision for receivables impairment	302	-
Unused amounts reversed	-	(2,679)
Receivables written off during the period as uncollectible	(697)	(293)
<b>Ending balance</b>	₩ 1,667	2,062

Movements in the provision for impairment of non-current loans and other receivables for the years ended December 31, 2014 and 2013 are as follows:

*(In millions of won)*

	<b>2014</b>	<b>2013</b>
<b>Beginning balance</b>	₩ 11,338	11,208
Provision for receivables impairment	4,636	267
Receivables written off during the period as uncollectible	(10,891)	(137)
<b>Ending balance</b>	₩ 5,083	11,338

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

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

(4) The aging analyses of trade receivables and loans and other receivables as of December 31, 2014 and 2013 are as follows:

(In millions of won)

		<b>2014</b>					
		<b>Not impaired</b>					
		<b>Overdue</b>					
		<b>Not Past due</b>	<b>Less than 3 months</b>	<b>Over 3 months and less than 6 months</b>	<b>Over 6 months</b>	<b>Impaired</b>	<b>Total</b>
Trade receivables	₩	3,541,948	-	-	-	-	3,541,948
Current loans and other receivables		317,464	-	-	-	1,279	318,743
Non-current loans and other receivables		30,259	-	-	-	23,424	53,683
	₩	<u>3,889,671</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,703</u>	<u>3,914,374</u>

(In millions of won)

		<b>2013</b>					
		<b>Not impaired</b>					
		<b>Overdue</b>					
		<b>Not Past due</b>	<b>Less than 3 months</b>	<b>Over 3 months and less than 6 months</b>	<b>Over 6 months</b>	<b>Impaired</b>	<b>Total</b>
Trade receivables	₩	1,805,024	-	-	-	885	1,805,909
Current loans and other receivables		207,706	-	-	-	1,981	209,687
Non-current loans and other receivables		46,706	-	-	-	10,993	57,699
	₩	<u>2,059,436</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,859</u>	<u>2,073,295</u>



SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

**9. Inventories**

(1) Details of inventories as of December 31, 2014 and 2013 are as follows:

*(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
	<b>₩ 1,276,652</b>	<b>(59,370)</b>	<b>1,217,282</b>

*(In millions of won)*

	<b>2013</b>		
	<b>Acquisition cost</b>	<b>Inventory valuation allowance</b>	<b>Carrying amount</b>
Finished goods	₩ 317,959	(25,541)	292,418
Work-in-process	512,529	(41,891)	470,638
Raw materials	114,319	(1,102)	113,217
Supplies	19,024	-	19,024
Goods in transit	25,293	-	25,293
	<b>₩ 989,124</b>	<b>(68,534)</b>	<b>920,590</b>

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

*(In millions of won)*

	<b>2014</b>	<b>2013</b>
Inventories recognized as cost of sales	₩ 9,502,137	8,993,470
Reversal of valuation allowance of inventories	9,164	41,212

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

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

Details of other current and non-current assets as of December 31, 2014 and 2013 are as follows:

*(In millions of won)*

	<b>2014</b>	<b>2013</b>
<b>Current</b>		
Advance payments	₩ 1,902	1,475
Prepaid expenses	134,370	119,581
Others	5,981	5,854
	<u>142,253</u>	<u>126,910</u>
<b>Non-current</b>		
Long-term prepaid expenses	492,059	345,850
Others	13,456	19,026
	<u>505,515</u>	<u>364,876</u>
	<u>₩ 647,768</u>	<u>491,786</u>

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

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

(1) Investments in subsidiaries, associates and joint ventures as of December 31, 2014 and 2013 are as follows:

(In millions of won)

	<b>2014</b>	<b>2013</b>
Investments in subsidiaries	₩ 3,881,281	3,225,497
Investments in associates and joint ventures	92,608	100,746
	<u>₩ 3,973,889</u>	<u>3,326,243</u>

(2) Details of investments in subsidiaries as of December 31, 2014 and 2013 are as follows:

(In millions of won)

	<b>Location</b>	<b>Percentage of ownership (%) in 2014</b>	<b>Book value</b>	
			<b>2014</b>	<b>2013</b>
SK hyeng Inc. <sup>1</sup>	Korea	100.00	7,521	15,154
SK hystec Inc.	Korea	100.00	6,760	6,760
Siliconfile Technologies Inc. <sup>2</sup>	Korea	100.00	62,208	-
SK hynix America Inc. (SKHYA)	U.S.A.	97.74	31	31
Hynix Semiconductor Manufacturing America Inc. (HSMA) <sup>3</sup>	U.S.A.	0.05	-	-
SK hynix Deutschland GmbH (SKHYD)	Germany	100.00	22,011	22,011
SK hynix Europe Holding Ltd. (SKHYE) <sup>4</sup>	U.K.	-	-	-
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>5</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) <sup>6</sup>	China	90.26	2,520,881	2,421,631
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) <sup>7</sup>	U.S.A.	100.00	311,283	287,602
SK hynix Flash Solution Taiwan (SKHYFST)	Taiwan	100.00	7,819	7,819
SK APTECH Ltd. (SKAPTECH) <sup>8</sup>	Hong Kong	100.00	158,380	54,681
SK hynix Semiconductor (Chongqing) Ltd. (SKHYCQL) <sup>9</sup>	China	-	-	-
Softerq Flash Solutions LLC.(SOFTEQ) <sup>10</sup>	Belarus	100.00	14,579	-
MMT(Money Market Trust) <sup>11</sup>	Korea	100.00	360,000	-
			<u>3,881,281</u>	<u>3,225,497</u>

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

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

- <sup>1</sup> QRT Inc., that was established by spin-off from SK hyeng Inc.'s technical service division, has been sold during the year ended December 31, 2014.
- <sup>2</sup> The Company acquired entire shares held by Siliconfile Technologies Inc.'s existing shareholders in exchange for the Company's newly issued ordinary shares during the year ended December 31, 2014.
- <sup>3</sup> Subsidiary of SK hynix America Inc. (SKHYA)
- <sup>4</sup> The liquidation process of SK hynix Europe Holding Ltd. has been completed during the year ended December 31, 2014.
- <sup>5</sup> Subsidiary of SK hynix Asia Pte. Ltd. (SKHYS)
- <sup>6</sup> The Company invested ₩99,249 million in SK hynix Semiconductor (China) Ltd.(SKHYCL) during the year ended December 31, 2014.
- <sup>7</sup> The Company invested ₩23,681 million in SK hynix memory solutions Inc. (SKHMS) during the year ended December 31, 2014.
- <sup>8</sup> The Company invested ₩103,699 million in SK APTECH Ltd. during the year ended December 31, 2014.
- <sup>9</sup> Subsidiary of SKAPTECH Ltd. (SKAPTECH)
- <sup>10</sup> The Company acquired Softeq Flash Solutions LLC. (SOFTEQ) during the year ended December 31, 2014.
- <sup>11</sup> The Company acquired MMT (Money Market Trust) during the year ended December 31, 2014.

(3) Details of investments in associates and joint ventures as of December 31, 2014 and 2013 are as follows:

<i>(In millions of won)</i>		Ownership (%) in 2014	Carrying amount	
Type	Investee		2014	2013
Associate	Siliconfile Technologies Inc. <sup>1</sup>	-	₩ -	8,138
Joint venture	HITECH Semiconductor (Wuxi) Co.,Ltd. (HITECH)	45	₩ 92,608	92,608
			₩ 92,608	100,746

<sup>1</sup> Siliconfile Technologies Inc. became a subsidiary through the Company's additional acquisition of the remaining interest in 2014.

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

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

(1) Details of available-for-sale financial assets as of December 31, 2014 and 2013 are as follows:

(In millions of won)

	2014			2013	
	Number of stock	Ownership (%)	Acquisition cost	Book value	Book value
Hyundai Information Technology Co, Ltd.	-	-	₩ -	-	1,885
HYUNDAI LOGISTICS CO., LTD.	-	-	-	-	98
EQ bestech Co.,Ltd.	-	-	-	-	10
Itest Co., Ltd.	-	-	-	-	768
Hyundai IBT Co., Ltd.	-	-	-	-	4
Fidelix Co., Ltd.	-	-	-	-	3,870
iA, Inc. (formerly, C&S Technology Co., Ltd.)	-	-	-	-	3,389
Phison Electronics Corp.	-	-	-	-	22,050
ProMos	201,600,000	7.93	21,847	-	-
JNT Frontier Private Equity Unit	Certificate	-	1,307	1,307	1,307
SV M&A No.1 Equity Unit	Certificate	-	1,196	1,196	1,196
Daishin Aju IB Investment Co., Ltd.	Certificate	-	1,265	1,265	1,518
Seoul Investment Early & Green Venture Fund	Certificate	-	1,760	1,760	1,867
TS 2011-4 Technology Transfer & Business	Certificate	-	1,262	1,262	1,600
IMM Investment	Certificate	-	1,040	1,040	786
L&S Venture Capital	Certificate	-	1,899	1,899	1,124
KTC-NP-Growth	Certificate	-	516	516	540
Intellectual Discovery, Ltd.	800,000	8.94	4,000	4,000	4,000
SKY Property Mgmt. Ltd.	5,745	15	112,360	112,360	112,360
Others			199	-	2
			₩ 148,651	126,605	158,374

(2) Changes in the carrying amount of available-for-sale financial assets for the years ended December 31, 2014 and 2013 are as follows:

(In millions of won)

	2014	2013
<b>Beginning balance</b>	₩ 158,374	43,901
Acquisition	1,101	115,565
Disposal	(32,870)	(126)
Change in fair value	-	(966)
<b>Ending balance</b>	₩ 126,605	158,374

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

**13. Property, Plant and Equipment**

(1) Changes in property, plant and equipment for the years ended December 31, 2014 and 2013 are as follows:

(In millions of won)

		2014							
		Land	Buildings	Structures	Machinery	Vehicles	Others	Construction-in-progress	Total
<b>Beginning net book amount</b>	₩	502,161	1,100,650	107,884	6,830,359	110	180,126	521,740	9,243,030
<b>Changes during 2014</b>									
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		38,097	133,322	23,152	2,966,389	730	60,688	(3,223,464)	(1,086)
Impairments		-	(23,620)	(1,777)	-	-	-	-	(25,397)
<b>Ending net book amount</b>	₩	<u>540,258</u>	<u>1,164,759</u>	<u>117,015</u>	<u>7,299,285</u>	<u>744</u>	<u>181,753</u>	<u>1,558,716</u>	<u>10,862,530</u>
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)
	₩	<u>540,258</u>	<u>1,164,759</u>	<u>117,015</u>	<u>7,299,285</u>	<u>744</u>	<u>181,753</u>	<u>1,558,716</u>	<u>10,862,530</u>

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

13. Property, Plant and Equipment, Continued

(In millions of won)

	2013							
	Land	Buildings	Structures	Machinery	Vehicles	Others	Construction-in-progress	Total
<b>Beginning net book amount</b>	₩ 441,371	1,079,117	83,407	6,767,864	176	167,932	404,617	8,944,484
<b>Changes during 2013</b>								
Additions	226	125	-	9,693	-	-	2,469,298	2,479,342
Disposals	-	(857)	(690)	(37,360)	-	(12)	(336)	(39,255)
Depreciation	-	(41,368)	(12,569)	(2,035,547)	(66)	(51,991)	-	(2,141,541)
Transfers	60,564	63,633	37,736	2,125,709	-	64,197	(2,351,839)	-
<b>Ending net book amount</b>	₩ 502,161	1,100,650	107,884	6,830,359	110	180,126	521,740	9,243,030
Acquisition cost	502,161	1,548,927	390,334	23,168,712	1,011	624,633	521,740	26,757,518
Accumulated depreciation	-	(424,400)	(263,345)	(16,077,655)	(901)	(442,106)	-	(17,208,407)
Accumulated impairment	-	(23,877)	(19,105)	(253,595)	-	(2,290)	-	(298,867)
Government grants	-	-	-	(7,103)	-	(111)	-	(7,214)
	₩ 502,161	1,100,650	107,884	6,830,359	110	180,126	521,740	9,243,030

(2) Depreciation expense of ₩2,198,109 million (2013: ₩1,962,304 million) has been charged to cost of sales, ₩186,872 million (2013: ₩151,756 million) to selling and administrative expenses and ₩25,694 million (2013: ₩27,481 million) was capitalized as development costs for the year ended December 31, 2014.

(3) Certain property, plant and equipment are pledged as collaterals for borrowings as of December 31, 2014 (see Note 33).

(4) During 2014, the Company capitalized borrowing costs amounting to ₩20,762 million (2013: ₩ 7,687 million) on qualifying assets. Borrowing costs were calculated using a capitalization rate of 5.08% (2013: 3.87%) for the year ended December 31, 2014.

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

**13. 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 ₩169,313 million as of December 31, 2014 (as of December 31, 2013: ₩268,302 million). The machinery and others are pledged as collateral for the finance lease liabilities.

The Company provides SK hyeng 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 ₩43,943 million as of December 31, 2014.

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, 2014 is as follows:

<i>(In millions of won)</i>	<b>Minimum lease payments</b>
No later than 1 year	₩ 50,497
Later than 1 year	133,164
	<u>₩ 183,661</u>

(6) As of December 31, 2014, 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 assets</b>	<b>Insured amount</b>	<b>Insurance company</b>
Package insurance	Property, plant and equipment, investment property Inventories Business interruption	₩ 27,206,193	Hyundai Marine & Fire Insurance Co., Ltd. and others
Fire insurance	Property, plant and equipment, investment property	3,541	
Erection all risks insurance	Property, plant and equipment	415,948	
		<u>₩ 27,625,682</u>	



SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

**14. Intangible Assets**

(1) Changes in intangible assets for the years ended December 31, 2014 and 2013 are as follows:

(In millions of won)

		<b>2014</b>				
		<u>Goodwill</u>	<u>Industrial property rights</u>	<u>Development costs</u>	<u>Others<sup>1</sup></u>	<u>Total</u>
<b>Beginning net book amount</b>	₩	386,450	73,808	276,930	81,821	819,009
<b>Changes during 2014</b>						
Additions		-	29,057	179,425	119,716	328,198
Disposals		-	(9,395)	-	(378)	(9,773)
Impairment		-	-	-	(529)	(529)
Amortization		-	(12,924)	(138,483)	(14,182)	(165,589)
<b>Ending net book amount</b>		<u>386,450</u>	<u>80,546</u>	<u>317,872</u>	<u>186,448</u>	<u>971,316</u>
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)
	₩	<u>386,450</u>	<u>80,546</u>	<u>317,872</u>	<u>186,448</u>	<u>971,316</u>

(In millions of won)

		<b>2013</b>				
		<u>Goodwill</u>	<u>Industrial property rights</u>	<u>Development costs</u>	<u>Others<sup>1</sup></u>	<u>Total</u>
<b>Beginning net book amount</b>	₩	386,450	92,188	223,188	11,862	713,688
<b>Changes during 2013</b>						
Additions		-	13,128	190,271	71,703	275,102
Disposals		-	(17,287)	-	-	(17,287)
Impairment		-	-	-	(183)	(183)
Amortization		-	(14,221)	(136,529)	(1,561)	(152,311)
<b>Ending net book amount</b>		<u>386,450</u>	<u>73,808</u>	<u>276,930</u>	<u>81,821</u>	<u>819,009</u>
Acquisition cost		386,450	164,013	595,943	84,907	1,231,313
Accumulated amortization and impairment		-	(90,205)	(319,013)	(3,086)	(412,304)
	₩	<u>386,450</u>	<u>73,808</u>	<u>276,930</u>	<u>81,821</u>	<u>819,009</u>

<sup>1</sup> Others include software and club memberships.

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

**14. Intangible Assets, Continued**

(2) Amortization of ₩2,239 million (2013: nil) is included in the cost of sale and ₩163,350 million (2013: ₩152,311 million) in selling and administrative expenses in the statements of comprehensive income for the year ended December 31, 2014.

(3) Among costs associated with development activities, ₩179,425 million (2013: ₩190,271 million) that met capitalization criteria, were capitalized as development cost for the year ended December 31, 2014. In addition, costs associated with research activities and other development expenditures that did not meet the criteria and amounted to ₩1,427,372 million (2013: ₩974,511 million) were recognized as expenses for the year ended December 31, 2014.

(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, 2014. No impairment loss of goodwill was recognized since the recoverable amount is higher than carrying value of the CGU as of December 31, 2014.

**15. Investment Property**

Details of changes in investment property for the years ended December 31, 2014 and 2013 are as follows:

*(In millions of won)*

	<u>2014</u>	<u>2013</u>
<b>Beginning balance</b>	₩ 28,609	29,888
<b>Changes for the year</b>		
Depreciation	(1,239)	(1,279)
Transfer <sup>1</sup>	1,086	-
<b>Ending balance</b>	<u>₩ 28,456</u>	<u>28,609</u>
Acquisition cost	50,839	48,390
Accumulated depreciation	(22,383)	(19,781)
	<u>₩ 28,456</u>	<u>28,609</u>

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

The depreciation expense of ₩1,239 million (2013: ₩1,279 million) was charged to cost of sales for the year ended December 31, 2014

Rental income from investment property for the year ended December 31, 2014 was ₩4,534 million (2013: ₩4,283 million).

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

**16. Borrowings**

(1) Details of borrowings as of December 31, 2014 and 2013, are as follows:

*(In millions of won)*

		<u>2014</u>	<u>2013</u>
<b>Current</b>			
Short-term borrowings	₩	241,913	10,610
Current installments of debentures		200,000	-
Current installments of long-term borrowings		514,136	537,226
		<u>956,049</u>	<u>547,836</u>
<b>Non-current</b>			
Long-term borrowings		1,059,264	1,314,853
Debentures		1,156,967	1,450,777
Convertible bonds		-	498,935
		<u>2,216,231</u>	<u>3,264,565</u>
	₩	<u>3,172,280</u>	<u>3,812,401</u>

(2) Details of short-term borrowings as of December 31, 2014 and 2013 are as follows:

*(In millions of won)*

	<u>Financial institutions</u>	<u>Annual interest rate in 2014 (%)</u>		<u>2014</u>	<u>2013</u>
Import finance	Woori Bank	0.58	₩	22,060	10,610
Borrowings on trade receivables collateral	NongHyup Bank and others	3M LIBOR + 0.47 ~ 0.55		219,853	-
			₩	<u>241,913</u>	<u>10,610</u>

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

16. Borrowings, Continued

(3) Details of long-term borrowings as of December 31, 2014 and 2013 are as follows:

(In millions of won)

	Financial institutions	Annual interest rate in 2014 (%)	2014	2013
<b>Local currency borrowings:</b>				
Borrowing for housing	Kookmin Bank	3.5	₩ 10	24
Borrowings for childcare facilities	NongHyup Bank	2	185	246
Funds for equipment	Korea Finance Corporation	Industrial financial debentures (4 years) <sup>2</sup> + 0.93	250,000	250,000
Funds for equipment	Korea Exchange Bank	CD (91 days) <sup>3</sup> + 1.31	50,000	50,000
Commercial paper	Korea Exchange Bank	3.9	200,000	370,000
Finance lease liabilities	ME Semiconductor Rental First L.L.C.	5	147,870	212,442
			648,065	882,712
<b>Foreign currency borrowings:</b>				
General borrowings	Export-Import Bank of Korea	3M LIBOR <sup>4</sup> + 3.15	274,800	105,530
General borrowings <sup>1</sup>	Standard Chartered Bank Korea Ltd.	3M LIBOR <sup>4</sup> + 3.00	12,366	86,271
General borrowings	Hana Bank	-	-	23,744
General borrowings	Korea Development Bank	Exchange equalization fund rate <sup>5</sup> + 0.60	109,920	316,590
General borrowings	Korea Exchange Bank	Exchange equalization fund rate <sup>5</sup> + 0.63	87,936	-
General borrowings	Korea Exchange Bank	3M LIBOR <sup>4</sup> + 3.79	54,960	52,765
General borrowings	NongHyup Bank	Exchange equalization fund rate <sup>5</sup> + 0.63	87,936	-
General borrowings	NongHyup Bank	3M LIBOR <sup>4</sup> + 3.19	219,840	211,060
Mortgage loans	HITECH	7.16	18,162	71,469
Finance lease liabilities	HITECH and others	4.70 ~ 7.16	59,415	105,457
			925,335	972,886
			1,573,400	1,855,598
Less: Discount on present value			-	(3,519)
Current maturities			(514,136)	(537,226)
			₩ 1,059,264	1,314,853

<sup>1</sup> The Company entered into interest swap contracts with Standard Chartered Bank Korea Ltd. for the interest on the foreign currency loans.

<sup>2</sup> As of December 31, 2014, industrial financial debentures (4 years) rate is 3.05%.

<sup>3</sup> As of December 31, 2014, CD (91 days) rate is 2.13%.

<sup>4</sup> As of December 31, 2014, 3M LIBOR rate is 0.2552%.

<sup>5</sup> As of December 31, 2014, exchange equalization fund rate is 0.78%.

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

**16. Borrowings, Continued**

(4) Details of debentures as of December 31, 2014 and 2013 are as follows:

(In millions of won)

	<b>Maturity date</b>	<b>Annual interest rate in 2014 (%)</b>		<b>2014</b>	<b>2013</b>
<b>Unsecured notes in local currency:</b>					
210th	Jan. 14, 2015	6.35	₩	200,000	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
<b>Secured notes in foreign currency:</b>					
Foreign 8th <sup>1</sup>	Jun. 20, 2017	3M LIBOR+2.85		109,920	105,530
				<u>1,359,920</u>	<u>1,455,530</u>
Less: Discounts on debentures				(2,953)	(4,753)
Current portion				(200,000)	-
			₩	<u><u>1,156,967</u></u>	<u><u>1,450,777</u></u>

<sup>1</sup> The Company is provided with USD 100 million of bank payment guarantee from Shinhan Bank as of December 31, 2014.

(5) Details of convertible bonds as of December 31, 2014 and 2013, are as follows:

(In millions of won)

	<b>Maturity date</b>	<b>Annual interest rate in 2014 (%)</b>		<b>2014</b>	<b>2013</b>
<b>Convertible bond in foreign currency:</b>					
Foreign 7th <sup>1</sup>	May 14, 2015	-	₩	-	527,650
				-	<u>527,650</u>
Less: Conversion rights adjustment				-	(26,434)
Discount on bonds				-	(2,281)
			₩	<u><u>-</u></u>	<u><u>498,935</u></u>

<sup>1</sup> The entire convertible bonds were converted or repaid during the year ended December 31, 2014.

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

**16. Borrowings, Continued**

(6) 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, 2014 and 2013 are as follows:

(In millions of won)

	<u>2014</u>	<u>2013</u>
<b>Total minimum lease payment</b>		
No later than 1 year	₩ 107,364	126,839
Between 1 and 5 years	116,277	217,394
	<u>223,641</u>	<u>344,233</u>
<b>Discount on present value</b>	(16,355)	(26,334)
<b>Net minimum lease payment</b>		
No later than 1 year	98,604	112,986
Between 1 and 5 years	108,681	204,913
	<u>₩ 207,285</u>	<u>317,899</u>

(7) Details of book value and fair value of non-current borrowings as of December 31, 2014 and 2013, are as follows:

(In millions of won)

	<u>2014</u>		<u>2013</u>	
	<u>Book value</u>	<u>Fair value</u>	<u>Book value</u>	<u>Fair value</u>
Long-term borrowings	₩ 1,059,264	1,068,210	1,314,853	1,344,067
Debentures	1,156,967	1,217,236	1,450,777	1,501,810
Convertible bond	-	-	498,935	653,653
	<u>₩ 2,216,231</u>	<u>2,285,446</u>	<u>3,264,565</u>	<u>3,499,530</u>

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

Details of other current and non-current liabilities as of December 31, 2014 and 2013 are as follows:

(In millions of won)

	<u>2014</u>	<u>2013</u>
<b>Current</b>		
Advance receipts	₩ 273	891
Unearned income	322	738
Withholdings	60,641	9,367
Deposits received	57	37
	<u>61,293</u>	<u>11,033</u>
<b>Non-current</b>		
Long-term advance receipts	-	154
Long-term withholdings	-	935
Other long-term employee benefits	56,819	48,839
	<u>56,819</u>	<u>49,928</u>
	<u>₩ 118,112</u>	<u>60,961</u>

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

**18. Provisions**

(1) Details of changes in provisions for the years ended December 31, 2014 and 2013 are as follows:

(In millions of won)

		<b>2014</b>				
		<b>Beginning balance</b>	<b>Increase</b>	<b>Utilization</b>	<b>Reversal</b>	<b>Ending balance</b>
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)	(675)	4,400
	₩	<u>62,387</u>	<u>34,001</u>	<u>(62,385)</u>	<u>(675)</u>	<u>33,328</u>

(In millions of won)

		<b>2013</b>					
		<b>Beginning balance</b>	<b>Increase</b>	<b>Utilization</b>	<b>Reversal</b>	<b>Others<sup>1</sup></b>	<b>Ending balance</b>
Purchase							
commitments	₩	4,875	-	970	(5,688)	-	157
Warranty		2,949	10,991	(26)	-	-	13,914
Sales returns		5,566	179,034	(162,390)	-	-	22,210
Legal claims		322,362	58,959	(158,762)	(211,152)	14,699	26,106
	₩	<u>335,752</u>	<u>248,984</u>	<u>(320,208)</u>	<u>(216,840)</u>	<u>14,699</u>	<u>62,387</u>

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

(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. (SKHYCL). 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.

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

**19. Defined Benefit Liabilities**

(1) Details of defined benefit liabilities as of December 31, 2014 and 2013 are as follows:

*(In millions of won)*

	<b>2014</b>	<b>2013</b>
Present value of defined benefit obligations	₩ 857,390	631,757
Fair value of plan assets	(402,089)	(4,851)
	<u>₩ 455,301</u>	<u>626,906</u>

(2) Principal actuarial assumptions as of December 31, 2014 and 2013 are as follows:

	<b>2014</b>	<b>2013</b>
Discount rate for defined benefit obligations	4.50%	5.51%
Expected rate of salary increase	5.81%	5.85%

(3) Weighted average durations of defined benefit obligations as of December 31, 2014 and 2013 are 12.67 and 13.07 years, respectively.

(4) Changes in defined benefit obligations for the years ended December 31, 2014 and 2013 are as follows:

*(In millions of won)*

	<b>2014</b>	<b>2013</b>
<b>Beginning balance</b>	₩ 631,757	570,499
Current service cost	104,175	93,361
Interest cost	34,226	27,149
Other	205	-
Transferred from associates	413	344
Remeasurements:		
Demographic assumption	-	8,360
Financial assumption	117,527	(25,704)
Adjustment based on experience	874	3,069
Benefits paid	(31,787)	(45,321)
<b>Ending balance</b>	<u>₩ 857,390</u>	<u>631,757</u>

(5) Changes in plan assets for the years ended December 31, 2014 and 2013 are as follows:

*(In millions of won)*

	<b>2014</b>	<b>2013</b>
<b>Beginning balance</b>	₩ 4,851	5,004
Contributions	397,237	-
Interest income	674	151
Benefits paid	(554)	(251)
Remeasurements	(119)	(53)
<b>Ending balance</b>	<u>₩ 402,089</u>	<u>4,851</u>



SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

**19. Defined Benefit Liabilities, Continued**

(6) The amounts recognized in profit or loss for the years ended December 31, 2014 and 2013 are as follows:

*(In millions of won)*

	<b>2014</b>	<b>2013</b>
Current service cost	₩ 104,175	93,361
Net interest cost	33,552	26,998
	<u>₩ 137,727</u>	<u>120,359</u>

(7) The accounts in which defined benefit plan related expenses are included for the years ended December 31, 2014 and 2013, are as follows:

*(In millions of won)*

	<b>2014</b>	<b>2013</b>
Cost of sales (manufacturing costs)	₩ 78,774	69,454
Selling and administrative expenses	58,953	50,905
	<u>₩ 137,727</u>	<u>120,359</u>

(8) Details of plan assets as of December 31, 2014 and December 31, 2013 are as follows:

*(In millions of won)*

	<b>2014</b>	<b>2013</b>
Deposits	₩ 400,461	2,996
Other	1,627	1,855
	<u>₩ 402,088</u>	<u>4,851</u>

Actual return on plan assets for the years ended December 31, 2014 and 2013 amounted to ₩555 million and ₩98 million, respectively.

(9) As of December 31, 2014, the Company funded defined benefit obligations through insurance plans with Mirae Asset Life Insurance Co., Ltd. and other insurance companies.

(10) As of December 31, 2014, effects on defined benefit obligations if each of significant actuarial assumptions changes within expectable and reasonable range are as follows:

*(In millions of won)*

	<b>Effects on defined benefit obligation</b>	
	<u><b>Increase of rate</b></u>	<u><b>Decrease of rate</b></u>
Discount rate (if changed by 1%)	₩ (97,583)	115,897
Expected salary increase rate (if changed by 1%)	116,566	(99,817)

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.

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
**December 31, 2014 and 2013**

**20. Deferred income tax**

(1) Change in deferred taxes for the years ended December 31, 2014 and 2013 are as follows:

*(In millions of won)*

	<b>2014</b>	<b>2013</b>
<b>At January 1</b>	₩ <u>110,254</u>	<u>307,918</u>
Recorded in profit or loss	80,341	(197,975)
Tax charge relating to components of other comprehensive income	-	311
<b>At December 31</b>	₩ <u><u>190,595</u></u>	<u><u>110,254</u></u>

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

**20. Deferred Income Tax, Continued**

(2) Changes in deferred income tax assets and liabilities for the years ended December 31, 2014 and 2013, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

(In millions of won)

	<b>2014</b>			
	<b>January 1, 2014</b>	<b>Profit or loss</b>	<b>Other comprehensive income</b>	<b>December 31, 2014</b>
<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)
	<u>(82,735)</u>	<u>(86,277)</u>	<u>-</u>	<u>(169,012)</u>
<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)	-	-
Tax credit carryforwards	638,977	(75,973)	-	563,004
Others	66,242	29,584	-	95,826
	<u>1,413,047</u>	<u>(92,914)</u>	<u>-</u>	<u>1,320,133</u>
Deferred tax assets, net	1,330,312	(179,191)	-	1,151,121
Deferred tax assets not recognized	(1,220,058)	259,532	-	(960,526)
<b>Deferred tax assets recognized</b> ₩	<u>110,254</u>	<u>80,341</u>	<u>-</u>	<u>190,595</u>

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

20. Deferred Income Tax, Continued

(In millions of won)

	2013			
	January 1, 2013	Profit or loss	Other comprehensive income	December 31, 2013
<b>Deferred tax liabilities:</b>				
Advanced depreciation provision ₩	(55,666)	-	-	(55,666)
Valuation of derivatives	(5,356)	(95)	-	(5,451)
Gains on foreign currency translation	(30,398)	28,442	-	(1,956)
Conversion rights adjustment	(14,943)	8,116	-	(6,827)
Others	(18,106)	4,960	311	(12,835)
	(124,469)	41,423	311	(82,735)
<b>Deferred tax assets:</b>				
Loss on valuation of inventories	27,738	(8,926)	-	18,812
Valuation of equity-method investments	317,873	(108,076)	-	209,797
Accumulated depreciation	56,207	(13,025)	-	43,182
Defined benefit obligations	106,932	30,145	-	137,077
Deemed investments and others	162,507	(117)	-	162,390
Provisions and others	104,468	(98,653)	-	5,815
Impairment of available-for-sale financial assets	36,964	3,170	-	40,134
Losses on foreign currency translation	29,906	(27,358)	-	2,548
Property, plant and equipment	24,439	(9,222)	-	15,217
Losses on valuation of derivative	9,182	22,185	-	31,367
Tax loss carryforwards	587,290	(545,801)	-	41,489
Tax credit carryforwards	655,747	(16,770)	-	638,977
Others	90,902	(24,660)	-	66,242
	2,210,155	(797,108)	-	1,413,047
Deferred tax assets, net	2,085,686	(755,685)	311	1,330,312
Deferred tax assets not recognized	(1,777,768)	557,710	-	(1,220,058)
<b>Deferred tax assets recognized</b> ₩	307,918	(197,975)	311	110,254

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

**20. 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, 2013, the Company recognized the entire deferred tax assets for tax loss carryforwards which are deductible from future taxable income.

In addition, the Company did not recognize deferred tax assets of ₩573,438 million (2013: ₩658,207 million) associated with deductible temporary differences amounting to ₩2,369,579 million (2013: ₩2,719,854 million).

For the year ended December 31, 2014, ₩148,052 million (2013: ₩108,433) of tax credit incurred which can be utilized in the future period. The unused tax credit and others that were not recognized as deferred tax assets amounted to ₩387,088 million (2013: ₩561,851 million) as of December 31, 2014.

(4) Expiration schedule of tax credit carryforwards as of December 31, 2014 is as follows:

*(In millions of won)*

	<b>Tax credit carryforwards</b>
2015	₩ 22,231
2016	140,030
2017	144,840
2018	107,851
Thereafter	148,052
	<u>₩ 563,004</u>

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

**21. Derivative Financial Instruments**

(1) The Company has managed financial risk including interest rate risk and foreign exchange risk through interest rate swap and other derivative instruments. In addition, 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 in therein were recognized in profit or loss.

(2) Details of derivative financial assets and liabilities as of December 31, 2014 and 2013 are as follows:

(In millions of won)

	<b>2014</b>		<b>2013</b>	
	<b>Liabilities</b>	<b>Assets</b>	<b>Assets</b>	<b>Liabilities</b>
<b>Current</b>				
Interest rates swap	₩ 30	-		267
<b>Non-current</b>				
Interest rates swap	708	272		245
Embedded derivative instruments	-	-		106,849
	708	272		107,094
	₩ 738	272		107,361

(3) Details of gains and losses from derivative instruments for the years ended December 31, 2014 and 2013 are as follows:

(In millions of won)

	<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	-	171,016	-	2,691
	₩ 215	171,996	2,638	2,928

(In millions of won)

	<b>2013</b>			
	<b>Gain on valuation</b>	<b>Loss on valuation</b>	<b>Gain on transaction</b>	<b>Loss on transaction</b>
Foreign currency forward contract	-	-	3,630	5,308
Interest rates swap	1,176	-	26	1,242
Embedded derivative instruments	-	93,085	-	-
	₩ 1,176	93,085	3,656	6,550

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

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

(1) Details of capital stock, capital surplus and other equity as of December 31, 2014 and 2013 are as follows:

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

	<b>2014</b>	<b>2013</b>
Authorized shares	9,000,000	9,000,000
Issued shares <sup>1</sup>	731,530	713,729
Capital stock:		
Common stock	₩ 3,657,652	3,568,645
Capital surplus:		
Additional paid in capital	3,625,797	2,888,144
Consideration for conversion rights	42,928	42,928
Others	513,291	513,291
	<u>4,182,016</u>	<u>3,444,363</u>
Other equity:		
Acquisition cost of treasury shares	₩ (24)	-
Number of treasury shares	1	-

<sup>1</sup> As of December 31, 2014, the number of outstanding shares is 728,002 thousand shares, which differs from total issued shares due to the result of stock retirement.

(2) Issue of ordinary shares related to the acquisition of a subsidiary and exercise of conversion rights resulted in increase in both capital stock and capital surplus during the year ended December 31, 2014. Changes in number of outstanding shares as of December 31, 2014 and December 31, 2013 are as follows:

*(In thousands of shares)*

	<b>2014</b>	<b>2013</b>
<b>Beginning</b>	<u>710,201</u>	<u>694,156</u>
Issue of ordinary shares related to the acquisition of a subsidiary	1,358	-
Exercise of conversion rights	16,443	16,045
<b>Ending</b>	<u><u>728,002</u></u>	<u><u>710,201</u></u>

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

**23. Accumulated Other Comprehensive Income**

(1) Details of accumulated other comprehensive income as of December 31, 2014 and 2013 are as follows:

(In millions of won)

	<u>2014</u>	<u>2013</u>
Available-for-sale financial assets		
– unrealized net change in fair value	₩ -	7,824

(2) Changes in accumulated other comprehensive income for the years ended December 31, 2014 and 2013 are as follows:

(In millions of won)

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

(In millions of won)

		<u>2013</u>	
	<u>Beginning</u>	<u>Change</u>	<u>Ending</u>
Available-for-sale financial assets			
– unrealized net change in fair value	₩ 8,479	(655)	7,824

**24. Retained Earnings**

(1) Retained earnings as of December 31, 2014 and 2013 are as follows :

(In millions of won)

	<u>2014</u>	<u>2013</u>
Legal reserve <sup>1</sup>	₩ 8,854	8,854
Discretionary reserve <sup>2</sup>	235,506	235,506
Unappropriated retained earnings	9,590,660	5,937,418
	<u>₩ 9,835,020</u>	<u>6,181,779</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.



SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

**24. Retained Earnings, Continued**

(2) Statement of Appropriations of Retained Earnings

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

	<b>2014</b>	<b>2013</b>
<b>Retained earnings before appropriations</b>		
Unappropriated retained earnings carried over from the prior year	₩ 5,937,418	3,126,230
Remeasurements of defined benefit liability	(118,519)	14,221
Profit for the year	3,771,761	2,796,967
	<u>9,590,660</u>	<u>5,937,418</u>
<b>Appropriation of retained earnings<sup>1</sup></b>		
Earned surplus reserve	21,840	-
Cash dividend (2014: ₩300 per share, 6% on par value)	218,401	-
	<u>240,241</u>	<u>-</u>
<b>Unappropriated retained earnings carried forward to the subsequent year</b>	₩ <u>9,350,419</u>	<u>5,937,418</u>

<sup>1</sup> For the years ended December 31, 2014 and 2013, the date of appropriation is March 20, 2015 and March 21, 2014, respectively.

**25. Dividends**

(1) Details of dividends for the years ended December 31, 2014 and 2013 are as follows:

(In millions of won and in thousands of shares)

	<b>2014</b>	<b>2013</b>
Type of dividends	Cash dividends	
Outstanding ordinary shares	728,002	710,201
Par value (in won)	₩ 5,000	5,000
Dividend rate	6%	-
Total dividends	₩ <u>218,401</u>	<u>-</u>

(2) Dividend payout ratio for the years ended December 31, 2014 and 2013 is as follows:

(In millions of won)

	<b>2014</b>	<b>2013</b>
Dividends	₩ 218,401	-
Profit for the year	3,771,761	2,796,967
Dividend payout ratio	<u>5.79%</u>	<u>-</u>

(3) Dividend yield ratio for the years ended December 31, 2014 and 2013 is as follows:

(In won)

	<b>2014</b>	<b>2013</b>
Dividends per share	₩ 300	-
Closing price	47,750	36,800
Dividend yield ratio	<u>0.63%</u>	<u>-</u>

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

**26. Selling and Administrative Expenses**

Selling and administrative expenses for the years ended December 31, 2014 and 2013 are as follows:

(In millions of won)

	<u>2014</u>	<u>2013<sup>1</sup></u>
Salaries	₩ 266,307	202,699
Defined benefit plan related expenses	21,393	18,383
Employee benefits	39,047	39,738
Commission expense	195,559	152,274
Depreciation	50,950	46,956
Amortization	163,350	152,311
Research and development	1,427,372	974,511
Legal cost	6,590	10,681
Rental expense	2,202	7,243
Taxes and dues	3,991	7,311
Training expense	16,165	9,370
Advertising expense	26,204	5,201
Utility expense	2,719	8,564
Freight and custody charges	27,081	21,868
Supplies	38,700	27,057
Repair expense	6,557	14,174
Travel and transportation expense	9,191	6,752
Other	40,872	28,777
	<u>₩ 2,344,250</u>	<u>1,733,870</u>

<sup>1</sup> Expenses for the year ended December 31, 2013 are reclassified to conform with the classification for the year ended December 31, 2014.

**27. Expenses by Nature**

Nature of expenses for the years ended December 31, 2014 and 2013 is as follows:

(In millions of won)

	<u>2014</u>	<u>2013<sup>2</sup></u>
Changes in finished goods and work-in-process	₩ (224,582)	244,264
Raw materials and consumables	3,952,816	3,531,673
Labor costs	2,033,269	1,703,518
Depreciation and amortization	2,574,855	2,291,930
Royalty expense	167,167	14,597
Commission expense	695,910	324,802
Utilities expense	573,781	433,487
Repair expense	733,848	799,228
Outsourcing expense	1,105,743	998,357
Other <sup>1</sup>	233,556	339,337
	<u>₩ 11,846,363</u>	<u>10,681,193</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, 2013 were reclassified according to its nature and characteristic.

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

**28. Finance Income and Expenses**

Finance income and expenses for the years ended December 31, 2014 and 2013 are as follows:

*(In millions of won)*

	<b>2014</b>	<b>2013</b>
<b>Finance Income:</b>		
Interest income	₩ 49,422	63,573
Dividend income	42,957	17,414
Gain on disposal of investments in subsidiaries and associates	327	-
Gain on disposal of financial assets	38,547	205
Foreign exchange differences	445,110	373,677
Gain from derivative instruments	2,853	4,832
Gain on valuation of financial assets at fair value through profit or loss	6,170	-
	<u>₩ 585,386</u>	<u>459,701</u>

*(In millions of won)*

	<b>2014</b>	<b>2013</b>
<b>Finance Expenses:</b>		
Interest expense	₩ 149,105	243,042
Foreign exchange differences	355,444	326,214
Loss on disposal of financial assets	3,500	-
Loss from derivative instruments	174,924	99,636
Impairment loss on investments in subsidiaries and associates	-	347
Loss on redemption of debentures	2,924	-
	<u>₩ 685,897</u>	<u>669,239</u>
<b>Net finance expenses</b>	<u>(100,511)</u>	<u>(209,538)</u>

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

**29. Other Income and Expenses**

Other income for the years ended December 31, 2014 and 2013 are as follows:

*(In millions of won)*

	<u>2014</u>	<u>2013</u>
<b>Other Income:</b>		
Gain on disposal of property, plant and equipment	₩ 15,758	11,708
Gain on disposal of intangible assets	-	191
Other	18,553	24,705
	<u>₩ 34,311</u>	<u>36,604</u>

Other expenses for the years ended December 31, 2014 and 2013 are as follows:

*(In millions of won)*

	<u>2014</u>	<u>2013</u>
<b>Other Expenses:</b>		
Loss on disposal of property, plant and equipment	₩ 10,451	8,365
Loss on disposal of intangible assets	9,421	17,278
Loss on disposal of trade receivables	616	609
Loss on impairment of property, plant and equipment	25,397	-
Loss on impairment of intangible assets	529	183
Amortization of suspended assets	2,648	3,202
Donation	15,693	2,925
Other <sup>1</sup>	375,286	14,678
	<u>₩ 440,041</u>	<u>47,240</u>

<sup>1</sup> Expenses related to settlement of trade secret lawsuit alleged by Toshiba Corporation amounting to USD 278 million (₩ 306,161 million equivalent) are included for the year ended December 31, 2014. (Note 33(1))

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

**30. Income Tax Expense**

(1) Income tax expense for the years ended December 31, 2014 and 2013 are as follows:

(In millions of won)

	<b>2014</b>	<b>2013</b>
<b>Current tax:</b>		
Current tax on profits for the year	₩ 849,692	-
	<u>849,692</u>	<u>-</u>
<b>Deferred tax:</b>		
Origination and reversal of temporary differences	(80,341)	197,975
	<u>(80,341)</u>	<u>197,975</u>
<b>Income tax expense</b>	<b>₩ 769,351</b>	<b>197,975</b>

(2) The relationship between tax expense and accounting profit for the years ended December 31, 2014 and 2013 are as follows::

(In millions of won)

	<b>2014</b>	<b>2013</b>
<b>Profit before tax</b>	₩ 4,541,112	2,994,942
<b>Tax calculated at statutory income tax rates</b>	1,098,487	725,240
<b>Tax effects of:</b>		
Tax-exempt income	(11)	(13)
Non-deductible expenses	69,196	11,119
Tax credit	(148,052)	(108,433)
Change in unrecognized deferred tax assets	(259,532)	(426,973)
Others	9,263	(2,965)
<b>Income tax expense</b>	<b>₩ 769,351</b>	<b>197,975</b>

(3) The income taxes recorded directly in equity for the years ended December 31, 2014 and 2013 are as follows:

(In millions of won)

	<b>2014</b>	<b>2013</b>
Recognized in other comprehensive income:		
Gains on valuation of available-for-sale financial assets	₩ -	311

(4) The income taxes charged directly to accumulated other comprehensive income as of December 31, 2014 and 2013 are as follows:

(In millions of won)

	<b>2014</b>			<b>2013</b>		
	<b>Before Tax</b>	<b>Tax Charge</b>	<b>After Tax</b>	<b>Before Tax</b>	<b>Tax Charge</b>	<b>After Tax</b>
Gain on valuation of available-for-sale financial assets	₩ -	-	-	11,447	(3,623)	7,824
Remeasurements of the net defined benefit liability	(299,034)	-	(299,034)	(180,515)	-	(180,515)
	<u>₩ (299,034)</u>	<u>-</u>	<u>(299,034)</u>	<u>(169,068)</u>	<u>(3,623)</u>	<u>(172,691)</u>

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

**31. Earnings per Share**

(1) Basic earnings per share for the years ended December 31, 2014 and 2013 are as follows:

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

	<b>2014</b>	<b>2013</b>
Profit attributable to ordinary shareholders	₩ 3,771,761	2,796,967
Weighted average number of outstanding ordinary shares <sup>1</sup>	718,197,377	710,200,891
<b>Basic earnings per share</b>	<b>₩ 5,252</b>	<b>3,938</b>

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

*(In shares)*

	<b>2014</b>	<b>2013</b>
Outstanding ordinary shares	710,200,891	694,155,767
Exercise of conversion rights	7,051,443	16,045,124
Issue of ordinary shares related to the acquisition of a subsidiary	945,393	-
Acquisition of treasury shares	(350)	-
<b>Weighted average number of outstanding ordinary shares</b>	<b>718,197,377</b>	<b>710,200,891</b>

(2) Diluted earnings per share

The convertible bond was excluded from diluted earnings per share calculation as its effect was anti-dilutive during the years ended December 31, 2014 and 2013. Accordingly, diluted earnings per share for the year ended December 31, 2014 and 2013 are the same as basic earnings per share.

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

**32. Related Party Transactions**

(1) Details of subsidiaries, joint venture and other related parties as of December 31, 2014 are as follows:

Type	Name of related parties
Subsidiaries	SKHYA and other 21 entities <sup>1</sup>
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, 2014 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

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

**32. Related Party Transactions, Continued**

(3) Significant transactions for the years ended December 31, 2014 and 2013, are as follows:

(In millions of won)

		<b>2014</b>			
<b>Company</b>		<b>Operating revenue and others</b>	<b>Operating expense and others</b>	<b>Dividend income</b>	<b>Asset acquisition</b>
Subsidiaries	Overseas sales subsidiaries	₩ 15,777,427	202,780	25,828	462,392
	Overseas manufacturing subsidiaries	21,939	1,988,036	-	71,720
	Overseas R&D centers	133	124,920	-	-
	Domestic subsidiaries	48,817	280,076	-	-
Associate	Siliconfile Technologies Inc. <sup>1</sup>	15,268	411	236	-
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	1,734	612,890	15,664	-
	Other related parties	SK Telecom Co., Ltd.	3,391	7,222	-
	SK Holdings Co., Ltd. <sup>2</sup>	-	32,724	-	-
	SK C&C Co., Ltd.	70	5,879	-	12,225
	SK Engineering & Construction Co., Ltd. <sup>3</sup>	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>41,728</u>	<u>1,504,621</u>

<sup>1</sup> Siliconfile Technologies Inc. became a subsidiary through the Company's additional acquisition of the remaining interest on April 22, 2014.

<sup>2</sup> The Company entered into a contract with SK Holdings Co., Ltd. under which the Company shall pay royalty for the use of SK brand in proportion to sales amount from March 2012. For the year ended December 31, 2014, royalty paid for the use of the SK brand amounted to ₩28,231 million (2013: ₩17,897 million).

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



SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

**32. Related Party Transactions, Continued**

(In millions of won)

2013

	Company	Operating revenue and others	Operating expense and others	Dividend income	Asset acquisition
Subsidiaries	Overseas sales subsidiaries	₩ 12,832,857	50,354	-	346,674
	Overseas manufacturing subsidiaries	30,939	1,770,029	-	43,003
	Overseas R&D centers	142	70,045	-	-
	Domestic subsidiaries	14,628	236,883	-	18,262
Associate	Siliconfile Technologies Inc.	60,639	1,585	-	-
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	1,137	581,374	15,033	-
Other related parties	SK Telecom Co., Ltd.	954	2,785	-	230
	SK Holdings Co., Ltd.	-	20,229	-	-
	SK C&C Co., Ltd.	47	14,247	-	30,522
	SK Engineering & Construction Co., Ltd.	90	12,056	-	166,423
	SK Energy Co., Ltd.	9,838	28,258	-	-
	SK Networks Co., Ltd.	-	423	-	112,360
	SKC solmics Co., Ltd.	-	16,777	-	183
	Chungcheong energy service Co., Ltd.	-	28,231	-	-
	HAPPYNARAE Co., Ltd.	10	44,195	-	7,457
	Others	-	9,527	-	332
		₩ 12,951,281	2,886,998	15,033	725,446

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

**32. Related Party Transactions, Continued**

(4) The balances of significant transactions as of December 31, 2014 and December 31, 2013, are as follows:

(In millions of won)

		<b>2014</b>			
<u>Company</u>	<u>Trade receivables and others</u>	<u>Loans</u>	<u>Other payables and others</u>	<u>Borrowings<sup>1</sup></u>	
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	-
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 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	-
		<u>₩ 3,399,183</u>	<u>60,456</u>	<u>1,155,955</u>	<u>22,552</u>

<sup>1</sup> The Company repaid ₩78,541 million of borrowings from HITECH Semiconductor(Wuxi) Co., Ltd. during the year ended December 31, 2014.

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

**32. Related Party Transactions, Continued**

(In millions of won)

		2013			
Company	Trade receivables and others	Loans	Other payables and others	Borrowings	
Subsidiaries	Overseas sales subsidiaries	₩ 1,562,724	47,489	103,479	-
	Overseas manufacturing subsidiaries	132,006	-	175,481	-
	Overseas R&D centers	257	10,553	1,826	-
	Domestic subsidiaries	431	-	26,894	-
Associate	Siliconfile Technologies Inc.	10,166	-	-	-
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	18	-	2,828	101,093
Other related parties	SK Telecom Co., Ltd.	-	-	419	-
	SK Holdings Co., Ltd.	-	-	2,332	-
	SK C&C Co., Ltd.	3	-	24,775	-
	SK Engineering & Construction Co., Ltd.	20	-	82,238	-
	SK Energy Co., Ltd.	76	-	5,802	-
	SK Networks Co., Ltd.	-	-	32	-
	SKC solmics Co., Ltd.	-	-	2,719	-
	Chungcheong energy service Co., Ltd.	-	-	3,102	-
	HAPPYNARAE Co., Ltd.	1	-	10,721	-
	Others	1	-	845	-
		₩ <u>1,705,703</u>	<u>58,042</u>	<u>443,493</u>	<u>101,093</u>

(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, 2014 and 2013 are as follows:

(In millions of won)

Details	2014	2013
Salaries	₩ 65,057	23,159
Defined benefit plan related expenses	5,381	2,959
Others	18	6
	₩ <u>70,456</u>	<u>26,124</u>

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

**33. Commitments and Contingencies**

(1) Significant pending litigations and claims of the Company as of December 31, 2014 are as follows:

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

Toshiba filed a lawsuit against the Company in Tokyo District Court, alleging misappropriation of trade secrets, on March 13, 2014, in which it is seeking damages of JPY 109,151 million ("Toshiba lawsuit"). The Company's response against the petition was submitted, and oral proceedings began. On December 19, 2014, Toshiba agreed with the Company to withdraw the lawsuit filed against the Company in return for settlement fee amounting to USD278 million (₩306,101 million equivalent). This settlement fee was recorded as other expenses in the Company's financial statements for the year ended December 31, 2014.

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, on March 13, 2014 ("SanDisk lawsuit"). The litigation value of the SanDisk lawsuit has not been determined. Meanwhile, on November 6, 2014, the Company requested transfer of the lawsuit to the United States District Court for California (the federal courts), for which SanDisk filed opposition. A hearing on this case is scheduled in the near future. As of December 31, 2014, above lawsuits are at an early stage and the final outcome of these matters cannot be predicted.

(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. In this regard, the Company submitted a written response on September 5, 2014, and oral pleading is planned in the near future. As of December 31, 2014, the Company did not recognize any provision as the likelihood of defending this case appears probable. However, the final outcome of this contingency cannot be predicted as of December 31, 2014.

(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 management believes it not likely an outflow of the Company's resources will be required to settle these matters. As of December 31, 2014, the final outcome of these matters cannot be determined, but could have a material effect on the Company's separate financial statements.

(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. In addition, HITECH entered into agreements to purchase corresponding machinery from the Company and its subsidiary, SKHYMC. According to the contracts, HITECH should use the machinery only for the purpose of providing the post-process service to the Company exclusively until September 2015. In 2011, the Company entered into an additional contract for the purpose of module processing service and HITECH purchased corresponding machinery from the Company. According to the agreement, the Company is liable to guarantee a certain level of margin to HITECH.

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

**33. Commitments and Contingencies, Continued**

(5) Assets provided as collateral

Details of assets provided as collateral as of December 31, 2014 are as follows:

*(In millions of won)*

	<u>Book value</u>	<u>Pledged amount</u>	<u>Remark</u>
Land	₩ 25,202		
Buildings	119,622	749,658	Borrowings for equipment and others
Machinery	414,496		
	<u>₩ 559,320</u>	<u>749,658</u>	

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, 2014 are as follows:

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

<u>Financial institution</u>	<u>Commitment</u>	<u>Currency</u>	<u>Amount</u>
Korea Exchange Bank and others	Import finance including usance	USD	445
	Export finance including bills bought	USD	370
	Comprehensive limit contract for import and export	USD	1,040

The Company has entered into trade receivables discounting agreements with several financial institutions. There are outstanding trade receivables discounted amounting to ₩219,853 million as of December 31, 2014 (as of December 31, 2013: nil). 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, 2014 are as follows:

*(In millions of won)*

	<u>Amount</u>	<u>Remark</u>
Employees	₩ 27	Guarantees for employees' borrowings relating to employee stock ownership

(8) Capital commitments

As of December 31, 2014, the Company has ₩145,139 million (as of December 31, 2013: ₩128,573 million) of commitments in relation to the capital expenditures on fixed assets.

SK HYNIX, INC.  
Notes to the Separate Financial Statements  
December 31, 2014 and 2013

**34. 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, 2014 and 2013 are as follows:

(In millions of won)

	<b>2014</b>	<b>2013</b>
<b>Profit for the year</b>	₩ 3,771,761	2,796,967
<b>Adjustment</b>		
Income tax expense	769,351	197,975
Defined benefit plan related expenses	137,727	120,359
Depreciation of property, plant and equipment and investment property	2,411,914	2,142,820
Amortization	165,589	152,311
Loss on foreign currency translation	85,372	11,182
Interest expense	149,105	243,042
Gain on foreign currency translation	(39,663)	(55,844)
Interest income	(49,422)	(63,573)
Loss on derivative instruments	172,071	94,803
Dividend income	(42,957)	(17,414)
Others, net	(2,856)	11,618
<b>Changes in operating assets and liabilities</b>		
Increase in trade receivables	(1,734,396)	(186,126)
Increase in loans and other receivables	(75,430)	(50,050)
Decrease (increase) in inventories	(296,692)	278,895
Increase in other assets	(172,257)	(196,998)
Increase (decrease) in trade payables	253,847	(64,290)
Increase (decrease) in other payables	(62,066)	16,056
Increase in other non-trade payables	440,736	267,028
Decrease in provisions	(29,060)	(131,770)
Increase in other liabilities	59,071	7,909
Contribution to Plan assets	(397,237)	-
Payment of defined benefit liabilities	(31,233)	(45,070)
<b>Cash generated from operating activities</b>	₩ 5,483,275	5,529,830

(2) Details of significant transactions without inflows and outflows of cash for the years ended December 31, 2014 and 2013 are as follows:

(In millions of won)

	<b>2014</b>	<b>2013</b>
Other payables related to acquisition of property, plant and equipment	₩ 706,940	149,847
Issue of ordinary shares related to the acquisition of a subsidiary	54,070	-
Exercise of conversion rights	772,590	432,434
Transferred to non-current convertible bond due to expiration of early redemption rights	-	486,569

## **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, 2014. 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, 2014, 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, 2014 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, 2014. We did not review the Company's IACS subsequent to December 31, 2014. 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, 2015

### Notice to Readers

This report is annexed in relation to the audit of the separate financial statements as of December 31, 2014 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.

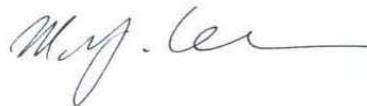
I, as the Internal Control over Financial Reporting (“ICFR”) Officer of SK HYNIX INC. (“the Company”), assessed the effectiveness of the design and operation of the Company’s ICFR for the year ended Dec 31, 2014.

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, 2014, is effectively designed and operating, in all material respects, in conformity with the Best Practice Guideline.

Jan 19, 2015

Myoung Young Lee, ICFR Officer



Sung Wook Park, Chief Executive Officer

