

SK HYNIX, INC. and Subsidiaries

Condensed Consolidated Interim Financial Statements

June 30, 2016 and 2015

(Unaudited)

(With Independent Auditors' Review Report Thereon)

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Independent Auditors' Review Report

Based on a report originally issued in Korean

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

Reviewed financial statements

We have reviewed the accompanying condensed consolidated interim financial statements of SK hynix, Inc. and its subsidiaries (the "Group") which comprise the condensed consolidated statement of financial position as of June 30, 2016, the condensed consolidated statements of comprehensive income for the three and six-month periods ended June 30, 2016 and 2015, and changes in equity and cash flows for the six-month periods ended June 30, 2016 and 2015 and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility

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

Auditors' review responsibility

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

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

Conclusion

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

Other matters

The consolidated statement of financial position of the Group as of December 31, 2015, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, which are not accompanying this report, were audited by us in accordance with Korean Standards on Auditing and our report thereon, dated February 17, 2016, expressed an unqualified opinion. The accompanying condensed consolidated statement of financial position of the Group as of December 31, 2015, presented for comparative purposes, is not different from that audited by us in all material respects.

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



KPMG Samjong Accounting Corp.

Seoul, Korea
August 11, 2016

This report is effective as of August 11, 2016, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying condensed consolidated interim financial statements and notes thereto. Accordingly, the readers of the review report should understand that the above review report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

SK HYNIX, INC. and Subsidiaries
Condensed Consolidated Statements of Financial Position
As of June 30, 2016 and December 31, 2015
(Unaudited)

(In millions of won)

	Note	2016	2015
Assets			
Current assets			
Cash and cash equivalents	5,6 ₩	987,448	1,175,719
Short-term financial instruments	5,6,7	2,445,936	3,615,554
Trade receivables, net	5,6,8	2,470,502	2,628,448
Loans and other receivables, net	5,6,8	31,946	61,613
Inventories, net	9	2,010,992	1,923,376
Current tax assets		536	1,394
Other current assets	11	408,957	353,926
		<u>8,356,317</u>	<u>9,760,030</u>
Non-current assets			
Investments in associates and joint ventures	12	117,990	122,609
Available-for-sale financial assets	5,6,13	141,323	131,354
Loans and other receivables, net	5,6,8	63,984	62,919
Other financial assets	5,6,7	428	430
Property, plant and equipment, net	14,32	17,936,788	16,966,252
Intangible assets, net	15	1,760,564	1,704,896
Investment property, net	16	2,626	2,679
Deferred tax assets		397,852	361,204
Other non-current assets	11	551,580	565,533
		<u>20,973,135</u>	<u>19,917,876</u>
Total assets	₩	<u><u>29,329,452</u></u>	<u><u>29,677,906</u></u>

See accompanying notes to the condensed consolidated interim financial statements.

SK HYNIX, INC. and Subsidiaries
Condensed Consolidated Statements of Financial Position, Continued
As of June 30, 2016 and December 31, 2015
(Unaudited)

(In millions of won)

	Note	2016	2015
Liabilities			
Current liabilities			
Trade payables	5,6 ₩	675,979	791,373
Other payables	5,6	1,139,791	1,337,803
Other non-trade payables	5,6	454,061	1,001,171
Borrowings	5,6,17	589,133	1,013,372
Provisions	19	29,047	25,276
Current tax liabilities		237,084	627,260
Other current liabilities	18	38,763	44,443
		<u>3,163,858</u>	<u>4,840,698</u>
Non-current liabilities			
Other non-trade payables	5,6	59,524	89,891
Borrowings	5,6,17	3,766,242	2,805,223
Other financial liabilities	5,6,21	564	683
Defined benefit liabilities, net	20	570,227	484,977
Deferred tax liabilities		6,110	7,582
Other non-current liabilities	18	62,105	61,149
		<u>4,464,772</u>	<u>3,449,505</u>
Total liabilities		<u>7,628,630</u>	<u>8,290,203</u>
Equity			
Equity attributable to owners of the Parent Company			
Capital stock	1,22	3,657,652	3,657,652
Capital surplus	22	4,143,736	4,143,736
Other equity	22	(771,913)	(771,913)
Accumulated other comprehensive loss	23	(64,363)	(1,600)
Retained earnings	24	14,732,047	14,358,988
Total equity attributable to owners of the Parent Company		<u>21,697,159</u>	<u>21,386,863</u>
Non-controlling interests		<u>3,663</u>	<u>840</u>
Total equity		<u>21,700,822</u>	<u>21,387,703</u>
Total liabilities and equity	₩	<u>29,329,452</u>	<u>29,677,906</u>

See accompanying notes to the condensed consolidated interim financial statements.

SK HYNIX, INC. and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income
For the three and six-month periods ended June 30, 2016 and 2015
(Unaudited)

(In millions of won, except per share information)

	<i>Note</i>	2016		2015	
		Three-month period	Six-month period	Three-month period	Six-month period
Revenue	4 ₩	3,940,927	7,596,644	4,638,579	9,456,920
Cost of sales	26	2,689,117	5,026,789	2,522,728	5,052,677
Gross profit		1,251,810	2,569,855	2,115,851	4,404,243
Selling and administrative expense	25,26	798,957	1,555,204	740,371	1,440,233
Operating profit		452,853	1,014,651	1,375,480	2,964,010
Finance income	27	152,494	388,466	160,432	360,934
Finance expense	27	219,460	447,177	142,774	321,796
Share of profit of equity-accounted investees	12	11,110	14,181	4,575	10,270
Other income	28	6,117	14,000	8,428	13,850
Other expenses	28	19,906	42,923	27,892	46,939
Profit before income tax		383,208	941,198	1,378,249	2,980,329
Income tax expense	29	97,076	207,040	269,839	576,463
Profit for the period		286,132	734,158	1,108,410	2,403,866
Other comprehensive income (loss)					
Item that will never be reclassified to profit or loss:					
Remeasurements of defined benefit liability, net of tax	20	(2,151)	(4,275)	(1,630)	(3,246)
Items that are or may be reclassified to profit or loss:					
Foreign operations – foreign currency translation differences, net of tax	23	(49,094)	(62,898)	61,344	74,770
Equity-accounted investees – share of other comprehensive income (loss), net of tax	12,23	1,295	(366)	1,694	2,261
Other comprehensive income (loss) for the period, net of tax		(49,950)	(67,539)	61,408	73,785
Total comprehensive income for the period	₩	236,182	666,619	1,169,818	2,477,651

See accompanying notes to the condensed consolidated interim financial statements.

SK HYNIX, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income, Continued

For the three and six-month periods ended June 30, 2016 and 2015

(Unaudited)

(In millions of won, except per share information)

		2016		2015	
	Note	Three-month period	Six-month period	Three-month period	Six-month period
Profit (loss) attributable to:					
Owners of the Parent Company		286,141	730,335	1,108,069	2,403,799
Non-controlling interests		(9)	3,823	341	67
Total comprehensive income					
(loss) attributable to:					
Owners of the Parent Company		236,238	662,907	1,169,530	2,477,702
Non-controlling interests		(56)	3,712	288	(51)
Earnings per share					
Basic earnings per share (in won)	30	405	1,034	1,522	3,302
Diluted earnings per share (in won)	30	405	1,034	1,522	3,302

See accompanying notes to the condensed consolidated interim financial statements.

SK HYNIX, INC. and Subsidiaries
Condensed Consolidated Statements of Changes in Equity
For the six-month periods ended June 30, 2016 and 2015
(Unaudited)

(In millions of won)		Attributable to owners of the Parent Company						Non-controlling interests	Total equity
		Capital stock	Capital surplus	Other equity	Accumulated other comprehensive income (loss)	Retained earnings	Total		
Balance at January 1, 2015	₩	3,657,652	4,143,736	(24)	(41,815)	10,276,904	18,036,453	(150)	18,036,303
Total comprehensive income									
Profit for the period		-	-	-	-	2,403,799	2,403,799	67	2,403,866
Remeasurements of defined benefit liability, net of tax (20)		-	-	-	-	(3,246)	(3,246)	-	(3,246)
Other comprehensive income from joint venture and associate, net of tax (12,23)		-	-	-	2,261	-	2,261	-	2,261
Foreign currency translation differences for foreign operations, net of tax (23)—		-	-	-	74,888	-	74,888	(118)	74,770
Total comprehensive income		-	-	-	77,149	2,400,553	2,477,702	(51)	2,477,651
Transactions with owners of the Parent Company									
Dividends paid		-	-	-	-	(218,401)	(218,401)	-	(218,401)
Transactions with owners of the Parent Company		-	-	-	-	(218,401)	(218,401)	-	(218,401)
Balance at June 30, 2015	₩	3,657,652	4,143,736	(24)	35,334	12,459,056	20,295,754	(201)	20,295,553

See accompanying notes to the condensed consolidated interim financial statements.

SK HYNIX, INC. and Subsidiaries
Condensed Consolidated Statements of Changes in Equity, Continued
For the six-month periods ended June 30, 2016 and 2015
(Unaudited)

		Attributable to owners of the Parent Company					Non-controlling interests	Total equity
		Capital stock	Capital surplus	Other equity	Accumulated other comprehensive income (loss)	Retained earnings		
(In millions of won)								
Balance at January 1, 2016	₩							
Total comprehensive income		3,657,652	4,143,736	(771,913)	(1,600)	14,358,988	840	21,387,703
Profit for the period		-	-	-	-	730,335	3,823	734,158
Remeasurements of defined benefit liability, net of tax (20)		-	-	-	-	(4,275)	-	(4,275)
Other comprehensive loss from joint venture and associate, net of tax (12,23)		-	-	-	(366)	-	-	(366)
Foreign currency translation differences for foreign operations, net of tax (23)		-	-	-	(62,787)	-	(111)	(62,898)
Total comprehensive income		-	-	-	(63,153)	726,060	3,712	666,619
Transactions with owners of the Parent Company								
Dividends paid		-	-	-	-	(353,001)	-	(353,001)
Disposal of a subsidiary		-	-	-	390	-	(889)	(499)
Transactions with owners of the Parent Company		-	-	-	390	(353,001)	(889)	(353,500)
Balance at June 30, 2016	₩	3,657,652	4,143,736	(771,913)	(64,363)	14,732,047	3,663	21,700,822

See accompanying notes to the condensed consolidated interim financial statements.

SK HYNIX, INC. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
For the six-month periods ended June 30, 2016 and 2015
(Unaudited)

(In millions of won)

	Note	2016	2015
Cash flows from operating activities			
Cash generated from operating activities	33 ₩	2,589,295	5,315,549
Interest received		25,494	30,319
Interest paid		(64,474)	(63,775)
Dividends received		20,744	16,781
Income tax paid		(638,524)	(612,484)
Net cash provided by operating activities		1,932,535	4,686,390
Cash flows from investing activities			
Decrease in short-term financial instruments		4,101,469	7,224,289
Increase in short-term financial instruments		(2,920,817)	(7,135,676)
Collection of loans and other receivables		2,880	7,679
Increase in loans and other receivables		(3,002)	(3,947)
Proceeds from disposal of available-for-sale financial assets		1,455	696
Acquisition of available-for-sale financial assets		(11,424)	(3,417)
Cash inflows from derivative transactions		584	989
Cash outflows from derivative transactions		(812)	(1,174)
Proceeds from disposal of property, plant and equipment		5,437	62,862
Acquisition of property, plant and equipment		(3,254,017)	(3,662,230)
Proceeds from disposal of intangible assets		1,577	406
Acquisition of intangible assets		(247,797)	(286,945)
Receipt of government grants		-	378
Acquisition of investments in associates		(2,293)	(2,194)
Net cash used in investing activities	₩	(2,326,760)	(3,798,284)

See accompanying notes to the condensed consolidated interim financial statements.

SK HYNIX, INC. and Subsidiaries
Condensed Consolidated Statements of Cash Flows, Continued
For the six-month periods ended June 30, 2016 and 2015
(Unaudited)

(In millions of won)

	2016	2015
Cash flows from financing activities		
Proceeds from borrowings	₩ 1,881,493	1,854,550
Repayments of borrowings	(1,316,912)	(2,317,930)
Dividends paid	(353,001)	(218,401)
Net cash provided by (used in) financing activities	<u>211,580</u>	<u>(681,781)</u>
Effect of movements in exchange rates on cash and cash equivalents	<u>(5,626)</u>	<u>6,995</u>
Net increase (decrease) in cash and cash equivalents	(188,271)	213,320
Cash and cash equivalents at beginning of the period	<u>1,175,719</u>	<u>436,761</u>
Cash and cash equivalents at end of the period	<u>₩ 987,448</u>	<u>650,081</u>

See accompanying notes to the condensed consolidated interim financial statements.

SK HYNIX, INC. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2016 and 2015

(Unaudited)

1. Reporting Entity

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

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

As of June 30, 2016, the shareholders of the Parent Company are as follows:

Shareholder	Number of shares	Percentage of ownership (%)
SK Telecom Co., Ltd.	146,100,000	20.07
Share Management Council ¹	5,097,667	0.70
National Pension Service and other investors	554,804,128	76.21
Treasury shares	22,000,570	3.02
	<u>728,002,365</u>	<u>100.00</u>

¹ As of June 30, 2016, the number of shares held by each member of Share Management Council is as follows:

Shareholder	Number of shares	Percentage of ownership (%)
KEB Hana Bank	5,092,500	0.70
Other financial institutions	5,167	0.00
	<u>5,097,667</u>	<u>0.70</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.

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
June 30, 2016 and 2015
(Unaudited)

1. Reporting Entity, Continued

(2) Details of the Group's consolidated subsidiaries as of June 30, 2016 and December 31, 2015 are as follows:

Company	Location	Business	Ownership(%)	
			2016	2015
SK hyeng Inc.	Korea	Domestic subsidiary	100.00	100.00
SK hystec Inc.	Korea	Domestic subsidiary	100.00	100.00
Siliconfile Technologies Inc.	Korea	Development and manufacturing of electronic component	100.00	100.00
SK hynix America Inc. (SKHYA)	U.S.A.	Overseas sales subsidiary	97.74	97.74
Hynix Semiconductor Manufacturing America Inc. (HSMA) ¹	U.S.A.	Discontinued subsidiary	-	100.00
SK hynix Deutschland GmbH (SKHYD)	Germany	Overseas sales subsidiary	100.00	100.00
SK hynix U.K. Ltd. (SKHYU)	U.K.	Overseas sales subsidiary	100.00	100.00
SK hynix Asia Pte. Ltd. (SKHYS)	Singapore	Overseas sales subsidiary	100.00	100.00
SK hynix Semiconductor India Private Ltd. (SKHYIS) ²	India	Overseas sales subsidiary	100.00	100.00
SK hynix Semiconductor Hong Kong Ltd. (SKHYH)	Hong Kong	Overseas sales subsidiary	100.00	100.00
SK hynix Semiconductor (Shanghai) Co., Ltd. (SKHYCS)	China	Overseas sales subsidiary	100.00	100.00
SK hynix Japan Inc. (SKHYJ)	Japan	Overseas sales subsidiary	100.00	100.00
SK hynix Semiconductor Taiwan Inc. (SKHYT)	Taiwan	Overseas sales subsidiary	100.00	100.00
SK hynix Semiconductor (China) Ltd. (SKHYCL)	China	Overseas manufacturing subsidiary	100.00	100.00
SK hynix Semiconductor (Wuxi) Ltd. (SKHYMC)	China	Overseas manufacturing subsidiary	100.00	100.00
SK hynix (Wuxi) Semiconductor Sales Ltd. (SKHYCW)	China	Overseas sales subsidiary	100.00	100.00
SK hynix Italy S.r.l (SKHYIT)	Italy	Overseas R&D center	100.00	100.00
SK hynix memory solutions Inc. (SKHMS)	U.S.A.	Overseas R&D center	100.00	100.00
SK hynix Flash Solution Taiwan (SKHYFST)	Taiwan	Overseas R&D center	100.00	100.00
SK APTECH Ltd. (SKAPTECH)	Hong Kong	Holding company	100.00	100.00
SK hynix Semiconductor (Chongqing) Ltd. (SKHYCQL) ³	China	Overseas manufacturing subsidiary	100.00	100.00
Softeq Flash Solutions LLC.(SOFTEQ)	Belarus	Overseas R&D center	100.00	100.00
SK hynix Ventures Hong Kong Limited (SKH Ventures) ⁴	Hong Kong	Overseas investment subsidiary	100.00	-
MMT (Money Market Trust)	Korea	Money Market Trust	100.00	100.00

¹ Subsidiary of SK hynix America Inc. Its liquidation process has been completed during the six-month period ended June 30, 2016.

² Subsidiary of SK hynix Asia Pte. Ltd.

³ Subsidiary of SK APTECH Ltd.

⁴ Newly established during the six-month period ended June 30, 2016.

(3) Changes in consolidated subsidiaries for the six-month period ended June 30, 2016 are as follows.

	Company	Reason
Included	SK hynix Ventures Hong Kong Limited (SKH Ventures)	Newly established
Excluded	Hynix Semiconductor Manufacturing America Inc. (HSMA)	Liquidated

SK HYNIX, INC. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2016 and 2015

(Unaudited)

1. Reporting Entity, Continued

(4) Major subsidiaries' summarized separate statements of financial position as of June 30, 2016 and December 31, 2015 are as follows:

(In millions of won)

	2016			2015		
	Assets	Liabilities	Equity	Assets	Liabilities	Equity
SK hynix America Inc.(SKHYA)	₩ 938,197	767,374	170,823	1,504,882	1,333,291	171,591
SK hynix Asia Pte. Ltd.(SKHYS)	269,872	189,678	80,194	269,286	190,155	79,131
SK hynix Semiconductor Hong Kong Ltd.(SKHYH)	684,865	582,689	102,176	529,095	431,074	98,021
SK hynix Japan Inc.(SKHYJ)	402,335	336,522	65,813	245,142	183,277	61,865
SK hynix Semiconductor Taiwan Inc.(SKHYT)	339,528	324,065	15,463	299,834	277,520	22,314
SK hynix Semiconductor (China) Ltd.(SKHYCL)	3,507,756	318,989	3,188,767	3,718,832	503,776	3,215,056
SK hynix Deutschland GmbH(SKHYD)	47,476	10,033	37,443	75,152	38,697	36,455
SK hynix U.K. Ltd.(SKHYU)	126,599	110,941	15,658	155,531	138,918	16,613
SK hynix Semiconductor (Chongqing) Ltd.(SKHYCQL)	362,469	181,067	181,402	406,552	224,672	181,880

(5) Major subsidiaries' summarized separate statements of comprehensive income (loss) for the six-month periods ended June 30, 2016 and 2015 are as follows:

(In millions of won)

	2016			2015		
	Revenue	Profit (loss)	Total comprehensive income (loss)	Revenue	Profit (loss)	Total comprehensive income (loss)
SK hynix America Inc.(SKHYA)	₩ 2,073,721	306	306	3,823,909	7,742	7,742
SK hynix Asia Pte. Ltd.(SKHYS)	697,097	1,576	1,576	911,850	(755)	(755)
SK hynix Semiconductor Hong Kong Ltd.(SKHYH)	2,459,831	4,943	4,943	1,889,119	2,458	2,458
SK hynix Japan Inc.(SKHYJ)	351,110	(5,844)	(5,844)	462,915	1,206	1,206
SK hynix Semiconductor Taiwan Inc.(SKHYT)	867,547	(1,817)	(1,817)	1,100,287	(13,357)	(13,357)
SK hynix Semiconductor (China) Ltd.(SKHYCL)	1,081,818	43,742	43,742	1,047,137	64,812	64,812
SK hynix Deutschland GmbH(SKHYD)	153,694	572	572	237,671	1,105	1,105
SK hynix U.K. Ltd.(SKHYU)	250,101	(863)	(863)	372,378	631	631
SK hynix Semiconductor (Chongqing) Ltd.(SKHYCQL)	140,967	3,517	3,517	166,565	11,742	11,742

(6) There are no significant non-controlling interests to the Group as of June 30, 2016 and December 31, 2015.

SK HYNIX, INC. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2016 and 2015

(Unaudited)

2. Basis of Preparation

(1) Statement of compliance

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

These condensed consolidated interim financial statements were prepared in accordance with K-IFRS No. 1034, 'Interim Financial Reporting' as part of the period covered by the Group's K-IFRS annual financial statements. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as of and for the year ended December 31, 2015. These condensed consolidated interim financial statements do not include all of the disclosures required for full annual financial statements.

(2) Use of estimates and judgments

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

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as of and for the year ended December 31, 2015.

3. Significant Accounting Policies

The accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as of and for the year ended December 31, 2015.

SK HYNIX, INC. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2016 and 2015

(Unaudited)

4. Geographic, Product and Customer Information

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

(1) Details of the Group's revenue for the three and six-month periods ended June 30, 2016 and 2015 are as follows:

(In millions of won)

		2016		2015 ¹	
		Three-month period	Six-month period	Three-month period	Six-month period
Sale of goods	₩	3,929,166	7,573,809	4,622,493	9,425,255
Sale of services		11,761	22,835	16,086	31,665
	₩	<u>3,940,927</u>	<u>7,596,644</u>	<u>4,638,579</u>	<u>9,456,920</u>

¹ Revenues for the three and six-month period ended June 30, 2015 were reclassified to conform with the classification for the three and six-month period ended June 30, 2016.

(2) Details of the Group's revenue by product and service types for the three and six-month periods ended June 30, 2016 and 2015 are as follows:

(In millions of won)

		2016		2015	
		Three-month period	Six-month period	Three-month period	Six-month period
DRAM	₩	2,793,368	5,559,982	3,462,743	7,095,730
NAND Flash		1,026,372	1,805,333	1,051,015	2,095,856
Other		121,187	231,329	124,821	265,334
	₩	<u>3,940,927</u>	<u>7,596,644</u>	<u>4,638,579</u>	<u>9,456,920</u>

(3) The Group's revenue information by region based on the location of selling entities for the three and six-month periods ended June 30, 2016 and 2015 are as follows:

(In millions of won)

		2016		2015	
		Three-month period	Six-month period	Three-month period	Six-month period
Korea	₩	264,792	549,333	235,576	528,632
China		1,428,898	2,680,445	1,099,951	2,052,835
Taiwan		458,371	862,019	571,589	1,090,142
Asia (other than China and Taiwan)		515,575	1,044,065	631,168	1,371,098
U.S.A.		1,083,562	2,057,843	1,813,815	3,807,511
Europe		189,729	402,939	286,480	606,702
	₩	<u>3,940,927</u>	<u>7,596,644</u>	<u>4,638,579</u>	<u>9,456,920</u>

SK HYNIX, INC. and Subsidiaries

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4. Geographic, Product and Customer Information, Continued

(4) The Group's non-current assets (excluding financial assets, equity-accounted investees and deferred tax assets) information by region based on the location of subsidiaries as of June 30, 2016 and December 31, 2015 are as follows:

(In millions of won)		2016	2015
Korea	₩	16,852,370	15,648,779
China		3,026,203	3,208,908
Taiwan		6,744	7,007
Asia (other than China and Taiwan)		1,641	770
U.S.A.		355,204	365,023
Europe		9,396	8,873
	₩	20,251,558	19,239,360

(5) There is no customer that constitutes more than 10% of the Group's consolidated revenue for the six-month period ended June 30, 2016. Revenues from customers "A" and "B" that each constitutes more than 10% of the Group's consolidated revenue for the six-month period ended June 30, 2015 amount to ₩1,676,526 million and ₩1,205,440 million, respectively.

5. Categories of Financial Instruments

(1) Categories of financial assets as of June 30, 2016 and December 31, 2015 are as follows:

(In millions of won)		2016			
		Financial assets at fair value through profit or loss	Available-for- sale financial assets	Loans and receivables	Total
Cash and cash equivalents	₩	-	-	987,448	987,448
Short-term financial instruments		729,429	-	1,716,507	2,445,936
Trade receivables		-	-	2,470,502	2,470,502
Loans and other receivables		-	-	95,930	95,930
Other financial assets		-	-	428	428
Available-for-sale financial assets		-	141,323	-	141,323
	₩	729,429	141,323	5,270,815	6,141,567

(In millions of won)		2015			
		Financial assets at fair value through profit or loss	Available-for- sale financial assets	Loans and receivables	Total
Cash and cash equivalents	₩	-	-	1,175,719	1,175,719
Short-term financial instruments		1,047,277	-	2,568,277	3,615,554
Trade receivables		-	-	2,628,448	2,628,448
Loans and other receivables		-	-	124,532	124,532
Other financial assets		-	-	430	430
Available-for-sale financial assets		-	131,354	-	131,354
	₩	1,047,277	131,354	6,497,406	7,676,037

SK HYNIX, INC. and Subsidiaries
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5. Categories of Financial Instruments, Continued

(2) Categories of financial liabilities as of June 30, 2016 and December 31, 2015 are as follows:

(In millions of won)

	2016		
	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Total
Trade payables	₩ -	675,979	675,979
Other payables	-	1,139,791	1,139,791
Other non-trade payables ¹	-	513,585	513,585
Borrowings	-	4,355,375	4,355,375
Other financial liabilities	564	-	564
₩	<u>564</u>	<u>6,684,730</u>	<u>6,685,294</u>

(In millions of won)

	2015		
	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Total
Trade payables	₩ -	791,373	791,373
Other payables	-	1,337,803	1,337,803
Other non-trade payables ¹	-	1,091,062	1,091,062
Borrowings	-	3,818,595	3,818,595
Other financial liabilities	683	-	683
₩	<u>683</u>	<u>7,038,833</u>	<u>7,039,516</u>

¹ Details of other non-trade payables as of June 30, 2016 and December 31, 2015 are as follows:

(In millions of won)

	2016	2015
Current		
Accrued expenses	₩ 454,061	1,001,171
Non-current		
Rent deposit payables	2,840	2,855
Long-term other payables	56,684	87,036
	<u>59,524</u>	<u>89,891</u>
₩	<u>513,585</u>	<u>1,091,062</u>

SK HYNIX, INC. and Subsidiaries

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6. Financial Risk Management

(1) Financial risk management

The Group's activities are exposed to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The interim financial statements do not include all the financial risk management policies and disclosures that are required in the annual financial statements.

There is no significant change in risk management policies for the six-month period ended June 30, 2016.

(a) Market risk

(i) Foreign exchange risk

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

Monetary foreign currency assets and liabilities as of June 30, 2016 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	3,805	₩ 4,431,869	3,709	₩ 4,319,454
EUR	1	1,232	27	35,530
JPY	5,117	57,930	42,215	477,942

As of June 30, 2016, the impacts from foreign exchange risks on each monetary foreign currency assets and liabilities assuming change in exchange rate by 10% are as follows:

(In millions of won)

	If increased by 10%	If decreased by 10%
USD	₩ 11,241	(11,241)
EUR	(3,430)	3,430
JPY	(42,001)	42,001

SK HYNIX, INC. and Subsidiaries
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6. Financial Risk Management, Continued

(1) Financial risk management, Continued

(ii) Price risk

As of June 30, 2016, there are no available-for-sale equity securities measured at fair value held by the Group. Accordingly, the Group is not exposed to any equity securities price risk.

(iii) Interest rate risk

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

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

As of June 30, 2016, the Group is partially exposed to the risk of fluctuation of net interest expenses arisen from change in interest rates. If interest rates on borrowings had been 100 basis points higher/lower with all other variables held constant, profit before income tax for the next six-month period would have been ~~₩~~ 11,926 million lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings and interest income on floating rate financial assets.

(b) Credit risk

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

(i) Trade and other receivables

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

The Group reviews at the end of each reporting period whether trade and other receivables are impaired and maintains credit insurance policies to manage credit risk exposure from oversea customers. The maximum exposure to credit risk as of June 30, 2016 is the carrying amount of trade and other receivables.

(ii) Other financial assets

Credit risk also arises from other financial assets such as cash and cash equivalents; short-term financial instruments; and deposits with banks and financial institutions as well as short-term and long-term loans mainly due to the bankruptcy of each counterparty to those financial assets. The maximum exposure to credit risk as of June 30, 2016 is the carrying amount of those financial assets. The Group transacts only with banks and financial institutions with high credit ratings, and accordingly management does not expect any loss from non-performance by the counterparties.

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
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6. Financial Risk Management, Continued

(1) Financial risk management, Continued

(c) Liquidity risk

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

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

(2) Capital management

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

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

The debt-to-equity ratio and net borrowing ratio as of June 30, 2016 and December 31, 2015 are as follows:

(In millions of won)

	2016	2015
Total liabilities (A)	₩ 7,628,630	8,290,203
Total equity (B)	21,700,822	21,387,703
Cash and cash equivalents and short-term financial instruments (C)	3,433,384	4,791,273
Total borrowings (D)	4,355,375	3,818,595
Debt-to-equity ratio (A/B)	35%	39%
Net borrowing ratio (D-C)/B	4%	-5%

SK HYNIX, INC. and Subsidiaries
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6. Financial Risk Management, Continued

(3) Fair value

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

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

(a) The following table presents the carrying amounts and fair values of financial instruments by categories, including their levels in the fair value hierarchy, as of June 30, 2016 and December 31, 2015:

(In millions of won)

(In millions of won)		2016			
	Carrying amounts	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Short-term financial instruments	₩ 729,429	-	729,429	-	729,429
	<u>729,429</u>	<u>-</u>	<u>729,429</u>	<u>-</u>	<u>729,429</u>
Financial assets not measured at fair value					
Cash and cash equivalents ¹	987,448	-	-	-	-
Short-term financial instruments ¹	1,716,507	-	-	-	-
Trade receivables ¹	2,470,502	-	-	-	-
Loans and other receivables ¹	95,930	-	-	-	-
Other financial assets ¹	428	-	-	-	-
Available-for-sale financial assets ^{1,2}	141,323	-	-	-	-
	<u>5,412,138</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Financial liabilities measured at fair value					
Other financial liabilities	564	-	564	-	564
	<u>564</u>	<u>-</u>	<u>564</u>	<u>-</u>	<u>564</u>
Financial liabilities not measured at fair value					
Trade payables ¹	675,979	-	-	-	-
Other payables ¹	1,139,791	-	-	-	-
Other non-trade payables ¹	513,585	-	-	-	-
Borrowings	4,355,375	-	4,431,139	-	4,431,139
₩	<u>6,684,730</u>	<u>-</u>	<u>4,431,139</u>	<u>-</u>	<u>4,431,139</u>

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6. Financial Risk Management, Continued

(In millions of won)

		2015			
	Carrying amounts	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Short-term financial instruments	₩ 1,047,277	-	1,047,277	-	1,047,277
	<u>1,047,277</u>	<u>-</u>	<u>1,047,277</u>	<u>-</u>	<u>1,047,277</u>
Financial assets not measured at fair value					
Cash and cash equivalents ¹	1,175,719	-	-	-	-
Short-term financial instruments ¹	2,568,277	-	-	-	-
Trade receivables ¹	2,628,448	-	-	-	-
Loans and other receivables ¹	124,532	-	-	-	-
Other financial assets ¹	430	-	-	-	-
Available-for-sale financial assets ^{1,2}	131,354	-	-	-	-
	<u>6,628,760</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Financial liabilities measured at fair value					
Other financial liabilities	683	-	683	-	683
	<u>683</u>	<u>-</u>	<u>683</u>	<u>-</u>	<u>683</u>
Financial liabilities not measured at fair value					
Trade payables ¹	791,373	-	-	-	-
Other payables ¹	1,337,803	-	-	-	-
Other non-trade payables ¹	1,091,062	-	-	-	-
Borrowings	3,818,595	-	3,869,536	-	3,869,536
₩	<u>7,038,833</u>	<u>-</u>	<u>3,869,536</u>	<u>-</u>	<u>3,869,536</u>

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

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

(b) The valuation techniques used to measure financial instruments with fair value level 2 are the same as those applied by the Group in its consolidated financial statements as of and for the year ended December 31, 2015.

(c) There was no transfer between fair value hierarchy levels for the six-month period ended June 30, 2016.

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7. Restricted Financial Instruments

Details of restricted financial instruments as of June 30, 2016 and December 31, 2015 are as follows:

(In millions of won)

	2016	2015	Description
Short-term financial instruments			
	₩ 77,500	77,500	Restricted for supporting small businesses
	22,586	22,190	Pledged for borrowings
	6,793	5,832	Pledged for consumption tax
	2,828	2,843	Deposit for import duties
	<u>109,707</u>	<u>108,365</u>	
Other financial assets			
	308	308	Pledged for borrowings
	12	12	Bank overdraft guarantee deposit
	108	110	Others
	<u>428</u>	<u>430</u>	
	<u>₩ 110,135</u>	<u>108,795</u>	

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8. Trade Receivables and Loans and Other Receivables

(1) Details of loans and other receivables as of June 30, 2016 and December 31, 2015 are as follows:

(In millions of won)

		2016	2015
Current			
Other receivables	₩	15,025	37,427
Accrued income		12,164	18,126
Short-term loans		3,710	3,786
Short-term guarantee and other deposits		1,047	2,274
		<u>31,946</u>	<u>61,613</u>
Non-current			
Long-term other receivables		22,765	22,921
Long-term loans		5,414	6,104
Guarantee deposits		35,549	33,637
Long-term deposits		256	257
		<u>63,984</u>	<u>62,919</u>
	₩	<u>95,930</u>	<u>124,532</u>

(2) Trade receivables and loans and other receivables, net of provision for impairment, as of June 30, 2016 and December 31, 2015 are as follows:

(In millions of won)

		2016	
		Gross amount	Provision for impairment
Trade receivables	₩	2,473,331	(2,829)
Current loans and other receivables		33,325	(1,379)
Non-current loans and other receivables		70,137	(6,153)
	₩	<u>2,576,793</u>	<u>(10,361)</u>

(In millions of won)

		2015	
		Gross amount	Provision for impairment
Trade receivables	₩	2,631,422	(2,974)
Current loans and other receivables		63,046	(1,433)
Non-current loans and other receivables		69,062	(6,143)
	₩	<u>2,763,530</u>	<u>(10,550)</u>

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8. Trade Receivables and Loans and Other Receivables, Continued

(3) Details of provision for impairment

Movements in the provision for impairment of trade receivables for the six-month periods ended June 30, 2016 and 2015 are as follows:

(In millions of won)

	2016	2015
Beginning balance	₩ 2,974	2,919
Unused amounts reversed	(151)	(531)
Foreign exchange difference	6	(46)
Ending balance	₩ 2,829	2,342

Movements in the provision for impairment of current loans and other receivables for the six-month periods ended June 30, 2016 and 2015 are as follows:

(In millions of won)

	2016	2015
Beginning balance	₩ 1,433	1,668
Unused amounts reversed	(54)	(210)
Ending balance	₩ 1,379	1,458

Movements in the provision for impairment of non-current loans and other receivables for the six-month periods ended June 30, 2016 and 2015 are as follows:

(In millions of won)

	2016	2015
Beginning balance	₩ 6,143	6,034
Provision for receivables impairment	17	47
Receivables written off during the period as uncollectible	-	(6)
Foreign exchange difference	(7)	22
Ending balance	₩ 6,153	6,097

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9. Inventories

Details of inventories as of June 30, 2016 and December 31, 2015 are as follows:

(In millions of won)

	2016		
	Acquisition cost	Inventory valuation allowance	Carrying amount
Finished goods	₩ 650,304	(59,657)	590,647
Work-in-process	1,077,593	(150,130)	927,463
Raw materials	260,315	(4,027)	256,288
Supplies	183,724	(43)	183,681
Goods in transit	52,913	-	52,913
	₩ 2,224,849	(213,857)	2,010,992

(In millions of won)

	2015		
	Acquisition cost	Inventory valuation allowance	Carrying amount
Finished goods	₩ 667,060	(53,678)	613,382
Work-in-process	979,115	(130,916)	848,199
Raw materials	226,371	(3,629)	222,742
Supplies	164,179	(23)	164,156
Goods in transit	74,897	-	74,897
	₩ 2,111,622	(188,246)	1,923,376

10. Non-current assets held for sale

Changes in non-current assets held for sale for the six-month periods ended June 30, 2016 and 2015 are as follows:

(In millions of won)

	2016	2015
Beginning balance	₩ -	27,661
Foreign exchange difference	-	627
Ending balance	₩ -	28,288

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11. Other Current and Non-current Assets

Details of other current and non-current assets as of June 30, 2016 and December 31, 2015 are as follows:

(In millions of won)

		2016	2015
Current			
Advance payments	₩	7,474	2,033
Prepaid expenses		219,200	212,766
Value added tax refundable		172,813	131,673
Others		9,470	7,454
		<u>408,957</u>	<u>353,926</u>
Non-current			
Long-term prepaid expenses		547,094	558,058
Others		4,486	7,475
		<u>551,580</u>	<u>565,533</u>
	₩	<u>960,537</u>	<u>919,459</u>

12. Investments in Associates and Joint Ventures

(1) Details of investments in associates and joint ventures as of June 30, 2016 and December 31, 2015 are as follows:

(In millions of won)

Type	Investee	Ownership (%) in 2016	2016		2015
			Net asset value	Carrying amount	Carrying amount
Associate	Stratio, Inc.	9.10	₩ 165	2,165	2,171
	Gemini Partners Pte. Ltd.	20.00	6,161	7,855	7,976
	TCL Fund ¹	11.06	2,236	2,187	-
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd. (HITECH)	45.00	105,783	105,783	112,462
			₩ <u>114,345</u>	<u>117,990</u>	<u>122,609</u>

¹ During the six-month period ended June 30, 2016, the Parent Company acquired 11.06% of shares of TCL Fund. TCL Fund is classified as an associate because the Parent Company has significant influence over TCL Fund's financial and operating policies through its right to appoint a member of the board of directors.

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12. Investments in Associates and Joint Ventures, Continued

(2) Changes in investments in associates and joint ventures for the six-month periods ended June 30, 2016 and 2015 are as follows:

(In millions of won)

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

(In millions of won)

		2015				
		Beginning balance	Acquisition	Share of profit (loss)	Other equity movement	Dividend
Stratio, Inc.	₩	-	2,193	(7)	5	-
HITECH		97,090	-	10,277	2,256	(15,780)
	₩	97,090	2,193	10,270	2,261	(15,780)

(3) Condensed statements of financial position of associates and joint ventures as of June 30, 2016 and December 31, 2015 are as follows:

(In millions of won)

		2016			
		Current assets	Non-current assets	Current liabilities	Non-current liabilities
Stratio, Inc.	₩	1,149	677	15	-
Gemini Partners Pte. Ltd.		26,811	4,053	60	-
TCL Fund		16,760	4,026	566	-
HITECH		223,454	299,085	74,444	213,021

(In millions of won)

		2015			
		Current assets	Non-current assets	Current liabilities	Non-current liabilities
Stratio, Inc.	₩	962	921	-	1
Gemini Partners Pte. Ltd.		27,762	14,694	3,444	7,867
HITECH		270,959	314,464	89,034	246,478

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12. Investments in Associates and Joint Ventures, Continued

(4) Condensed statements of comprehensive income (loss) of associates and joint ventures for the six-month periods ended June 30, 2016 and 2015 are as follows:

(In millions of won)

	2016		2015	
	Revenue	Profit (loss) for the period	Revenue	Profit (loss) for the period
Stratio, Inc.	₩ -	(34)	-	(81)
Gemini Partners Pte. Ltd	-	(2,460)	-	-
TCL Fund	-	-	-	-
HITECH	290,649	32,614	335,325	22,838

13. Available-for-sale Financial Assets

Changes in the carrying amount of available-for-sale financial assets for the six-month periods ended June 30, 2016 and 2015 are as follows:

(In millions of won)

	2016	2015
Beginning balance	₩ 131,354	127,314
Acquisition	11,424	3,417
Disposal	(1,455)	(695)
Ending balance	₩ 141,323	130,036

14. Property, Plant and Equipment

(1) Changes in property, plant and equipment for the six-month periods ended June 30, 2016 and 2015 are as follows:

(In millions of won)

	2016	2015
Beginning balance	₩ 16,966,252	14,090,334
Acquisition	3,068,443	3,759,717
Disposal	(10,941)	(63,094)
Depreciation	(2,018,425)	(1,784,567)
Impairment	(3,746)	(5)
Transfer ¹	-	(131)
Foreign exchange difference and other	(64,795)	81,881
Ending balance	₩ 17,936,788	16,084,135

¹ Transferred to intangible assets for the six-month period ended June 30, 2015.

(2) Certain property, plant and equipment are pledged as collaterals for borrowings of the Group as of June 30, 2016 (Note 32).

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14. Property, Plant and Equipment, Continued

(3) Finance lease and operating lease

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

The book value of the machinery and others subject to finance lease agreement amounted to ₩101,082 million as of June 30, 2016 (as of December 31, 2015: ₩136,134 million). The machinery and others are pledged as collateral for the finance lease liabilities.

15. Intangible Assets

(1) Changes in intangible assets for the six-month periods ended June 30, 2016 and 2015 are as follows:

(In millions of won)

	2016	2015
Beginning balance	₩ 1,704,896	1,336,680
Acquisition	247,797	286,945
Disposal	(3,273)	(3,671)
Amortization	(186,600)	(107,007)
Impairment	(37)	(91)
Transfer ¹	-	131
Foreign exchange difference and other	(2,219)	6,480
Ending balance	₩ 1,760,564	1,519,467

¹ Transferred from property, plant, and equipment for the six-month period ended June 30, 2015.

(2) Among costs associated with development activities, ₩160,390 million that met capitalization criteria were capitalized as development cost for the six-month period ended June 30, 2016 (2015: ₩189,669 million). In addition, costs associated with research activities and other development expenditures that did not meet the criteria and amounted to ₩871,602 million were recognized as expenses for the six-month period ended June 30, 2016 (2015: ₩798,279 million).

16. Investment Property

(1) Changes in investment property during the six-month periods ended June 30, 2016 and 2015 are as follows:

(In millions of won)

	2016	2015
Beginning balance	₩ 2,679	28,456
Depreciation	(53)	(661)
Ending balance	₩ 2,626	27,795

(2) The depreciation expense of ₩53 million was charged to cost of sales for the six-month period ended June 30, 2016 (2015: ₩661 million).

(3) Rental income from investment property during the six-month period ended June 30, 2016 was ₩252 million (2015: ₩2,371 million).

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17. Borrowings

(1) Details of borrowings as of June 30, 2016 and December 31, 2015 are as follows:

(In millions of won)

		2016	2015
Current			
Short-term borrowings	₩	60,256	147,948
Current installments of long-term borrowings		412,407	465,561
Current installments of debentures		116,470	399,863
		589,133	1,013,372
Non-current			
Long-term borrowings		2,031,893	1,512,003
Debentures		1,734,349	1,293,220
		3,766,242	2,805,223
	₩	4,355,375	3,818,595

(2) Changes in borrowings during the six-month periods ended June 30, 2016 and 2015 are as follows:

(In millions of won)

		2016	2015
Beginning balance	₩	3,818,595	4,174,759
Borrowings		1,881,493	1,854,550
Repayments		(1,316,912)	(2,317,930)
Other ¹		(27,801)	46,826
Ending balance	₩	4,355,375	3,758,205

¹ Effect of changes in foreign exchange rates and unwinding of discount are included.

18. Other Current and Non-current Liabilities

Details of other current and non-current liabilities as of June 30, 2016 and December 31, 2015 are as follows:

(In millions of won)

		2016	2015
Current			
Advance receipts	₩	4,113	2,867
Unearned income		301	374
Withholdings		30,479	35,938
Deposits received		1,452	1,256
Others		2,418	4,008
		38,763	44,443
Non-current			
Other long-term employee benefits		62,105	61,149
	₩	100,868	105,592

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19. Provisions

(1) Changes in provisions for the six-month periods ended June 30, 2016 and 2015 are as follows:

(In millions of won)

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

(In millions of won)

		2015			
		Beginning balance	Increase	Utilization	Ending Balance
Warranty	₩	6,886	1,404	(2,317)	5,973
Sales returns		14,646	15,874	(15,262)	15,258
Legal claims		4,400	2,992	-	43
Emission allowances ²		-	2,048	-	-
	₩	25,932	22,318	(17,579)	30,714

¹ Others include foreign exchange rate differences.

² Emission allowances as of June 30, 2015 was reclassified from other current liabilities to provisions.

(2) Provisions for warranty

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

(3) Provisions for sales returns

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

(4) Provisions for legal claims

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

(5) Provision for emission allowances

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

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20. Defined Benefit Liabilities

(1) Details of defined benefit liabilities as of June 30, 2016 and December 31, 2015 are as follows:

(In millions of won)

		2016	2015
Present value of defined benefit obligations	₩	1,135,564	1,055,340
Fair value of plan assets		(565,337)	(570,363)
	₩	<u>570,227</u>	<u>484,977</u>

(2) Principal actuarial assumptions as of June 30, 2016 and December 31, 2015 are as follows:

	2016	2015
Discount rate for defined benefit obligations	2.89% ~ 4.10%	2.89% ~ 4.10%
Expected rate of salary increase	2.20% ~ 5.52%	2.20% ~ 5.52%

(3) Changes in defined benefit obligations for the six-month periods ended June 30, 2016 and 2015 are as follows:

(In millions of won)

		2016	2015
Beginning balance	₩	1,055,340	887,277
Current service cost		76,266	67,112
Interest cost		20,767	19,645
Transferred from associates		158	322
Benefits paid		(17,044)	(12,296)
Others		77	(23)
Ending balance	₩	<u>1,135,564</u>	<u>962,037</u>

(4) Changes in plan assets for the six-month periods ended June 30, 2016 and 2015 are as follows:

(In millions of won)

		2016	2015
Beginning balance	₩	570,363	421,927
Interest income		11,177	9,281
Contributions		77	1,559
Transferred from associates		135	43
Benefits paid		(12,140)	(12,683)
Remeasurements		(4,275)	(3,246)
Ending balance	₩	<u>565,337</u>	<u>416,881</u>

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20. Defined Benefit Liabilities, Continued

(5) The amounts recognized in profit or loss for the three and six-month periods ended June 30, 2016 and 2015 are as follows:

(In millions of won)

		2016		2015	
		Three-month period	Six-month period	Three-month period	Six-month period
Current service cost	₩	38,114	76,266	33,555	67,112
Net interest cost		4,795	9,590	5,183	10,364
	₩	<u>42,909</u>	<u>85,856</u>	<u>38,738</u>	<u>77,476</u>

(6) Details of plan assets as of June 30, 2016 and December 31, 2015 are as follows:

(In millions of won)

		2016	2015
Deposits	₩	563,811	568,790
Other		1,526	1,573
	₩	<u>565,337</u>	<u>570,363</u>

Actual return on plan assets for the six-month periods ended June 30, 2016 and 2015 amounted to ₩6,902 million and ₩6,035 million, respectively.

21. Derivative Financial Instruments

(1) The Group has managed financial risk including interest rate risk through interest rates swaps. Details of derivative financial assets and liabilities as of June 30, 2016 and December 31, 2015 are as follows:

(In millions of won)

		2016	2015
Non-current			
Interest rates swap	₩	564	683

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21. Derivative Financial Instruments, Continued

(2) Details of gains and losses from derivative instruments for the three and six-month periods ended June 30, 2016 and 2015 are follows:

(In millions of won)

		Gain on valuation			
		2016		2015	
		Three-month period	Six-month period	Three-month period	Six-month period
Interest rates swap	₩	60	120	100	-

(In millions of won)

		Loss on valuation			
		2016		2015	
		Three-month period	Six-month period	Three-month period	Six-month period
Interest rates swap	₩	-	-	-	147

(In millions of won)

		Gain on transaction			
		2016		2015	
		Three-month period	Six-month period	Three-month period	Six-month period
Interest rates swap	₩	297	584	429	989

(In millions of won)

		Loss on transaction			
		2016		2015	
		Three-month period	Six-month period	Three-month period	Six-month period
Interest rates swap	₩	406	812	507	1,144

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22. Capital Stock, Capital Surplus and Other Equity

(1) Details of capital stock, capital surplus and other equity as of June 30, 2016 and December 31, 2015 are as follows:

(In millions of won and thousands of shares)

	2016	2015
Authorized shares	9,000,000	9,000,000
Issued shares ¹	731,530	731,530
Capital stock:		
Common stock	₩ 3,657,652	3,657,652
Capital surplus:		
Additional paid-in capital	3,625,797	3,625,797
Consideration for conversion rights	42,928	42,928
Others	475,011	475,011
	₩ 4,143,736	4,143,736
Other equity:		
Acquisition cost of treasury shares	(771,913)	(771,913)
Number of treasury shares	22,001	22,001

¹ As of June 30, 2016, the number of outstanding shares is 728,002 thousand shares, which differs from total issued shares due to stock retirement.

(2) Changes in number of outstanding shares for the six-month period ended June 30, 2016 and for the year ended December 31, 2015 are as follows:

(In thousands of shares)

	2016	2015
Beginning	706,002	728,002
Acquisition of treasury shares	-	(22,000)
Ending	706,002	706,002

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23. Accumulated Other Comprehensive Loss

(1) Details of accumulated other comprehensive loss as of June 30, 2016 and December 31, 2015 are as follows:

(In millions of won)

		2016	2015
Equity-accounted investees – share of other comprehensive income	₩	1,490	1,856
Foreign operations – foreign currency translation differences		(65,853)	(3,456)
	₩	<u>(64,363)</u>	<u>(1,600)</u>

(2) Changes in accumulated other comprehensive income (loss) for the six-month periods ended June 30, 2016 and 2015 are as follows:

(In millions of won)

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

(In millions of won)

		2015		
		Beginning	Change	Ending
Equity-accounted investees – share of other comprehensive loss	₩	(4,631)	2,261	(2,370)
Foreign operations – foreign currency translation differences		(37,184)	74,888	37,704
	₩	<u>(41,815)</u>	<u>77,149</u>	<u>35,334</u>

24. Retained Earnings

Retained earnings as of June 30, 2016 and December 31, 2015 are as follows:

(In millions of won)

		2016	2015
Legal reserve ¹	₩	65,994	30,694
Discretionary reserve ²		235,506	235,506
Unappropriated retained earnings ³		14,430,547	14,092,788
	₩	<u>14,732,047</u>	<u>14,358,988</u>

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24. Retained Earnings, Continued

¹ 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.

² Discretionary reserve represents reserve for technology development.

³ Dividends in the amount of ₩353,001 million were approved at shareholders' meeting held on March 18, 2016 and paid during the six-month period ended June 30, 2016.

25. Selling and Administrative Expenses

Selling and administrative expenses for the three and six-month periods ended June 30, 2016 and 2015 are as follows:

(In millions of won)

	2016		2015	
	Three-month period	Six-month period	Three-month period	Six-month period
Salaries	₩ 72,156	155,149	105,760	205,351
Defined benefit plan	8,189	16,255	6,219	12,403
Employee benefits	21,031	43,196	18,408	37,272
Commission	55,932	111,113	55,294	93,011
Depreciation	18,578	41,273	21,048	41,043
Amortization	82,615	167,854	41,050	99,041
Research and development	450,860	871,602	406,212	798,279
Freight and custody charge	8,152	15,625	10,757	20,947
Legal cost	1,890	3,627	2,169	3,171
Rental	3,601	7,461	5,362	11,162
Taxes and dues	5,732	10,512	5,290	9,650
Training	5,842	10,290	4,021	11,256
Sales promotional	12,415	20,561	14,864	24,901
Utility	3,406	7,269	3,648	6,912
Supplies	12,662	22,455	14,395	27,898
Repair	1,528	3,163	1,744	3,303
Others	34,368	47,799	24,130	34,633
	<u>₩ 798,957</u>	<u>1,555,204</u>	<u>740,371</u>	<u>1,440,233</u>

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26. Expenses by Nature

Nature of expenses for the three and six-month periods ended June 30, 2016 and 2015 is as follows:

(In millions of won)

		2016		2015²	
		Three-month period	Six-month period	Three-month period	Six-month period
Changes in finished goods and work-in-process	₩	179,167	(56,530)	(116,761)	(133,019)
Raw materials and consumables		627,653	1,411,203	844,867	1,649,264
Labor costs		477,994	1,052,439	700,979	1,339,535
Depreciation and amortization		1,112,777	2,178,641	929,878	1,855,161
Royalty		57,374	115,448	54,701	100,049
Commission		186,211	409,338	204,782	372,020
Utilities		218,290	402,477	144,464	307,487
Repair		120,295	253,588	130,633	245,463
Outsourcing		172,013	374,655	238,612	503,196
Others		336,301	440,734	130,944	253,754
Total ¹	₩	<u>3,488,074</u>	<u>6,581,993</u>	<u>3,263,099</u>	<u>6,492,910</u>

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

² Expenses for the three and six-month periods ended June 30, 2015 were reclassified to conform with the classification for the three and six-month periods ended June 30, 2016.

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27. Finance Income and Expense

Finance income and expense for the three and six-month periods ended June 30, 2016 and 2015 are as follows:

(In millions of won)

	2016		2015	
	Three-month period	Six-month period	Three-month period	Six-month period
Finance income				
Interest income	₩ 7,593	19,198	8,723	17,687
Dividend income	-	18	6	1,001
Gain on disposal of financial assets at fair value through profit or loss	3,544	9,265	7,099	20,522
Foreign exchange differences	141,000	358,349	139,868	316,041
Gain from derivative instruments	357	704	529	989
Gain on valuation of financial assets at fair value through profit or loss	-	932	4,207	4,694
	<u>152,494</u>	<u>388,466</u>	<u>160,432</u>	<u>360,934</u>
Finance expense				
Interest expenses	31,073	64,741	26,906	52,917
Foreign exchange differences	187,981	381,624	115,361	267,588
Loss from derivative instruments	406	812	507	1,291
	<u>219,460</u>	<u>447,177</u>	<u>142,774</u>	<u>321,796</u>
Net finance income (expense)	₩ <u>(66,966)</u>	<u>(58,711)</u>	<u>17,658</u>	<u>39,138</u>

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28. Other Income and Expenses

(1) Other income for the three and six-month periods ended June 30, 2016 and 2015 are as follows:

(In millions of won)

	2016		2015	
	Three-month period	Six-month period	Three-month period	Six-month period
Gain on disposal of property, plant and equipment	₩ 1,480	2,179	4,415	4,415
Others	5,544	11,821	4,013	9,435
	<u>₩ 7,024</u>	<u>14,000</u>	<u>8,428</u>	<u>13,850</u>

(2) Other expenses for the three and six-month periods ended June 30, 2016 and 2015 are as follows:

(In millions of won)

	2016		2015	
	Three-month period	Six-month period	Three-month period	Six-month period
Loss on disposal of property, plant and equipment	₩ 1,088	4,859	2,812	2,898
Loss on disposal of intangible assets	712	1,696	1,413	3,265
Loss on disposal of trade receivables	302	617	364	681
Donation	3,892	4,104	9,292	21,656
Loss on impairment of property, plant and equipment	3,746	3,746	3	5
Loss on impairment of intangible assets	37	37	35	91
Other	11,036	27,864	13,973	18,343
	<u>₩ 20,813</u>	<u>42,923</u>	<u>27,892</u>	<u>46,939</u>

29. Income Tax Expense

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

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30. Earnings per Share

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

(1) Basic earnings per share for the three and six-month periods ended June 30, 2016 and 2015 are as follows:

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

	2016		2015	
	Three-month period	Six-month period	Three-month period	Six-month period
Profit attributable to ordinary shareholders	₩ 286,141	730,335	1,108,069	2,403,799
Weighted average number of outstanding ordinary shares ¹	706,001,795	706,001,795	728,001,795	728,001,795
Basic earnings per share(in won)	₩ 405	1,034	1,522	3,302

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

(In shares)

	2016		2015	
	Three-month period	Six-month period	Three-month period	Six-month period
Outstanding ordinary shares	728,002,365	728,002,365	728,002,365	728,002,365
Acquisition of treasury shares	(22,000,570)	(22,000,570)	(570)	(570)
Weighted average number of outstanding common shares	706,001,795	706,001,795	728,001,795	728,001,795

(2) There is no potential ordinary shares with dilutive effect during the three and six-month periods ended June 30, 2016 and 2015. Accordingly, diluted earnings per share for the three and six-month periods ended June 30, 2016 and 2015 are the same as basic earnings per share.

31. Related Party Transactions

(1) Details of related parties as of June 30, 2016 are as follows:

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

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31. Related Party Transactions, Continued

(2) Significant transactions for the three and six-month periods ended June 30, 2016 and 2015 are as follows:

(In millions of won)

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

(In millions of won)

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

¹ Operating expense and others include dividends of ₩73,050 million (2015: ₩43,830 million).

² The Group entered into a contract with SK Holdings Co., Ltd. under which the Group pays royalty for the use of SK brand in proportion to sales amount. For the six-month period ended June 30, 2016, royalty on the use of the SK brand amounted to ₩18,943 million (2015: ₩17,298 million).

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(Unaudited)

31. Related Party Transactions, Continued

(In millions of won)

For the three-month period ended June 30, 2015

	Company	Operating revenue and others	Operating expense and others	Asset acquisition	Dividend income
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	₩ 222	175,681	-	15,780
Other related parties	SK Telecom Co., Ltd.	2,194	1,792	459	-
	SK Holdings Co., Ltd.	-	10,106	-	-
	SK Engineering & Construction Co., Ltd.	113	238	287,274	-
	SK Energy Co., Ltd.	1,315	10,736	-	-
	SK Networks Co., Ltd.	-	585	-	-
	Ko-one energy service Co., Ltd.	-	642	-	-
	SKC solmics Co., Ltd.	-	8,547	109	-
	Chungcheong energy service Co., Ltd.	-	5,779	-	-
	Happynarae Co., Ltd.	3	19,016	1,313	-
	Others	77	10,831	5,163	-
		₩ 3,924	243,953	294,318	15,780

(In millions of won)

For the six-month period ended June 30, 2015

	Company	Operating revenue and others	Operating expense and others	Asset acquisition	Dividend income
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	₩ 737	350,110	-	15,780
Other related parties	SK Telecom Co., Ltd.	2,199	48,353	712	-
	SK Holdings Co., Ltd.	-	19,630	-	-
	SK Engineering & Construction Co., Ltd.	175	292	674,282	-
	SK Energy Co., Ltd.	2,654	29,350	-	-
	SK Networks Co., Ltd.	-	1,301	-	-
	Ko-one energy service Co., Ltd.	-	1,660	-	-
	SKC solmics Co., Ltd.	-	16,678	144	-
	Chungcheong energy service Co., Ltd.	-	16,768	-	-
	Happynarae Co., Ltd.	10	34,082	1,721	-
	Others	151	20,141	7,880	-
		₩ 5,926	538,365	684,739	15,780

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31. Related Party Transactions, Continued

(3) The balances of significant transactions as of June 30, 2016 and December 31, 2015 are as follows:

(In millions of won)

		2016	
	Company	Trade receivables and others	Other payables and others
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	₩ 112	87,305
Other related parties	SK Telecom Co., Ltd.	203	4,764
	SK Holdings Co., Ltd.	6,552	93,659
	ESSEN CORE Limited	44,733	-
	SK Engineering & Construction Co., Ltd.	68	163,803
	SK Energy Co., Ltd.	427	1,756
	SK Networks Co., Ltd.	-	238
	SK Materials Co., Ltd.	-	9,957
	SKC solmics Co., Ltd.	-	7,771
	Chungcheong energy service Co., Ltd.	-	512
	Happynarae Co., Ltd.	3	11,968
	Others	62	31,013
		₩ <u>52,160</u>	<u>412,746</u>

(In millions of won)

		2015	
	Company	Trade receivables and others	Other payables and others
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd. ¹	₩ 15,628	108,519
Other related parties	SK Telecom Co., Ltd.	155	2,797
	SK Holdings Co., Ltd.	103	98,798
	ESSEN CORE Limited	142	-
	SK Engineering & Construction Co., Ltd.	1,049	236,875
	SK Energy Co., Ltd.	474	5,962
	SK Networks Co., Ltd.	-	954
	SKC solmics Co., Ltd.	-	9,544
	Chungcheong energy service Co., Ltd.	-	1,425
	Happynarae Co., Ltd.	275	24,148
	Others	102	29,339
		₩ <u>17,928</u>	<u>518,361</u>

¹ The Parent Company repaid remaining balance of borrowings from HITECH Semiconductor(Wuxi) Co., Ltd. in the amount of ₩22,552 million during the year ended December 31, 2015.

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31. Related Party Transactions, Continued

(4) Key management compensation

Key management includes directors, members of the board of directors, chief financial officer and internal auditors. The compensation paid to key management for employee services for the three and six-month periods ended June 30, 2016 and 2015 are as follows:

(In millions of won)

Details	2016		2015	
	Three-month period	Six-month period	Three-month period	Six-month period
Salaries	₩ 7,333	23,936	15,230	31,090
Defined benefit plan	2,058	4,117	1,691	3,381
Others	3	6	3	7
	₩ 9,394	28,059	16,924	34,478

32. Commitments and Contingencies

(1) Patent infringement claims and litigations

The Group is involved in various alleged patent infringement claims and litigations. No provisions have been made as the final outcome of these matters cannot be determined or predicted given that these claims and litigation are at their early stage as of June 30, 2016.

(2) Technology and patent license agreements

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

(3) Contract for supply of industrial water

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

(4) Post-process service contract with HITECH

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

(5) Assets provided as collateral

Details of assets provided as collateral as of June 30, 2016 are as follows:

(In millions of won)

	Book value	Pledged amount	Remark
Land	₩ 44,929		
Buildings	72,891	1,852,622	Borrowings for equipment and others
Machinery	942,255		
	₩ 1,060,075	1,852,622	

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

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

(6) Financing agreements

Details of credit lines with financial institutions as of June 30, 2016 are as follows:

(In millions of won and millions of foreign currencies)

	Financial Institution	Commitment	Currency	Amount
The Parent Company	Shinhan Bank and others	Import finance including usance	USD	150
		Export finance including bills bought	USD	350
		Comprehensive limit contract for import and export	USD	1,205
SK hynix Semiconductor (China) Ltd. (SKHYCL)	Agricultural Bank of China and others	Import finance including usance	RMB	1,300
			USD	929
SK hynix America Inc. (SKHYA) and other sales entities	Citibank and others	Accounts receivable factoring contracts which have no right to recourse	USD	113
Domestic subsidiaries	KEB Hana Bank and others	Export finance including bills bought	KRW	2,000
		Guarantee	KRW	1,000
		Finance secured by accounts receivable	KRW	21,000
		Agency agreement for payment of goods received	KRW	11,000

The Group has entered into trade receivables discounting agreements with several financial institutions. There are outstanding trade receivables discounted amounting to ~~₩~~2,342 million as of June 30, 2016 (as of December 31, 2015: ~~₩~~3,076 million). The Group 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 June 30, 2016 are as follows:

(In millions of won)

	Amount	Remark
Employees	₩ 8	Guarantees for employees' borrowings relating to employee stock ownership

(8) Capital commitments

As of June 30, 2016, the Group has ~~₩~~723,454 million (as of December 31, 2015: ~~₩~~300,041 million) of commitments in relation to the capital expenditures on property, plant and equipment.

SK HYNIX, INC. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

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33. Cash Generated from Operating Activities

(1) Reconciliations between profit and net cash inflow from operating activities for the six-month periods ended June 30, 2016 and 2015 are as follows:

(In millions of won)

	2016	2015
Profit for the period	₩ 734,158	2,403,866
Adjustment		
Income tax expense	207,040	576,463
Defined benefit plan	85,856	77,476
Depreciation	2,018,425	1,784,567
Depreciation of investment property	53	661
Amortization	186,600	107,007
Loss on disposal of property, plant and equipment	4,859	2,898
Loss on disposal of intangible assets	1,696	3,265
Loss on impairment of property, plant, and equipment	3,746	5
Interest expense	64,741	52,917
Loss on foreign currency translation	63,359	61,878
Gain on valuation of equity-accounted investees	(14,181)	(10,270)
Gain on disposal of property, plant and equipment	(2,179)	(4,415)
Gain on valuation of financial assets at fair value through profit or loss	(932)	(4,694)
Gain on disposal of financial assets at fair value through profit or loss	(9,265)	(20,522)
Loss on derivative instruments, net	108	303
Interest income	(19,198)	(17,687)
Gain on foreign currency translation	(61,045)	(78,682)
Others, net	3,566	760
Changes in operating assets and liabilities		
Decrease in trade receivables	157,698	619,958
Decrease in loans and other receivables	51,799	658,354
Increase in inventories	(90,428)	(243,542)
Increase in other assets	(42,109)	(144,342)
Decrease in trade payables	(122,748)	(187,575)
Decrease in other payables	(74,909)	(8,800)
Decrease in other non-trade payables	(545,245)	(291,200)
Increase in provisions	3,767	3,376
Decrease in other liabilities	(4,213)	(21,355)
Contributions to plan assets	(53)	(1,559)
Payment of defined benefit liabilities	(11,671)	(3,562)
Cash generated from operating activities	₩ <u>2,589,295</u>	<u>5,315,549</u>

(2) Details of significant transactions without inflows and outflows of cash for the six-month periods ended June 30, 2016 and 2015 are as follows:

(In millions of won)

	2016	2015
Increase in other payables related to acquisition of property, plant and equipment	₩ -	80,835