

SK HYNIX, INC. and Subsidiaries

Condensed Consolidated Interim Financial Statements

March 31, 2017 and 2016

(Unaudited)

(With Independent Auditors' Review Report Thereon)

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Independent Auditors' Review Report

Based on a report originally issued in Korean

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

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 March 31, 2017, the condensed consolidated statements of comprehensive income, changes in equity and cash flows for the three-month periods ended March 31, 2017 and 2016 and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility

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

Auditors' review responsibility

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

We conducted our reviews in accordance with the Review Standards for Quarterly and Semiannual Financial Statements established by the Securities and Futures Commission of the Republic of Korea. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Korean Standards on Auditing 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, 2016, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, which are not accompanying this report, were audited by us in accordance with Korean Standards on Auditing and our report thereon, dated February 17, 2017, expressed an unqualified opinion. The accompanying condensed consolidated statement of financial position of the Group as of December 31, 2016, presented for comparative purposes, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

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
May 11, 2017

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

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

(In millions of won)

	Note	2017	2016
Assets			
Current assets			
Cash and cash equivalents	5,6 ₩	2,162,786	613,786
Short-term financial instruments	5,6,7	2,709,599	3,521,893
Trade receivables, net	5,6,8	3,452,210	3,251,652
Loans and other receivables, net	5,6,8	50,504	25,611
Inventories, net	9	2,040,563	2,026,198
Current tax assets		611	489
Other current assets	10	425,136	399,353
		<u>10,841,409</u>	<u>9,838,982</u>
Non-current assets			
Investments in associates and joint ventures	11	106,387	131,016
Available-for-sale financial assets	5,6,12	148,906	147,779
Loans and other receivables, net	5,6,8	39,147	39,490
Other financial assets	5,6,7	416	423
Property, plant and equipment, net	13,31	19,856,004	18,777,402
Intangible assets, net	14	2,002,619	1,915,591
Investment property, net	15	2,547	2,573
Deferred tax assets		773,398	792,368
Other non-current assets	10	548,667	570,402
		<u>23,478,091</u>	<u>22,377,044</u>
Total assets	₩	<u><u>34,319,500</u></u>	<u><u>32,216,026</u></u>

See accompanying notes to the condensed consolidated interim financial statements.

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

(In millions of won)

	Note	2017	2016
Liabilities			
Current liabilities			
Trade payables	5,6 ₩	701,194	696,144
Other payables	5,6,23	2,284,887	1,606,417
Other non-trade payables	5,6	598,966	685,154
Borrowings	5,6,16	790,688	704,860
Other financial liabilities	5,6,20	189	288
Provisions	18	59,082	42,822
Current tax liabilities		685,800	374,666
Other current liabilities	17	46,710	50,498
		<u>5,167,516</u>	<u>4,160,849</u>
Non-current liabilities			
Other non-trade payables	5,6	10,262	27,426
Borrowings	5,6,16	3,552,708	3,631,118
Defined benefit liabilities, net	19	354,655	306,488
Deferred tax liabilities		4,034	4,732
Other non-current liabilities	17	61,406	61,883
		<u>3,983,065</u>	<u>4,031,647</u>
Total liabilities		<u>9,150,581</u>	<u>8,192,496</u>
Equity			
Equity attributable to owners of the Parent Company			
Capital stock	1,21	3,657,652	3,657,652
Capital surplus	21	4,143,736	4,143,736
Other equity	21	(771,890)	(771,913)
Accumulated other comprehensive loss	22	(403,951)	(79,103)
Retained earnings	23	18,536,781	17,066,583
Total equity attributable to owners of the Parent Company		<u>25,162,328</u>	<u>24,016,955</u>
Non-controlling interests		<u>6,591</u>	<u>6,575</u>
Total equity		<u>25,168,919</u>	<u>24,023,530</u>
Total liabilities and equity	₩	<u><u>34,319,500</u></u>	<u><u>32,216,026</u></u>

See accompanying notes to the condensed consolidated interim financial statements.

SK HYNIX, INC. and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income
For the three-month periods ended March 31, 2017 and 2016
(Unaudited)

(In millions of won, except per share information)

	Note	2017	2016
Revenue	4 ₩	6,289,518	3,655,717
Cost of sales	25	2,984,822	2,337,672
Gross profit		3,304,696	1,318,045
Selling and administrative expense	24,25	837,097	756,247
Operating profit		2,467,599	561,798
Finance income	26	377,849	300,719
Finance expenses	26	467,249	292,464
Share of profit (loss) of equity-accounted investees	11	(227)	3,071
Other income	27	5,592	6,976
Other expenses	27	13,421	22,110
Profit before income tax		2,370,143	557,990
Income tax expense	28	471,465	109,964
Profit for the period		1,898,678	448,026
Other comprehensive income (loss)			
Item that will never be reclassified to profit or loss:			
Remeasurements of defined benefit liability, net of tax	19	(4,170)	(2,124)
Items that are or may be reclassified to profit or loss:			
Foreign operations – foreign currency translation differences, net of tax	22	(315,967)	(13,804)
Equity-accounted investees – share of other comprehensive loss, net of tax	11,22	(9,574)	(1,661)
Other comprehensive loss for the period, net of tax		(329,711)	(17,589)
Total comprehensive income for the period	₩	1,568,967	430,437

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-month periods ended March 31, 2017 and 2016

(Unaudited)

(In millions of won, except per share information)

	<u>Note</u>	<u>2017</u>	<u>2016</u>
Profit attributable to:			
Owners of the Parent Company	₩	1,897,969	444,194
Non-controlling interests		709	3,832
Total comprehensive income attributable to:			
Owners of the Parent Company		1,568,951	426,669
Non-controlling interests		16	3,768
Earnings per share			
Basic earnings per share (in won)	29	2,688	629
Diluted earnings per share (in won)	29	2,688	629

See accompanying notes to the condensed consolidated interim financial statements.

SK HYNIX, INC. and Subsidiaries
Condensed Consolidated Statements of Changes in Equity
For the three-month periods ended March 31, 2017 and 2016
(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		
Balance at January 1, 2016	₩	3,657,652	4,143,736	(771,913)	(1,600)	14,358,988	840	21,387,703
Total comprehensive income:								
Profit for the period		-	-	-	-	444,194	3,832	448,026
Remeasurements of defined benefit liability, net of tax		-	-	-	-	(2,124)	-	(2,124)
Other comprehensive loss from joint venture and associate, net of tax		-	-	-	(1,661)	-	-	(1,661)
Foreign currency translation differences for foreign operations, net of tax		-	-	-	(13,740)	-	(64)	(13,804)
Total comprehensive income		-	-	-	(15,401)	442,070	3,768	430,437
Transactions with owners of the Parent Company:								
Dividends paid		-	-	-	-	(353,001)	-	(353,001)
Disposal of a subsidiary		-	-	-	390	-	(840)	(450)
Transactions with owners of the Parent Company		-	-	-	390	(353,001)	(840)	(353,451)
Balance at March 31, 2016	₩	3,657,652	4,143,736	(771,913)	(16,611)	14,448,057	3,768	21,464,689

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 three-month periods ended March 31, 2017 and 2016
(Unaudited)

		Attributable to owners of the Parent Company						Non-controlling interests	Total equity
		Capital stock	Capital surplus	Other equity	Accumulated other comprehensive income (loss)	Retained earnings	Total		
Balance at January 1, 2017	₩	3,657,652	4,143,736	(771,913)	(79,103)	17,066,583	24,016,955	6,575	24,023,530
Total comprehensive income:									
Profit for the period		-	-	-	-	1,897,969	1,897,969	709	1,898,678
Remeasurements of defined benefit liability, net of tax		-	-	-	-	(4,170)	(4,170)	-	(4,170)
Other comprehensive loss from joint venture and associate, net of tax		-	-	-	(9,574)	-	(9,574)	-	(9,574)
Foreign currency translation differences for foreign operations, net of tax		-	-	-	(315,274)	-	(315,274)	(693)	(315,967)
Total comprehensive income		-	-	-	(324,848)	1,893,799	1,568,951	16	1,568,967
Transactions with owners of the Parent Company:									
Dividends paid		-	-	-	-	(423,601)	(423,601)	-	(423,601)
Share-based payment transactions		-	-	23	-	-	23	-	23
Transactions with owners of the Parent Company		-	-	23	-	(423,601)	(423,578)	-	(423,578)
Balance at March 31, 2017	₩	3,657,652	4,143,736	(771,890)	(403,951)	18,536,781	25,162,328	6,591	25,168,919

See accompanying notes to the condensed consolidated interim financial statements.

SK HYNIX, INC. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
For the three-month periods ended March 31, 2017 and 2016
(Unaudited)

(In millions of won)

	<u>Note</u>	<u>2017</u>	<u>2016</u>
Cash flows from operating activities			
Cash generated from operating activities	32 ₩	3,007,646	929,148
Interest received		2,619	13,147
Interest paid		(29,920)	(30,631)
Dividends received		-	18
Income tax paid		(160,325)	(261,983)
Net cash provided by operating activities		<u>2,820,020</u>	<u>649,699</u>
Cash flows from investing activities			
Decrease in short-term financial instruments		2,061,895	2,160,044
Increase in short-term financial instruments		(1,246,666)	(1,846,823)
Collection of loans and other receivables		3,559	3,505
Increase in loans and other receivables		(3,362)	(3,407)
Proceeds from disposal of available-for-sale financial assets		452	1,212
Acquisition of available-for-sale financial assets		(1,799)	(7,447)
Decrease in other financial assets		1	-
Cash inflows from derivative transactions		203	287
Cash outflows from derivative transactions		(308)	(406)
Proceeds from disposal of property, plant and equipment		2,125	2,436
Acquisition of property, plant and equipment		(2,018,470)	(1,649,520)
Proceeds from disposal of intangible assets		-	238
Acquisition of intangible assets		(194,297)	(129,651)
Acquisition of investments in associates		-	(1,136)
Net cash used in investing activities	₩	<u>(1,396,667)</u>	<u>(1,470,668)</u>

See accompanying notes to the condensed consolidated interim financial statements.

SK HYNIX, INC. and Subsidiaries
Condensed Consolidated Statements of Cash Flows, Continued
For the three-month periods ended March 31, 2017 and 2016
(Unaudited)

(In millions of won)

	<u>Note</u>	<u>2017</u>	<u>2016</u>
Cash flows from financing activities			
Proceeds from borrowings	₩	344,893	1,421,133
Repayments of borrowings		(167,358)	(805,979)
Net cash provided by financing activities		<u>177,535</u>	<u>615,154</u>
Effect of movements in exchange rates on cash and cash equivalents		<u>(51,888)</u>	<u>(22,958)</u>
Net increase (decrease) in cash and cash equivalents		<u>1,549,000</u>	<u>(228,773)</u>
Cash and cash equivalents at beginning of the period		<u>613,786</u>	<u>1,175,719</u>
Cash and cash equivalents at end of the period	₩	<u><u>2,162,786</u></u>	<u><u>946,946</u></u>

See accompanying notes to the condensed consolidated interim financial statements.

SK HYNIX, INC. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

March 31, 2017 and 2016

(Unaudited)

1. Reporting Entity

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

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

As of March 31, 2017, 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 (KEB Hana Bank) ¹	5,092,500	0.70
National Pension Service and other investors	554,809,295	76.21
Treasury shares	22,000,570	3.02
	<u>728,002,365</u>	<u>100.00</u>

¹ 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
March 31, 2017 and 2016
(Unaudited)

1. Reporting Entity, Continued

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

Company	Location	Business	Ownership (%)	
			2017	2016
SK hyeng Inc.	Korea	Domestic subsidiary	100.00	100.00
SK hystec Inc.	Korea	Domestic subsidiary	100.00	100.00
Siliconfile Technologies Inc.	Korea	Development and manufacturing of electronic component	100.00	100.00
Happy More	Korea	Domestic subsidiary	100.00	100.00
SK hynix America Inc. (SKHYA)	U.S.A.	Overseas sales subsidiary	97.74	97.74
SK hynix Deutschland GmbH (SKHYD)	Germany	Overseas sales subsidiary	100.00	100.00
SK hynix U.K. Ltd. (SKHYU)	U.K.	Overseas sales subsidiary	100.00	100.00
SK hynix Asia Pte. Ltd. (SKHYS)	Singapore	Overseas sales subsidiary	100.00	100.00
SK hynix Semiconductor India Private Ltd. (SKHYS) ¹	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) ²	China	Overseas manufacturing subsidiary	100.00	100.00
Softex Flash Solutions LLC. (SOFTEQ)	Belarus	Overseas R&D center	100.00	100.00
SK hynix Ventures Hong Kong Limited (SKH Ventures)	Hong Kong	Overseas investment subsidiary	100.00	100.00
MMT (Money Market Trust)	Korea	Money Market Trust	100.00	100.00

¹ Subsidiary of SK hynix Asia Pte. Ltd.

² Subsidiary of SK APTECH Ltd.

(3) There are no changes in consolidated subsidiaries during the three-month period ended March 31, 2017.

SK HYNIX, INC. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

March 31, 2017 and 2016

(Unaudited)

1. Reporting Entity, Continued

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

(In millions of won)

	2017			2016		
	Assets	Liabilities	Equity	Assets	Liabilities	Equity
SK hynix America Inc. (SKHYA)	₩ 1,477,358	1,172,193	305,165	1,584,043	1,279,493	304,550
SK hynix Asia Pte. Ltd. (SKHYS)	425,600	348,920	76,680	337,506	253,918	83,588
SK hynix Semiconductor Hong Kong Ltd. (SKHYH)	975,894	864,630	111,264	932,437	810,556	121,881
SK hynix Semiconductor (Shanghai) Co., Ltd. (SKHYCS)	46,749	22,432	24,317	46,177	18,595	27,582
SK hynix Japan Inc. (SKHYJ)	571,004	510,315	60,689	251,274	184,504	66,770
SK hynix Semiconductor Taiwan Inc. (SKHYT)	362,789	354,112	8,677	310,933	290,174	20,759
SK hynix Semiconductor (China) Ltd. (SKHYCL)	3,353,783	308,381	3,045,402	3,476,086	232,117	3,243,969
SK hynix Deutschland GmbH (SKHYD)	83,406	49,141	34,265	83,388	45,575	37,813
SK hynix U.K. Ltd. (SKHYU)	213,392	198,126	15,266	146,327	128,807	17,520
SK hynix Semiconductor (Chongqing) Ltd. (SKHYCQL)	310,287	140,674	169,613	350,305	171,088	179,217

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
March 31, 2017 and 2016
(Unaudited)

1. Reporting Entity, Continued

(5) Major subsidiaries' summarized separate statements of comprehensive income (loss) for the three-month periods ended March 31, 2017 and 2016 are as follows:

(In millions of won)

	2017			2016		
	Revenue	Profit (loss)	Total comprehensive income (loss)	Revenue	Profit (loss)	Total comprehensive income (loss)
SK hynix America Inc. (SKHYA)	₩ 2,102,429	24,718	24,718	985,818	3,470	3,470
SK hynix Asia Pte. Ltd. (SKHYS)	515,220	(576)	(576)	362,859	1,132	1,132
SK hynix Semiconductor Hong Kong Ltd. (SKHYH)	2,162,477	(1,112)	(1,112)	1,107,032	2,009	2,009
SK hynix Semiconductor (Shanghai) Co., Ltd. (SKHYCS)	44,504	(1,569)	(1,569)	157,011	2,958	2,958
SK hynix Japan Inc. (SKHYJ)	179,439	(3,676)	(3,676)	166,677	(3,440)	(3,440)
SK hynix Semiconductor Taiwan Inc. (SKHYT)	594,164	(11,847)	(11,847)	405,460	(1,856)	(1,856)
SK hynix Semiconductor (China) Ltd. (SKHYCL)	513,122	7,457	7,457	552,252	27,904	27,904
SK hynix Deutschland GmbH (SKHYD)	111,530	(1,352)	(1,352)	85,224	(1,316)	(1,316)
SK hynix U.K. Ltd. (SKHYU)	220,478	(946)	(946)	128,181	(270)	(270)
SK hynix Semiconductor (Chongqing) Ltd. (SKHYCQL)	77,076	1,826	1,826	71,743	653	653

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

SK HYNIX, INC. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

March 31, 2017 and 2016

(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, 2016. These condensed consolidated interim financial statements do not include all of the disclosures required for full annual financial statements.

(2) Use of estimates and judgments

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

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

3. Significant Accounting Policies

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

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
March 31, 2017 and 2016
(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-month periods ended March 31, 2017 and 2016 are as follows:

(In millions of won)

		2017	2016
Sale of goods	₩	6,274,658	3,644,643
Sale of services		14,860	11,074
	₩	<u>6,289,518</u>	<u>3,655,717</u>

(2) Details of the Group's revenue by product and service types for the three-month periods ended March 31, 2017 and 2016 are as follows:

(In millions of won)

		2017	2016
DRAM	₩	4,654,579	2,766,614
NAND Flash		1,501,592	778,961
Other		133,347	110,142
	₩	<u>6,289,518</u>	<u>3,655,717</u>

(3) The Group's revenue information by region based on the location of selling entities for the three-month periods ended March 31, 2017 and 2016 are as follows:

(In millions of won)

		2017	2016
Korea	₩	377,515	284,541
China		2,200,494	1,251,547
Taiwan		592,449	403,648
Asia (other than China and Taiwan)		694,762	528,490
U.S.A.		2,091,887	974,281
Europe		332,411	213,210
	₩	<u>6,289,518</u>	<u>3,655,717</u>

SK HYNIX, INC. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

March 31, 2017 and 2016

(Unaudited)

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 March 31, 2017 and December 31, 2016 are as follows:

(In millions of won)

		2017	2016
Korea	₩	19,222,237	18,078,337
China		2,837,415	2,805,712
Taiwan		6,352	6,835
Asia (other than China and Taiwan)		1,374	1,522
U.S.A.		333,623	364,188
Europe		8,836	9,374
	₩	<u>22,409,837</u>	<u>21,265,968</u>

(5) Revenues from customers "A" "B" and "C" that each constitutes more than 10% of the Group's consolidated revenue for the three-month period ended March 31, 2017 amount to ₩769,483 million(2016: ₩283,396 million), ₩657,196 million(2016: ₩310,217 million) and ₩711,108 million(2016: ₩260,305 million), respectively.

5. Categories of Financial Instruments

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

(In millions of won)

		2017		
		Financial assets at fair value through profit or loss	Available-for- sale financial assets	Loans and receivables
				Total
Cash and cash equivalents	₩	-	-	2,162,786
Short-term financial instruments		888,108	-	1,821,491
Trade receivables		-	-	3,452,210
Loans and other receivables		-	-	89,651
Other financial assets		-	-	416
Available-for-sale financial assets		-	148,906	-
	₩	<u>888,108</u>	<u>148,906</u>	<u>7,526,554</u>
				<u>8,563,568</u>

(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	₩	-	-	613,786
Short-term financial instruments		1,570,172	-	1,951,721
Trade receivables		-	-	3,251,652
Loans and other receivables		-	-	65,101
Other financial assets		-	-	423
Available-for-sale financial assets		-	147,779	-
	₩	<u>1,570,172</u>	<u>147,779</u>	<u>5,882,683</u>
				<u>7,600,634</u>

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

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

(In millions of won)

	2017		
	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Total
Trade payables	₩ -	701,194	701,194
Other payables	-	2,284,887	2,284,887
Other non-trade payables ¹	-	609,228	609,228
Borrowings	-	4,343,396	4,343,396
Other financial liabilities	189	-	189
₩	<u>189</u>	<u>7,938,705</u>	<u>7,938,894</u>

(In millions of won)

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

¹ Details of other non-trade payables as of March 31, 2017 and December 31, 2016 are as follows:

(In millions of won)

	2017	2016
Current		
Accrued expenses	₩ 598,966	685,154
Non-current		
Rent deposit payables	2,554	2,554
Long-term other payables	7,708	24,872
	<u>10,262</u>	<u>27,426</u>
₩	<u>609,228</u>	<u>712,580</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 three-month period ended March 31, 2017.

(a) Market risk

(i) Foreign exchange risk

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

Monetary foreign currency assets and liabilities as of March 31, 2017 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	6,322	₩ 7,055,945	4,200	₩ 4,687,598
EUR	9	11,098	27	31,639
JPY	3,648	36,427	63,228	631,341

As of March 31, 2017, the impacts from foreign exchange risks on each monetary foreign currency assets and liabilities assuming change in exchange rate by 10% are as follows:

(In millions of won)

	If increased by 10%	If decreased by 10%
USD	₩ 236,835	(236,835)
EUR	(2,054)	2,054
JPY	(59,491)	59,491

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6. Financial Risk Management, Continued

(1) Financial risk management, Continued

(ii) Interest rate risk

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

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

As of March 31, 2017, the Group is partially exposed to the risk of fluctuation of net interest expenses arisen from change in interest rates. If interest rates on borrowings had been 100 basis points higher/lower with all other variables held constant, profit before income tax for the next three-month period would have been ₩5,730 million lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings and interest income on floating rate financial assets.

(iii) Price risk

As of March 31, 2017, there are no available-for-sale equity securities measured at fair value held by the Group. Accordingly, the Group is not exposed to any equity securities price risk.

(b) Credit risk

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

(i) Trade and other receivables

For each new customer, the Group individually analyzes its credit worthiness before standard payment and delivery terms and conditions are offered. In addition, the Group is continuously 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 March 31, 2017 is the carrying amount of trade and other receivables.

(ii) Other financial assets

Credit risk also arises from other financial assets such as cash and cash equivalents; short-term financial instruments; and deposits with banks and financial institutions as well as short-term and long-term loans mainly due to the bankruptcy of each counterparty to those financial assets. The maximum exposure to credit risk as of March 31, 2017 is the carrying amount of those financial assets. The Group transacts only with banks and financial institutions with high credit ratings, and accordingly management does not expect any loss from non-performance by the counterparties.

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6. Financial Risk Management, Continued

(1) Financial risk management, Continued

(c) Liquidity risk

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

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

(2) Capital management

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

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

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

(In millions of won)

	2017	2016
Total liabilities (A)	₩ 9,150,581	8,192,496
Total equity (B)	25,168,919	24,023,530
Cash and cash equivalents and short-term financial instruments (C)	4,872,385	4,135,679
Total borrowings (D)	4,343,396	4,335,978
Debt-to-equity ratio (A/B)	36%	34%
Net borrowing ratio (D-C)/B	-	1%

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6. Financial Risk Management, Continued

(3) Fair value

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

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

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

(In millions of won)

		2017			
	Carrying amounts	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Short-term financial instruments	₩ 888,108	-	888,108	-	888,108
	<u>888,108</u>	<u>-</u>	<u>888,108</u>	<u>-</u>	<u>888,108</u>
Financial assets not measured at fair value					
Cash and cash equivalents ¹	2,162,786	-	-	-	-
Short-term financial instruments ¹	1,821,491	-	-	-	-
Trade receivables ¹	3,452,210	-	-	-	-
Loans and other receivables ¹	89,651	-	-	-	-
Other financial assets ¹	416	-	-	-	-
Available-for-sale financial assets ^{1,2}	148,906	-	-	-	-
	<u>7,675,460</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Financial liabilities measured at fair value					
Other financial liabilities	189	-	189	-	189
	<u>189</u>	<u>-</u>	<u>189</u>	<u>-</u>	<u>189</u>
Financial liabilities not measured at fair value					
Trade payables ¹	701,194	-	-	-	-
Other payables ¹	2,284,887	-	-	-	-
Other non-trade payables ¹	609,228	-	-	-	-
Borrowings	4,343,396	-	4,357,800	-	4,357,800
₩	<u>7,938,705</u>	<u>-</u>	<u>4,357,800</u>	<u>-</u>	<u>4,357,800</u>

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6. Financial Risk Management, Continued

(In millions of won)

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

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, 2016.

(c) There was no transfer between fair value hierarchy levels for the three-month period ended March 31, 2017.

SK HYNIX, INC. and Subsidiaries
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7. Restricted Financial Instruments

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

(In millions of won)

	2017	2016	Description
Short-term financial instruments	₩ 77,500	77,500	Restricted for supporting small businesses
	5,991	6,220	Pledged for consumption tax
	<u>83,491</u>	<u>83,720</u>	
Other financial assets	308	308	Pledged for borrowings
	11	12	Bank overdraft guarantee deposit
	97	104	Others
	<u>416</u>	<u>424</u>	
	<u>₩ 83,907</u>	<u>84,144</u>	

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8. Trade Receivables and Loans and Other Receivables

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

(In millions of won)

	2017	2016
Current		
Other receivables	₩ 30,144	11,571
Accrued income	16,620	9,732
Short-term loans	2,911	3,145
Short-term guarantee and other deposits	829	1,163
	<u>50,504</u>	<u>25,611</u>
Non-current		
Long-term other receivables	58	60
Long-term loans	5,193	6,008
Guarantee deposits	33,747	33,261
Long-term deposits	149	161
	<u>39,147</u>	<u>39,490</u>
	<u>₩ 89,651</u>	<u>65,101</u>

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

(In millions of won)

	2017	
	Gross amount	Provision for impairment
Trade receivables	₩ 3,454,115	(1,905)
Current loans and other receivables	52,043	(1,539)
Non-current loans and other receivables	40,543	(1,396)
	<u>₩ 3,546,701</u>	<u>(4,840)</u>

(In millions of won)

	2016	
	Gross amount	Provision for impairment
Trade receivables	₩ 3,253,489	(1,837)
Current loans and other receivables	26,982	(1,371)
Non-current loans and other receivables	40,966	(1,476)
	<u>₩ 3,321,437</u>	<u>(4,684)</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 three-month periods ended March 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Beginning balance	₩ 1,837	2,974
Provision for receivables impairment	115	-
Reversal	-	(522)
Foreign exchange difference	(47)	9
Ending balance	₩ 1,905	2,461

Movements in the provision for impairment of current loans and other receivables for the three-month periods ended March 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Beginning balance	₩ 1,371	1,433
Provision for receivables impairment	168	-
Reversal	-	(1)
Ending balance	₩ 1,539	1,432

Movements in the provision for impairment of non-current loans and other receivables for the three-month periods ended March 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Beginning balance	₩ 1,476	6,143
Provision for receivables impairment	2	13
Foreign exchange difference	(82)	(16)
Ending balance	₩ 1,396	6,140

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9. Inventories

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

(In millions of won)

		2017	
	Acquisition cost	Inventory valuation allowance	Carrying amount
Finished goods	₩ 458,845	(83,579)	375,266
Work-in-process	1,194,339	(18,258)	1,176,081
Raw materials	270,986	(8,036)	262,950
Supplies	199,911	(22)	199,889
Goods in transit	26,377	-	26,377
	₩ 2,150,458	(109,895)	2,040,563

(In millions of won)

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

10. Other Current and Non-current Assets

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

(In millions of won)

	2017	2016
Current		
Advance payments	₩ 3,663	1,853
Prepaid expenses	238,242	238,831
Value added tax refundable	173,517	148,756
Others	9,714	9,913
	425,136	399,353
Non-current		
Long-term prepaid expenses	548,667	568,907
Others	-	1,495
	548,667	570,402
	₩ 973,803	969,755

SK HYNIX, INC. and Subsidiaries

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11. Investments in Associates and Joint Ventures

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

(In millions of won)

Type	Investee	Ownership (%) in 2017	2017		2016
			Net asset value	Carrying amount	Carrying amount
Associate	Stratio, Inc. ¹	9.10	₩ 135	2,139	2,151
	Gemini Partners Pte. Ltd.	20.00	3,118	4,806	5,199
	TCL Fund ²	11.06	2,092	2,092	2,219
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd. (HITECH)	45.00	97,350	97,350	121,447
			₩	106,387	131,016

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

² 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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11. Investments in Associates and Joint Ventures, Continued

(2) Changes in investments in associates and a joint venture for the three-month periods ended March 31, 2017 and 2016 are as follows:

(In millions of won)

		2017			
		Beginning balance	Share of profit (loss)	Other equity movement	Dividend
Stratio, Inc.	₩	2,151	(1)	(11)	-
Gemini Partners Pte. Ltd.		5,199	(255)	(138)	-
TCL Fund		2,219	15	(142)	-
HITECH Semiconductor (Wuxi) Co., Ltd. (HITECH)		121,447	14	(9,283)	(14,828)
	₩	<u>131,016</u>	<u>(227)</u>	<u>(9,574)</u>	<u>(14,828)</u>
					<u>Ending balance</u>

(In millions of won)

		2016			
		Beginning balance	Acquisition	Share of profit (loss)	Other equity movement
Stratio, Inc.	₩	2,171	-	(21)	(4)
Gemini Partners Pte. Ltd.		7,976	-	(149)	288
TCL Fund		-	1,136	-	(48)
HITECH Semiconductor (Wuxi) Co., Ltd. (HITECH)		112,462	-	3,241	(1,897)
	₩	<u>122,609</u>	<u>1,136</u>	<u>3,071</u>	<u>(1,661)</u>
					<u>Ending balance</u>

(3) Associates and a joint venture' summarized statements of financial position as of March 31, 2017 and December 31, 2016 are as follows:

(In millions of won)

		2017			
		Current assets	Non-current assets	Current liabilities	Non-current liabilities
Stratio, Inc.	₩	926	617	22	-
Gemini Partners Pte. Ltd.		11,270	4,377	90	-
TCL Fund		15,169	3,740	-	-
HITECH Semiconductor (Wuxi) Co., Ltd. (HITECH)		234,514	310,961	105,548	223,594

(In millions of won)

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

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11. Investments in Associates and Joint Ventures, Continued

(4) Associates and a joint venture's summarized statements of comprehensive income (loss) for the three-month periods ended March 31, 2017 and 2016 are as follows:

(In millions of won)

	2017		2016	
	Revenue	Profit (loss) for the period	Revenue	Profit for the period
Stratio, Inc.	₩ 6	(8)	-	(235)
Gemini Partners Pte. Ltd	-	(1,276)	-	(747)
TCL Fund	-	139	-	-
HITECH Semiconductor (Wuxi) Co., Ltd. (HITECH)	142,210	31	157,398	7,204

12. Available-for-sale Financial Assets

Changes in the carrying amount of available-for-sale financial assets for the three-month periods ended March 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Beginning balance	₩ 147,779	131,354
Acquisition	1,799	7,447
Disposal	(452)	(1,212)
Foreign exchange difference	(220)	-
Ending balance	₩ 148,906	137,589

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13. Property, Plant and Equipment

(1) Changes in property, plant and equipment for the three-month periods ended March 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Beginning balance	₩ 18,777,402	16,966,252
Acquisition	2,357,636	1,706,182
Disposal	(4,815)	(5,509)
Depreciation	(1,086,704)	(984,472)
Foreign exchange difference and other	(187,515)	(15,954)
Ending balance	₩ 19,856,004	17,666,499

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

(3) Finance lease and operating lease

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

The book value of the machinery and others subject to finance lease agreement amounted to ₩48,588 million as of March 31, 2017 (as of December 31, 2016: ₩67,245 million). The machinery and others are pledged as collateral for the finance lease liabilities.

The Group 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 March 31, 2017 is as follows:

(In millions of won)

	Minimum lease payments
No later than 1 year	₩ 144,628
Later than 1 year	156,853
	₩ 301,481

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14. Intangible Assets

Changes in intangible assets for the three-month periods ended March 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Beginning balance	₩ 1,915,591	1,704,896
Acquisition	194,297	129,651
Disposal	(1,792)	(1,222)
Amortization	(78,408)	(94,168)
Foreign exchange difference and other	(27,069)	(3,643)
Ending balance	₩ 2,002,619	1,735,514

(2) Among costs associated with development activities, ₩140,624 million that met capitalization criteria, were capitalized as development cost for the three-month period ended March 31, 2017 (2016: ₩80,036 million). In addition, costs associated with research activities and other development expenditures that did not meet the criteria and amounted to ₩451,231 million were recognized as expenses for the three-month period ended March 31, 2017 (2016: ₩420,742 million).

15. Investment Property

(1) Changes in investment property for the three-month periods ended March 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Beginning balance	₩ 2,573	2,679
Depreciation	(26)	(26)
Ending balance	₩ 2,547	2,653

(2) The depreciation expense of ₩26 million was charged to cost of sales for the three-month period ended March 31, 2017 (2016: ₩26 million).

(3) Rental income from investment property during the three-month period ended March 31, 2017 was ₩124 million (2016: ₩127 million).

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16. Borrowings

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

(In millions of won)

	2017	2016
Current		
Short-term borrowings	₩ 113,605	-
Current installments of long-term borrowings	295,698	384,124
Current installments of debentures	381,385	320,736
	<u>790,688</u>	<u>704,860</u>
Non-current		
Long-term borrowings	2,086,773	2,095,737
Debentures	1,465,935	1,535,381
	<u>3,552,708</u>	<u>3,631,118</u>
	<u>₩ 4,343,396</u>	<u>4,335,978</u>

(2) Changes in borrowings for the three-month periods ended March 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Beginning balance	₩ 4,335,978	3,818,595
Borrowings	344,893	1,421,133
Repayments	(167,358)	(805,979)
Other ¹	(170,117)	(52,397)
Ending balance	<u>₩ 4,343,396</u>	<u>4,381,352</u>

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

17. Other Current and Non-current Liabilities

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

(In millions of won)

	2017	2016
Current		
Advance receipts	₩ 5,906	3,781
Unearned income	191	228
Withholdings	36,592	42,622
Deposits received	764	1,539
Others	3,257	2,328
	<u>46,710</u>	<u>50,498</u>
Non-current		
Other long-term employee benefits	61,406	61,883
	<u>₩ 108,116</u>	<u>112,381</u>

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18. Provisions

(1) Changes in provisions for the three-month periods ended March 31, 2017 and 2016 are as follows:

(In millions of won)

2017					
	Beginning Balance	Increase	Utilization	Others¹	Ending Balance
Warranty	₩ 2,997	756	(99)	-	3,654
Sales returns	13,317	11,508	(7,549)	-	17,276
Legal claims	400	-	-	(24)	376
Emission allowances	26,108	11,668	-	-	37,776
	₩ 42,822	23,932	(7,648)	(24)	59,082

(In millions of won)

2016					
	Beginning Balance	Increase	Utilization	Others¹	Ending Balance
Warranty	₩ 2,936	55	(80)	(3)	2,908
Sales returns	14,736	7,847	(9,499)	-	13,084
Legal claims	1,523	-	-	(24)	1,499
Emission allowances	6,081	4,279	-	-	10,360
	₩ 25,276	12,181	(9,579)	(27)	27,851

¹ Others include foreign exchange rate differences.

(2) Provisions for warranty

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

(3) Provisions for sales returns

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

(4) Provisions for legal claims

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

(5) Provision for emission allowances

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

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19. Defined Benefit Liabilities

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

(In millions of won)

	2017	2016
Present value of defined benefit obligations	₩ 1,235,062	1,195,047
Fair value of plan assets	(880,407)	(888,559)
	<u>₩ 354,655</u>	<u>306,488</u>

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

	2017 (%)	2016 (%)
Discount rate for defined benefit obligations	3.09 ~ 4.10	3.09 ~ 4.10
Expected rate of salary increase	2.20 ~ 5.48	2.20 ~ 5.48

(3) Changes in defined benefit obligations for the three-month periods ended March 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Beginning balance	₩ 1,195,047	1,055,340
Current service cost	38,435	38,152
Interest cost	11,752	10,384
Transferred from associates	4	134
Benefits paid	(10,138)	(10,302)
Others	(38)	34
Ending balance	<u>₩ 1,235,062</u>	<u>1,093,742</u>

(4) Changes in plan assets for the three-month periods ended March 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Beginning balance	₩ 888,559	570,363
Interest income	8,731	5,589
Contributions	-	57
Transferred from associates	(106)	134
Benefits paid	(12,607)	(8,708)
Remeasurements	(4,170)	(2,124)
Ending balance	<u>₩ 880,407</u>	<u>565,311</u>

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19. Defined Benefit Liabilities, Continued

(5) The amounts recognized in profit or loss for the three-month periods ended March 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Current service cost	₩ 38,435	38,152
Net interest cost	3,021	4,795
	<u>₩ 41,456</u>	<u>42,947</u>

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

(In millions of won)

	2017	2016
Deposits	₩ 879,001	887,074
Other	1,406	1,485
	<u>₩ 880,407</u>	<u>888,559</u>

Actual return on plan assets for the three-month periods ended March 31, 2017 and 2016 amounted to ₩4,561 million and ₩3,465 million, respectively.

(7) The Group adopted defined contribution retirement pension for the employees subject to peak wage system. Contributions to defined contribution plans amounting to ₩16 million was recognized as cost of sales for the three-month period ended March 31, 2017.

20. Derivative Financial Instruments

(1) Details of derivative financial liabilities as of March 31, 2017 and December 31, 2016 are as follows:

(In millions of won)

	2017	2016
Current		
Interest rates swap	₩ 189	288

(2) Details of gains and losses from derivative instruments for the three-month periods ended March 31, 2017 and 2016 are follows:

(In millions of won)

	2017			
	Gain on valuation	Loss on valuation	Gain on transaction	Loss on transaction
Interest rates swap	₩ 99	-	203	308

(In millions of won)

	2016			
	Gain on valuation	Loss on valuation	Gain on transaction	Loss on transaction
Interest rates swap	₩ 59	-	287	406

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21. Capital Stock, Capital Surplus and Other Equity

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

(In millions of won and thousands of shares)

	2017	2016
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
	₩ <u>4,143,736</u>	<u>4,143,736</u>
Other equity:		
Acquisition cost of treasury shares	₩ (771,913)	(771,913)
Stock option	23	-
	₩ <u>(771,890)</u>	<u>(771,913)</u>
Number of treasury shares	22,001	22,001

¹ As of March 31, 2017, the number of outstanding shares is 728,002 thousand shares, which differs from total issued shares due to stock retirement.

(2) The number of outstanding shares as of March 31, 2017 are 706,002 thousand shares (2016: 706,002 thousand shares).

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22. Accumulated Other Comprehensive Loss

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

(In millions of won)

		2017	2016
Equity-accounted investees – share of other comprehensive income	₩	(3,630)	5,944
Foreign operations – foreign currency translation differences		(400,321)	(85,047)
	₩	<u>(403,951)</u>	<u>(79,103)</u>

(2) Changes in accumulated other comprehensive loss for the three-month periods ended March 31, 2017 and 2016 are as follows:

(In millions of won)

		2017	
		Beginning	Change
Equity-accounted investees – share of other comprehensive income	₩	5,944	(9,574)
Foreign operations – foreign currency translation differences		(85,047)	(315,274)
	₩	<u>(79,103)</u>	<u>(324,848)</u>
			Ending
			(3,630)
			(400,321)
			<u>(403,951)</u>

(In millions of won)

		2016	
		Beginning	Change
Equity-accounted investees – share of other comprehensive loss	₩	1,856	(1,661)
Foreign operations – foreign currency translation differences		(3,456)	(13,350)
	₩	<u>(1,600)</u>	<u>(15,011)</u>
			Ending
			195
			(16,806)
			<u>(16,611)</u>

23. Retained Earnings

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

(In millions of won)

		2017	2016
Legal reserve ¹	₩	108,354	65,994
Discretionary reserve ²		235,506	235,506
Unappropriated retained earnings ³		18,192,921	16,765,083
	₩	<u>18,536,781</u>	<u>17,066,583</u>

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 is the reserve for technology development.

³ Dividends in the amount of ₩423,601 million were approved at shareholders' meeting held on March 24, 2017, and dividends payables are included in other payables as of March 31, 2017.

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24. Selling and Administrative Expenses

Selling and administrative expenses for the three-month periods ended March 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Salaries	₩ 126,021	82,993
Defined benefit plan	6,740	8,066
Employee benefits	19,403	22,165
Commission	59,170	55,181
Depreciation	22,498	22,695
Amortization	66,105	85,239
Freight and custody charge	9,802	7,473
Legal cost	6,439	1,737
Rental	3,517	3,860
Taxes and dues	3,969	4,780
Training	4,773	4,448
Advertising	7,836	3,686
Utility	7,927	3,863
Supplies	14,836	9,793
Repair	1,983	1,635
Travel and transportation	2,700	2,559
Sales promotion	13,108	8,146
Product warranties	756	51
Other	8,283	7,135
	<u>385,866</u>	<u>335,505</u>
Research and development:		
Expenditure on research and development	591,855	500,778
Development cost capitalized	(140,624)	(80,036)
	<u>451,231</u>	<u>420,742</u>
	<u>₩ 837,097</u>	<u>756,247</u>

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25. Expenses by Nature

Nature of expenses for the three-month periods ended March 31, 2017 and 2016 is as follows:

(In millions of won)

	2017	2016²
Changes in finished goods and work-in-process	₩ (29,351)	(235,696)
Raw materials and consumables	912,727	713,471
Labor costs	782,167	535,533
Depreciation and amortization	1,135,215	1,065,864
Royalty	56,170	58,074
Commission	256,692	187,633
Utilities	222,074	206,846
Repair	155,535	133,003
Outsourcing	215,385	202,642
Other	115,305	226,549
Total ¹	₩ <u>3,821,919</u>	<u>3,093,919</u>

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

² Expenses for the three-month period ended March 31, 2016 were reclassified to conform with the classification for the three-month period ended March 31, 2017.

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26. Finance Income and Expenses

Finance income and expenses for the three-month periods ended March 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Finance income		
Interest income	₩ 9,513	11,605
Dividend income	-	18
Foreign exchange differences	364,869	282,096
Gain from derivative instruments	302	346
Gain on valuation of financial assets at fair value through profit or loss	434	1,862
Gains on disposal of financial assets at fair value through profit or loss	2,731	4,792
	<u>377,849</u>	<u>300,719</u>
Finance expenses		
Interest expenses	29,575	33,669
Foreign exchange differences	437,366	258,389
Loss from derivative instruments	308	406
	<u>467,249</u>	<u>292,464</u>
Net finance income (expense)	₩ <u>(89,400)</u>	<u>8,255</u>

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27. Other Income and Expenses

(1) Other income for the three-month periods ended March 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Gain on disposal of property, plant and equipment	₩ 2,000	698
Other	3,592	6,278
	<u>₩ 5,592</u>	<u>6,976</u>

(2) Other expenses for the three-month periods ended March 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Loss on disposal of property, plant and equipment	₩ 4,690	3,771
Loss on disposal of intangible assets	1,792	984
Loss on disposal of trade receivables	2,094	315
Donation	1,912	212
Other	2,933	16,828
	<u>₩ 13,421</u>	<u>22,110</u>

28. Income Tax Expense

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

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29. Earnings per Share

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

(1) Basic earnings per share for the three-month periods ended March 31, 2017 and 2016 are as follows:

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

	2017	2016
Profit attributable to ordinary shareholders of the Parent Company	₩ 1,897,969	444,194
Weighted average number of outstanding ordinary shares ¹	706,001,795	706,001,795
Basic earnings per share (in won)	₩ 2,688	629

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

(In shares)

	2017	2016
Outstanding ordinary shares	728,002,365	728,002,365
Acquisition of treasury shares	(22,000,570)	(22,000,570)
Weighted average number of outstanding ordinary shares	706,001,795	706,001,795

(2) There is no potential ordinary shares with dilutive effect during the three-month periods ended March 31, 2017 and 2016. Accordingly, diluted earnings per share for the three-month periods ended March 31, 2017 and 2016 are the same as basic earnings per share.

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30. Transactions with Related Parties and Others

(1) Details of related parties as of March 31, 2017 are as follows:

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

(2) Significant transactions for the three-month periods ended March 31, 2017 and 2016 are as follows:

(In millions of won)

		2017			
	Company	Operating revenue and others	Operating expense and others	Asset acquisition	Dividend Gain
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	₩ 1,042	140,709	-	14,828
Other related parties	SK Telecom Co., Ltd. ¹	100	90,035	1,534	-
	SK Holdings Co., Ltd. ²	188	42,007	27,796	-
	ESSENCE Limited	187,498	-	-	-
	SK Engineering & Construction Co., Ltd.	5,949	123	122,695	-
	SK Energy Co., Ltd.	1,262	20,707	-	-
	SK Networks Co., Ltd.	-	911	-	-
	SK Materials Co., Ltd.	-	10,906	-	-
	SKC solmics Co., Ltd.	-	11,206	265	-
	Chungcheong energy service Co., Ltd.	-	7,805	-	-
	HAPPYNARAE Co., Ltd.	9	66,728	4,603	-
	Others	270	35,939	9,553	-
		₩ 196,318	427,076	166,446	14,828

¹ Operating expense and others include dividends of ₩87,660 million (2016: ₩73,050 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 three-month period ended March 31, 2017, royalty on the use of the SK brand amounted to ₩9,472 million (2016: ₩8,649 million).

(In millions of won)

		2016		
	Company	Operating revenue and others	Operating expense and others	Asset acquisition
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	₩ 175	157,437	18,567
Other related parties	SK Telecom Co., Ltd. ¹	9	75,094	640
	SK Holdings Co., Ltd. ²	75	23,746	31,076
	ESSENCE Limited	107,337	-	-
	SK Engineering & Construction Co., Ltd.	102	11,401	19,222
	SK Energy Co., Ltd.	1,216	20,077	-
	SK Networks Co., Ltd.	-	957	-
	SK Materials Co., Ltd.	-	10,477	-
	SKC solmics Co., Ltd.	-	8,076	102
	Chungcheong energy service Co., Ltd.	-	9,228	-
	HAPPYNARAE Co., Ltd.	3	19,289	1,480
	Others	78	35,386	740
		₩ 108,995	371,168	71,827

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30. Transactions with Related Parties and Others, Continued

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

(In millions of won)

		2017	
	Company	Trade receivables and others	Other payables and others
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd. (HITECH)	₩ 14,828	95,922
Other related parties	SK Telecom Co., Ltd. ¹	3	90,061
	SK Holdings Co., Ltd.	6,310	96,062
	ESSEN CORE Limited	56,964	-
	SK Engineering & Construction Co., Ltd.	6,362	354,052
	SK Energy Co., Ltd.	468	6,062
	SK Networks Co., Ltd.	-	302
	Ko-one energy service Co., Ltd.	-	9,001
	SKC solmics Co., Ltd.	-	11,012
	Chungcheong energy service Co., Ltd.	-	1,850
	HAPPYNARAE Co., Ltd.	3	24,899
	Others	147	38,733
		₩ 85,085	727,956

¹ Other payables and others include dividends payables of ₩87,660 million.

(In millions of won)

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

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30. Transactions with Related Parties and Others, Continued

(4) Key management compensation

Key management includes directors, members of the board of directors, chief financial officer and internal auditors of the Parent Company. The compensation paid to key management for employee services for the three-month periods ended March 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Salaries	₩ 17,354	16,603
Defined benefit plan	2,227	2,059
Compensation expense associated with stock option	23	-
Others	3	3
	<u>₩ 19,607</u>	<u>18,665</u>

(5) The significant transactions between the Group and the companies that are in the same conglomerate group according to 'Fair Trade Law' for the three-month periods ended March 31, 2017 and 2016 are as follows. These entities are not related parties according to K-IFRS No. 1024, 'Related Party Disclosures'.

(In millions of won)

		2017			
		Operating revenue and others	Operating expense and others	Asset acquisition	Dividend income
Companies in the Conglomerate	Company				
	SK Chemicals Co., Ltd.	₩ -	249	-	-

(In millions of won)

		2016			
		Operating revenue and others	Operating expense and others	Asset acquisition	Dividend income
Companies in the Conglomerate	Company				
	SK Chemicals Co., Ltd.	₩ -	48	-	-

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

(In millions of won)

		2017		
		Trade receivables and others	Other payables and others	
Companies in the Conglomerate	Company			
	SK Chemicals Co., Ltd.	₩ -	243	

(In millions of won)

		2016		
		Trade receivables and others	Other payables and others	
Companies in the Conglomerate	Company			
	SK Chemicals Co., Ltd.	₩ -	183	

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31. Commitments and Contingencies

(1) Significant pending litigations and claims of the Group as of March 31, 2017 are as follows:

(a) Lawsuit from Netlist, Inc.

Netlist, Inc. filed a lawsuit alleging infringement of multiple patents to US District Court for the Central District of California, USA, on August 31, 2016 and to US International Trade Commission on September 1, 2016. As of March 31, 2017, the patent infringement lawsuit filed by Netlist, Inc. in the US has not been finalized and the final result cannot be predicted due to its early stage in the litigation.

(b) Other patent infringement claims and litigation

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

(2) Technology and patent license agreements

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

(3) Contract for supply of industrial water

The Group has entered into a contract with Veolia Water Industrial Development Co., Ltd. ("VWID") under which the Group purchases industrial water by from March 2018. According to the contract, the Group is obligated to pay base service charges, which are predetermined and additional service charges that 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 March 31, 2017 are as follows:

(In millions of won)

	Book value	Pledged amount	Remark
Land	₩ 43,224		
Buildings	103,027	1,524,998	Borrowings for equipment and others
Machinery	1,158,234		
	₩ 1,304,485	1,524,998	

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.

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31. Commitments and Contingencies, Continued

(6) Financing agreements

Details of credit lines with financial institutions as of March 31, 2017 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	275
		Export finance including bills bought	USD	350
		Comprehensive limit contract for import and export	USD	1,080
SK hynix Semiconductor (China) Ltd. (SKHYCL)	Agricultural Bank of China and others	Import finance including usance	RMB	1,300
SK hynix America Inc. (SKHYA) and other sales entities	Citibank and others	Accounts receivable factoring contracts which have no right to recourse	USD	232
Domestic subsidiaries	KEB Hana Bank and others	Export finance including bills bought	KRW	362
		Guarantee	KRW	2,000
		Finance secured by accounts receivable	KRW	1,000
		Agent contract for procurement payment	KRW	10,000
			KRW	11,000

(7) Details of guarantees provided to others as of March 31, 2017 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 March 31, 2017, the Group has ₩1,282,793 million (as of December 31, 2016: ₩293,730 million) of commitments in relation to the capital expenditures on property, plant and equipment.

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32. Cash Generated from Operating Activities

(1) Reconciliations between profit and net cash inflow from operating activities for the three-month periods ended March 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Profit for the period	₩ 1,898,678	448,026
Adjustment		
Income tax expense	471,465	109,964
Defined benefit plan	41,456	42,947
Depreciation of property, plant and equipment	1,086,704	984,472
Depreciation of investment property	26	26
Amortization	78,408	94,168
Compensation expense associated with stock option	23	-
Loss on foreign currency translation	141,582	128,106
Interest expense	29,575	33,669
Gain on foreign currency translation	(224,970)	(117,009)
Interest income	(9,513)	(11,605)
Loss on derivative instruments, net	6	60
Gain on equity method investments, net	227	(3,071)
Others, net	3,689	(1,612)
Changes in operating assets and liabilities		
Decrease (increase) in trade receivables	(555,230)	271,712
Decrease (increase) in loans and other receivables	(17,111)	21,701
Increase in inventories	(35,785)	(267,304)
Increase in other assets	(8,886)	(27,772)
Increase (decrease) in trade payables	235,050	(121,292)
Decrease in other payables	(66,564)	(54,142)
Decrease in other non-trade payables	(63,967)	(596,890)
Increase in provisions	16,358	2,599
Increase (decrease) in other liabilities	(3,519)	1,326
Contributions to plan assets	-	(57)
Payment of defined benefit liabilities	(10,056)	(8,874)
Cash generated from operating activities	₩ 3,007,646	929,148

(2) Details of significant transactions without inflows and outflows of cash for the three-month periods ended March 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Other payables related to acquisition of property, plant and equipment	₩ 337,544	56,662
Dividend payables	423,601	353,001

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33. Share-based Payment

(1) The Group granted equity-settled share options to the Group's key management during the three-month period ended March 31, 2017 and the details of the share options as of March 31, 2017 are as follows:

(In shares)

	Total numbers of share option granted	Exercised	Forfeited or Cancelled	Outstanding at March 31, 2017
1 st	99,600	-	-	99,600
2 nd	99,600	-	-	99,600
3 rd	99,600	-	-	99,600
	298,800	-	-	298,800

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

(2) Measurement of fair value

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

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

(3) The compensation expense for the three-month period ended March 31, 2017 was ₩23 million.