

SK HYNIX, INC. and Subsidiaries

Condensed Consolidated Interim Financial Statements

March 31, 2019 and 2018

(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 March 31, 2019, the condensed consolidated statements of comprehensive income, changes in equity and cash flows for the three-month periods ended March 31, 2019 and 2018 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, 2018, 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 25, 2019, expressed an unqualified opinion. The accompanying condensed consolidated statement of financial position of the Group as of December 31, 2018, 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 Samjory Accounting Corp.

Seoul, Korea
May 10, 2019

This report is effective as of May 10, 2019, 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, 2019 and December 31, 2018
(Unaudited)

(In millions of won)

	Note	2019	2018
Assets			
Current assets			
Cash and cash equivalents	5,6 ₩	1,152,257	2,349,319
Short-term financial instruments	5,6,7	968,669	523,579
Short-term investment assets	5,6	5,070,776	5,496,452
Trade receivables, net	5,6,8,32	5,496,813	6,319,994
Loans and other receivables, net	5,6,8,32	41,112	18,392
Inventories, net	9	5,117,491	4,422,733
Current tax assets		8,926	22,252
Other current assets	10	762,192	741,425
		<u>18,618,236</u>	<u>19,894,146</u>
Non-current assets			
Investments in associates and joint ventures	11	697,679	562,194
Long-term investment assets	5,6,12	4,418,533	4,325,550
Loans and other receivables, net	5,6,8,32	96,170	68,514
Other financial assets	5,6,7	1,950	310
Property, plant and equipment, net	13,33	36,385,101	34,952,617
Right-of-use assets	3,14	1,140,039	-
Intangible assets, net	15	2,611,595	2,678,770
Investment property, net	16	1,384	1,400
Deferred tax assets		552,484	544,016
Employee benefit assets	20	-	5,164
Other non-current assets	10,32,33	608,330	625,654
		<u>46,513,265</u>	<u>43,764,189</u>
Total assets	₩	<u>65,131,501</u>	<u>63,658,335</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, 2019 and December 31, 2018
(Unaudited)

(In millions of won)

	Note	2019	2018
Liabilities			
Current liabilities			
Trade payables	5,6,32 ₩	952,620	1,096,380
Other payables	5,6,24,32	5,427,403	3,681,933
Other non-trade payables	5,6	966,837	1,879,520
Borrowings	5,6,17,33	2,511,052	1,614,303
Provisions	19	67,141	56,208
Current tax liabilities		2,906,381	4,555,670
Lease liabilities	3,5,6,14	223,175	-
Other current liabilities	18	177,113	147,838
		<u>13,231,722</u>	<u>13,031,852</u>
Non-current liabilities			
Other non-trade payables	5,6	16,251	15,231
Borrowings	5,6,17,33	3,635,961	3,667,634
Defined benefit liabilities, net	20	63,948	5,387
Deferred tax liabilities		6,224	6,597
Lease liabilities	3,5,6,14	930,673	-
Other non-current liabilities	18,33	80,715	79,303
		<u>4,733,772</u>	<u>3,774,152</u>
Total liabilities		<u>17,965,494</u>	<u>16,806,004</u>
Equity			
Equity attributable to owners of the Parent Company			
Capital stock	22	3,657,652	3,657,652
Capital surplus	22	4,143,736	4,143,736
Other equity	22,35	(2,506,133)	(2,506,451)
Accumulated other comprehensive loss	23	(239,859)	(482,819)
Retained earnings	24	42,104,440	42,033,601
Total equity attributable to owners of the Parent Company		<u>47,159,836</u>	<u>46,845,719</u>
Non-controlling interests		<u>6,171</u>	<u>6,612</u>
Total equity		<u>47,166,007</u>	<u>46,852,331</u>
Total liabilities and equity	₩	<u><u>65,131,501</u></u>	<u><u>63,658,335</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, 2019 and 2018
(Unaudited)

(In millions of won, except per share information)

	Note	2019	2018
Revenue	4,25,32 ₩	6,772,655	8,719,691
Cost of sales	27,32	4,092,455	3,383,214
Gross profit		2,680,200	5,336,477
Selling and administrative expense	26,27,32	1,313,710	969,139
Operating profit		1,366,490	4,367,338
Finance income	28	358,346	240,135
Finance expenses	28	247,855	313,278
Share of profit of equity-accounted investees	11	4,426	4,526
Other income	29,32	24,690	7,066
Other expenses	29,32	26,550	14,977
Profit before income tax		1,479,547	4,290,810
Income tax expense	30	377,417	1,169,481
Profit for the period		1,102,130	3,121,329
Other comprehensive income (loss)			
Item that will never be reclassified to profit or loss:			
Remeasurements of defined benefit liability, net of tax	20	(5,911)	(7,040)
Items that are or may be reclassified to profit or loss:			
Foreign operations – foreign currency translation differences, net of tax	23	225,544	150,244
Equity-accounted investees – share of other comprehensive income (loss), net of tax	11,23	17,598	(1,239)
Other comprehensive income for the period, net of tax		237,231	141,965
Total comprehensive income for the period	₩	1,339,361	3,263,294

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, 2019 and 2018
(Unaudited)

(In millions of won, except per share information)

	<u>Note</u>	<u>2019</u>	<u>2018</u>
Profit (loss) attributable to:			
Owners of the Parent Company	₩	1,102,753	3,120,254
Non-controlling interests		(623)	1,075
Total comprehensive income (loss) attributable to:			
Owners of the Parent Company		1,339,802	3,262,275
Non-controlling interests		(441)	1,019
Earnings per share			
Basic earnings per share (in won)	31	1,612	4,420
Diluted earnings per share (in won)	31	1,612	4,419

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, 2019 and 2018
(Unaudited)

(In millions of won)

		Attributable to owners of the Parent Company							
					Accumulated other comprehensive income (loss)	Retained earnings	Total	Non- controlling interests	Total equity
	Note	Capital stock	Capital surplus	Other equity					
Balance at January 1, 2018	₩	3,657,652	4,143,736	(771,100)	(491,529)	27,276,521	33,815,280	5,639	33,820,919
Comprehensive income:									
Profit for the period		-	-	-	-	3,120,254	3,120,254	1,075	3,121,329
Remeasurements of defined benefit liability, net of tax	20	-	-	-	-	(7,040)	(7,040)	-	(7,040)
Other comprehensive loss from joint venture and associate, net of tax	11,23	-	-	-	(1,239)	-	(1,239)	-	(1,239)
Foreign currency translation differences for foreign operations, net of tax	23	-	-	-	150,300	-	150,300	(56)	150,244
Total comprehensive income		-	-	-	149,061	3,113,214	3,262,275	1,019	3,263,294
Transactions with owners of the Parent Company:									
Dividends paid	24	-	-	-	-	(706,002)	(706,002)	-	(706,002)
Share-based payment transactions	35	-	-	275	-	-	275	-	275
Total transactions with owners of the Parent Company		-	-	275	-	(706,002)	(705,727)	-	(705,727)
Balance at March 31, 2018	₩	3,657,652	4,143,736	(770,825)	(342,468)	29,683,733	36,371,828	6,658	36,378,486

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, 2019 and 2018
(Unaudited)

(In millions of won)

(In millions of won)	Attributable to owners of the Parent Company							Non-controlling interests	Total equity
	Note	Capital stock	Capital surplus	Other equity	Accumulated other comprehensive income (loss)	Retained earnings	Total		
Balance at January 1, 2019	₩	3,657,652	4,143,736	(2,506,451)	(482,819)	42,033,061	46,845,719	6,612	46,852,331
Comprehensive income:									
Profit for the period		-	-	-	-	1,102,753	1,102,753	(623)	1,102,130
Remeasurements of defined benefit liability, net of tax	20	-	-	-	-	(5,911)	(5,911)	-	(5,911)
Other comprehensive loss from joint venture and associate, net of tax	11,23	-	-	-	17,598	-	17,598	-	17,598
Foreign currency translation differences for foreign operations, net of tax	23	-	-	-	225,362	-	225,362	182	225,544
Total comprehensive income		-	-	-	242,960	1,096,842	1,339,802	(441)	1,339,361
Transactions with owners of the Parent Company:									
Dividends paid	24	-	-	-	-	(1,026,003)	(1,026,003)	-	(1,026,003)
Share-based payment transactions	35	-	-	318	-	-	318	-	318
Total transactions with owners of the Parent Company		-	-	318	-	(1,026,003)	(1,025,685)	-	(1,025,685)
Balance at March 31, 2019	₩	3,657,652	4,143,736	(2,506,133)	(239,859)	42,104,440	47,159,836	6,171	47,166,007

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, 2019 and 2018
(Unaudited)

(In millions of won)

	Note	2019	2018
Cash flows from operating activities			
Cash generated from operating activities	34 ₩	2,679,234	5,575,680
Interest received		7,158	28,192
Interest paid		(39,580)	(30,195)
Dividends received		42	346
Income tax paid		(16,092)	(1,050,447)
Net cash provided by operating activities		2,630,762	4,523,576
Cash flows from investing activities			
Decrease (increase) in short-term financial instruments, net		(445,000)	1,301,927
Decrease (increase) in short-term investment assets, net		459,133	(491,621)
Collection of loans and other receivables		672	2,189
Increase in loans and other receivables		(28,503)	(6,033)
Proceeds from disposal of long-term investment assets		170	558
Acquisition of long-term investment assets		(29,238)	(12,994)
Increase in other financial assets		(1,610)	-
Proceeds from disposal of property, plant and equipment		323	5,971
Acquisition of property, plant and equipment		(4,349,571)	(4,317,223)
Proceeds from disposal of intangible assets		183	-
Acquisition of intangible assets		(148,436)	(192,226)
Acquisition of investments in associates		(113,470)	-
Net cash used in investing activities	₩	(4,655,347)	(3,709,452)
Cash flows from financing activities			
Proceeds from borrowings	34 ₩	983,810	298,732
Repayments of borrowings	34	(109,224)	(599,737)
Repayments of lease liabilities	34	(67,539)	-
Net cash provided by (used in) financing activities		807,047	(301,005)
Effect of movements in exchange rates on cash and cash equivalents		20,476	14,248
Net increase (decrease) in cash and cash equivalents		(1,197,062)	527,367
Cash and cash equivalents at beginning of the period		2,349,319	2,949,991
Cash and cash equivalents at end of the period	₩	1,152,257	3,477,358

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, 2019 and 2018
(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, 2019, 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
National Pension Service and other investors	537,901,795	73.89
Treasury shares	44,000,570	6.04
	<u>728,002,365</u>	<u>100.00</u>

The Parent Company's common shares and depositary receipts (DRs) are listed on the Stock Market of Korea Exchange and the Luxembourg Stock Exchange.

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
March 31, 2019 and 2018
(Unaudited)

1. Reporting Entity, Continued

(2) Details of the Group's consolidated subsidiaries as of March 31, 2019 and December 31, 2018 are as follows:

Company	Location	Business	Ownership (%)	
			2019	2018
SK hyeng Inc.	Korea	Construction service	100.00	100.00
SK hystec Inc.	Korea	Business support service	100.00	100.00
Happymore Inc.	Korea	Manufacturing and cleaning cleanroom suits	100.00	100.00
SK hynix system ic Inc.	Korea	Semiconductor manufacturing and sales	100.00	100.00
HAPPYNARAE Co., Ltd.	Korea	Industrial material supply	100.00	100.00
SK hynix America Inc.	U.S.A.	Semiconductor sales	97.74	97.74
SK hynix Deutschland GmbH	Germany	Semiconductor sales	100.00	100.00
SK hynix Asia Pte. Ltd.	Singapore	Semiconductor sales	100.00	100.00
SK hynix Semiconductor Hong Kong Ltd.	Hong Kong	Semiconductor sales	100.00	100.00
SK hynix U.K. Ltd.	U.K.	Semiconductor sales	100.00	100.00
SK hynix Semiconductor Taiwan Inc.	Taiwan	Semiconductor sales	100.00	100.00
SK hynix Japan Inc.	Japan	Semiconductor sales	100.00	100.00
SK hynix Semiconductor (Shanghai) Co., Ltd.	China	Semiconductor sales	100.00	100.00
SK hynix Semiconductor India Private Ltd. ¹	India	Semiconductor sales	100.00	100.00
SK hynix (Wuxi) Semiconductor Sales Ltd.	China	Semiconductor sales	100.00	100.00
SK hynix Semiconductor (China) Ltd.	China	Semiconductor manufacturing	100.00	100.00
SK hynix Semiconductor (Chongqing) Ltd. ²	China	Semiconductor manufacturing	100.00	100.00
SK hynix Italy S.r.l	Italy	Semiconductor research and development	100.00	100.00
SK hynix memory solutions America Inc.	U.S.A.	Semiconductor research and development	100.00	100.00
SK hynix memory solutions Taiwan Ltd.	Taiwan	Semiconductor research and development	100.00	100.00
SK hynix memory solutions Eastern Europe LLC.	Belarus	Semiconductor research and development	100.00	100.00
SK APTECH Ltd.	Hong Kong	Overseas investment	100.00	100.00
SK hynix Ventures Hong Kong Limited	Hong Kong	Overseas investment	100.00	100.00
SK hynix (Wuxi) Investment Ltd. ³	China	Overseas investment	100.00	100.00
SK hynix (Wuxi) Industry Development Ltd. ⁴	China	Foreign hospital construction	100.00	100.00
SK hynix Happiness (Wuxi) Hospital Management Ltd. ⁴	China	Foreign hospital operation	100.00	100.00
SK hynix system ic (Wuxi) Co., Ltd. ⁵	China	Overseas Semiconductor manufacturing and sales	100.00	100.00
SK hynix happy (Wuxi) cleaning Ltd. ⁴	China	Building maintenance	100.00	100.00
SUZHOU HAPPYNARAE Co., Ltd. ⁶	China	Overseas industrial material supply	100.00	100.00
CHONGQING HAPPYNARAE Co., Ltd. ⁷	China	Overseas industrial material supply	100.00	100.00
SkyHigh Memory Limited ⁸	Hong Kong	Overseas manufacturing and sales of semiconductor	100.00	-
MMT (Money Market Trust)	Korea	Money Market Trust	100.00	100.00

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
March 31, 2019 and 2018
(Unaudited)

1. Reporting Entity, Continued

(2) Details of the Group's consolidated subsidiaries as of March 31, 2019 and December 31, 2018 are as follows, Continued:

- ¹ Subsidiary of SK hynix Asia Pte. Ltd.
² Subsidiary of SK APTECH Ltd.
³ Subsidiary of SK hynix Semiconductor (China) Ltd.
⁴ Subsidiary of SK hynix (Wuxi) Investment Ltd.
⁵ Subsidiary of SK hynix system ic
⁶ Subsidiary of HAPPYNARAE Co., Ltd.
⁷ Subsidiary of SUZHOU HAPPYNARAE Co., Ltd.
⁸ SkyHigh Memory Limited was established during the three-month period ended March 31, 2019 and is a subsidiary of SK hynix system ic Inc.

(3) Changes in the consolidated subsidiaries during the the three-month period ended March 31, 2019 are follows:

	Company	Description
Newly included	SkyHigh Memory Limited	Newly established

(4) Major subsidiaries' summarized separate statements of financial position as of March 31, 2019 and December 31, 2018 are as follows:

(In millions of won)

	2019			2018		
	Assets	Liabilities	Equity	Assets	Liabilities	Equity
SK hynix system ic Inc.	₩ 588,532	118,916	469,616	550,323	92,989	457,334
SK hynix America Inc.	2,314,115	2,027,900	286,215	3,013,637	2,707,732	305,905
SK hynix Deutschland GmbH	66,034	21,980	44,054	99,641	60,244	39,397
SK hynix Asia Pte. Ltd.	598,683	509,898	88,785	933,268	848,990	84,278
SK hynix Semiconductor Hong Kong Ltd.	296,346	148,454	147,892	347,109	204,622	142,487
SK hynix U.K. Ltd.	372,484	362,253	10,231	536,208	518,036	18,172
SK hynix Semiconductor Taiwan Inc.	259,358	233,562	25,796	449,054	427,498	21,556
SK hynix Japan Inc.	552,468	479,879	72,589	837,362	770,819	66,543
SK hynix Semiconductor (Shanghai) Co., Ltd.	240,150	151,787	88,363	1,199,602	1,116,282	83,320
SK hynix (Wuxi) Semiconductor Sales Ltd.	1,937,340	1,881,947	55,393	535,819	492,934	42,885
SK hynix Semiconductor (China) Ltd.	7,842,181	3,064,395	4,777,786	6,390,490	2,158,715	4,231,775
SK hynix Semiconductor (Chongqing) Ltd.	649,733	142,119	507,614	540,284	124,451	415,833

SK HYNIX, INC. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

March 31, 2019 and 2018

(Unaudited)

1. Reporting Entity, Continued

(5) Major subsidiaries' summarized separate statements of comprehensive income (loss) for the three-month periods ended March 31, 2019 and 2018 are as follows:

(In millions of won)

	2019			2018		
	Revenue	Profit (loss)	Total comprehensive income (loss)	Revenue	Profit (loss)	Total comprehensive income (loss)
SK hynix system ic Inc.	₩ 152,944	12,295	12,281	122,230	12,837	12,832
SK hynix America Inc.	2,119,591	(24,799)	(24,799)	2,997,192	46,490	46,490
SK hynix Deutschland GmbH	71,092	4,712	4,712	121,872	(690)	(690)
SK hynix Asia Pte. Ltd.	460,088	2,997	2,997	716,691	(1,829)	(1,829)
SK hynix Semiconductor Hong Kong Ltd.	402,524	3,194	3,194	1,451,249	(26,026)	(26,026)
SK hynix U.K. Ltd.	285,374	(8,170)	(8,170)	290,593	(1,373)	(1,373)
SK hynix Semiconductor Taiwan Inc.	328,678	4,036	4,036	759,872	1,405	1,405
SK hynix Japan Inc.	171,903	5,026	5,026	275,260	(2,638)	(2,638)
SK hynix Semiconductor (Shanghai) Co., Ltd.	167,595	1,955	1,955	1,765,629	4,223	4,223
SK hynix (Wuxi) Semiconductor Sales Ltd.	2,594,860	10,787	10,787	52,908	138	138
SK hynix Semiconductor (China) Ltd.	727,349	44,191	44,191	575,533	44,964	44,964
SK hynix Semiconductor (Chongqing) Ltd.	84,533	7,820	7,820	92,511	6,581	6,581

(6) There are no significant non-controlling interests to the Group as of March 31, 2019 and December 31, 2018.

SK HYNIX, INC. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

March 31, 2019 and 2018

(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, 2018. These condensed consolidated interim financial statements do not include all of the disclosures required for full annual financial statements.

This is the first set of the Group's financial statements in which K-IFRS No. 1116 *'Leases'* has been applied. Changes to significant accounting policies are described in Note 3.

(2) Use of estimates and judgments

(a) Critical judgments, assumptions and estimation uncertainties

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 if estimates and assumptions that are based on management's best judgment at the end of the interim reporting period differ from the actual environment.

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, 2018, except for new significant judgements and key sources of estimation uncertainty related to the adoption of K-IFRS No. 1116 *'Leases'*, which are described in Note 3.

(b) Fair value measurement

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

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

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

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

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

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3. Significant Accounting Policies

Except as described below, the accounting policies applied in these condensed consolidated interim financial statements are the same as those applied in the last annual financial statements. The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as of and for the year ending December 31, 2019.

The Group initially adopted K-IFRS No. 1116, '*Leases*' from January 1, 2019. A number of other new standards are effective from January 1, 2019, but they do not have a significant impact on the Group's condensed consolidated interim financial statements.

K-IFRS No. 1116 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognized right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

The Group recognized the cumulative effect of the initial application of K-IFRS No. 1116 in right-of-use assets and lease liabilities as of January 1, 2019 (the date of initial application). Accordingly, the comparative information presented for 2018 has not been restated - i.e. it is presented, as previously reported, under K-IFRS No. 1017 and related interpretations. Details of changes to the accounting policies are disclosed below.

(1) Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under K-IFRS Interpretation No. 2104, '*Determining Whether an Arrangement contains a Lease*'. The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under K-IFRS No. 1116, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for certain agreements in which it is a lessee, the Group has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

(2) As a lessee

The Group leases many assets, including production equipment. As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under K-IFRS No. 1116, the Group recognizes right-of-use assets and lease liabilities for most leases on the condensed consolidated statements of financial position.

However, as permitted in K-IFRS No. 1116, the Group has elected not to recognize right-of-use assets and lease liabilities for certain leases of low-value assets and short-term leases. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Group presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment', the same line item as it presents underlying assets of the same nature that it owns. The carrying amounts of right-of-use assets are as below.

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3. Significant Accounting Policies, Continued

(2) Lessee, Continued

(In millions of won)

		Properties	Structures	Vehicles	Machinery	Other property, plant and equipment	Total
Balance at							
January 1, 2019	₩	26,599	867,864	279,952	10,674	3,215	1,188,304
Balance at							
March 31, 2019	₩	24,216	865,712	237,208	10,490	2,413	1,140,039

(i) Significant Accounting Policies

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost and subsequently measured at cost less any accumulated depreciation and impairment losses, adjusted for certain remeasurement of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. The Group generally uses its incremental borrowing rate as a discount rate.

The lease liability is subsequently increased by the interest expense on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

(ii) Transition

Previously, the Group classified certain lease contracts for equipments and others as operating leases under K-IFRS No. 1017.

At transition, for leases classified as operating leases under K-IFRS No. 1017, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as of January 1, 2019. Right-of-use assets are measured at:

- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments

The Group used the following practical expedients when applying K-IFRS No. 1116 to leases previously classified as operating leases under K-IFRS No. 1017.

- Excluded initial direct costs from measuring the right-of-use assets at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

The Group leases a number of items of structures. Certain items of these were classified as finance leases under K-IFRS No. 1017. For these finance leases, the carrying amount of the right-of-use assets and the lease liability at January 1, 2019 were determined at the carrying amount of the lease asset and lease liability under K-IFRS No. 1017 immediately before that date.

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3. Significant Accounting Policies, Continued

(3) As a lessor

The Group leases out its investment property. The Group has classified these leases as operating leases. The accounting policies applicable to the Group as a lessor are not different from those under K-IFRS No. 1017.

The Group is not required to make any adjustments on transition to K-IFRS No. 1116 for leases in which it acts as a lessor. However, the Group has applied K-IFRS No. 1115, '*Revenue from Contracts with Customers*' to allocate consideration in the contract to each lease and non-lease component.

(4) Impacts on financial statements

(i) Impacts on transition

On transition to K-IFRS No. 1116, the Group recognized additional right-of-use assets and lease liabilities. The impact on transition is summarized as follows:

(In millions of won)

	January 1, 2019
Right-of-use assets	₩ 1,188,304
Property, plant and equipment	(73,069)
Lease liabilities	1,192,094
Borrowings	(68,157)
Other current liabilities	(8,702)

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted average incremental borrowing rate of interest is 2.22%.

(In millions of won)

	Amount
Operating lease commitment at January 1, 2019	₩ 1,291,372
Discounted using the incremental borrowing rate at January 1, 2019	1,128,364
Finance lease liabilities recognized as of December 31, 2018	68,157
- Recognition exemption for leases of low-value assets	(834)
- Recognition exemption for leases of short-term leases	(3,591)
Lease liabilities recognized at January 1, 2019	₩ <u>1,192,096</u>

(ii) Impacts for the period

As a result of initially applying K-IFRS No. 1116, in relation to the leases that were previously classified as operating leases, the Group recognized ₩1,068,136 million of right-of-use assets (including investment property) and ₩1,087,434 million of lease liabilities as of March 31, 2019.

Also in relation to those leases under K-IFRS No. 1116, the Group has recognized depreciation and interest expense, instead of operating lease expense. During the three-month period ended March 31, 2019, the Group recognized ₩65,187 million of depreciation charges and ₩5,830 million of interest expense from these leases.

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4. Geographic and Customer Information

The Group has a single reportable segment that is engaged in the manufacture and sale of semiconductor products. The management of the Group reviews the operation result of the semiconductor business for reporting information used and reviewed when establishing the Group's business strategy.

- (1) The Group's non-current assets (excluding financial assets, loans and other receivables, equity-accounted investees and deferred tax assets) information by region based on the location of subsidiaries as of March 31, 2019 and December 31, 2018 are as follows:

(In millions of won)

	2019	2018
Korea	₩ 33,746,860	32,768,811
China	6,592,722	5,100,869
Taiwan	9,207	6,309
Asia (other than China and Taiwan)	3,656	1,401
U.S.A.	382,356	376,307
Europe	11,648	9,908
	₩ <u>40,746,449</u>	<u>38,263,605</u>

- (2) Revenue from customers A and B that each constitutes more than 10% of the Group's consolidated revenue for the three-month period ended March 31, 2019 amount to ₩1,437,218 million (2018: ₩918,074 million) and ₩947,401 million (2018: ₩1,007,856 million), respectively.

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5. Categories of Financial Instruments

(1) Categories of financial assets as of March 31, 2019 and December 31, 2018 are as follows:

(In millions of won)

2019			
	Financial assets at fair value through profit or loss	Financial assets at amortized cost	Total
Cash and cash equivalents	₩ -	1,152,257	1,152,257
Short-term financial instruments	-	968,669	968,669
Short-term investment assets	5,070,776	-	5,070,776
Trade receivables	-	5,496,813	5,496,813
Loans and other receivables	-	137,282	137,282
Other financial assets	-	1,950	1,950
Long-term investment assets	4,418,533	-	4,418,533
	₩ 9,489,309	7,756,971	17,246,280

(In millions of won)

2018			
	Financial assets at fair value through profit or loss	Financial assets at amortized cost	Total
Cash and cash equivalents	₩ -	2,349,319	2,349,319
Short-term financial instruments	-	523,579	523,579
Short-term investment assets	5,496,452	-	5,496,452
Trade receivables	-	6,319,994	6,319,994
Loans and other receivables	-	86,906	86,906
Other financial assets	-	310	310
Long-term investment assets	4,325,550	-	4,325,550
	₩ 9,822,002	9,280,108	19,102,110

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5. Categories of Financial Instruments, Continued

(2) Categories of financial liabilities as of March 31, 2019 and December 31, 2018 are as follows:

(In millions of won)

		2019
		Financial liabilities measured at amortized cost
Trade payables	₩	952,620
Other payables		5,427,403
Other non-trade payables ¹		983,088
Borrowings		6,147,013
Lease liabilities		1,153,848
	₩	<u>14,663,972</u>

(In millions of won)

		2018
		Financial liabilities measured at amortized cost
Trade payables	₩	1,096,380
Other payables		3,681,933
Other non-trade payables ¹		1,894,751
Borrowings ²		5,281,937
	₩	<u>11,955,001</u>

¹ Details of other non-trade payables as of March 31, 2019 and December 31, 2018 are as follows:

(In millions of won)

		2019	2018
Current			
Accrued expenses	₩	966,837	1,879,520
Non-current			
Long-term accrued expenses		1,906	1,096
Rent deposit payables		14,345	14,135
	₩	<u>983,088</u>	<u>1,894,751</u>

² As of December 31, 2018, borrowings include finance lease liabilities amounting to ₩68,157 million in accordance with K-IFRS No. 1017. Meanwhile, as a result of the transition to K-IFRS No. 1116, lease liabilities are presented separately from borrowings in the consolidated statement of financial position as of March 31, 2019.

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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, 2019.

(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, 2019 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	8,181	₩ 9,308,675	6,630	₩ 7,543,075
EUR	18	22,477	136	173,318
JPY	514	5,285	169,587	1,743,764

As of March 31, 2019, 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	₩ 176,560	(176,560)
EUR	(15,084)	15,084
JPY	(173,848)	173,848

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6. Financial Risk Management, Continued

(1) Financial risk management, Continued

(a) Market risk, 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.

As of March 31, 2019, 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 ₩9,217 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

The Group invests in equity and debt securities resulted from its business needs and the purpose of liquidity management. The Group's equity and debt securities are exposed to price risk as of March 31, 2019.

(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, 2019 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; long-term and short-term investment assets ; and 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, 2019 is the carrying amount of those financial assets. The Group transacts only with banks and financial institutions with high credit ratings, and accordingly management does not expect any significant loss from non-performance by the counterparties.

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6. Financial Risk Management, Continued

(1) Financial risk management, Continued

(c) Liquidity risk

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

The Group invests surplus cash in interest-bearing current accounts, time deposits, demand deposits, 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, 2019 and December 31, 2018 are as follows:

(In millions of won)

	2019	2018
Total liabilities (A)	₩ 17,965,494	16,806,004
Total equity (B)	47,166,007	46,852,331
Cash and cash equivalents, short-term investment assets and short-term financial instruments (C)	7,191,702	8,369,350
Total borrowings (D) ¹	6,147,013	5,281,937
Debt-to-equity ratio (A/B)	38.09%	35.87%
Net borrowing ratio (D-C)/B ²	-	-

¹ As of December 31, 2018, borrowings include finance lease liabilities amounting to ₩68,157 million in accordance with K-IFRS No. 1017. Meanwhile, as a result of the transition to K-IFRS No. 1116, lease liabilities are presented separately from borrowings in the consolidated statement of financial position as of March 31, 2019.

² Net borrowing ratio as of March 31, 2019 and December 31, 2018 are not presented as the ratio was negative.

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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, 2019 and December 31, 2018:

(In millions of won)

		2019			
	Carrying amounts	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Short-term investment assets	₩ 5,070,776	-	5,070,776	-	5,070,776
Long-term investment assets	4,418,533	-	-	4,418,533	4,418,533
	9,489,309	-	5,070,776	4,418,533	9,489,309
Financial assets not measured at fair value					
Cash and cash equivalents ¹	1,152,257	-	-	-	-
Short-term financial instruments ¹	968,669	-	-	-	-
Trade receivables ¹	5,496,813	-	-	-	-
Loans and other receivables ¹	137,282	-	-	-	-
Other financial assets ¹	1,950	-	-	-	-
	7,756,971	-	-	-	-
Financial liabilities not measured at fair value					
Trade payables ¹	952,620	-	-	-	-
Other payables ¹	5,427,403	-	-	-	-
Other non-trade payables ¹	983,088	-	-	-	-
Borrowings	6,147,013	-	6,176,123	-	6,176,123
	₩ 13,510,124	-	6,176,123	-	6,176,123

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6. Financial Risk Management, Continued

(In millions of won)

		2018			
	Carrying amounts	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Short-term investment assets	₩ 5,496,452	-	5,496,452	-	5,496,452
Long-term investment assets	4,325,550	-	-	4,325,550	4,325,550
	<u>9,822,002</u>	<u>-</u>	<u>5,496,452</u>	<u>4,325,550</u>	<u>9,822,002</u>
Financial assets not measured at fair value					
Cash and cash equivalents ¹	2,349,319	-	-	-	-
Short-term financial instruments ¹	523,579	-	-	-	-
Trade receivables ¹	6,319,994	-	-	-	-
Loans and other receivables ¹	86,906	-	-	-	-
Other financial assets ¹	310	-	-	-	-
	<u>9,280,108</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Financial liabilities not measured at fair value					
Trade payables ¹	1,096,380	-	-	-	-
Other payables ¹	3,681,933	-	-	-	-
Other non-trade payables ¹	1,894,751	-	-	-	-
Borrowings ²	5,281,937	-	5,300,120	-	5,300,120
₩	<u>11,955,001</u>	<u>-</u>	<u>5,300,120</u>	<u>-</u>	<u>5,300,120</u>

¹ Do not include fair values of financial assets and liabilities of which fair values have not been measured as carrying amounts are considered to be a reasonable approximation of fair values.

² As of December 31, 2018, borrowings include finance lease liabilities in accordance with K-IFRS No.1017.

(b) The valuation techniques used to measure financial instruments with fair value level 2 and level 3 are the same as those applied by the Group in its consolidated financial statements as of and for the year ended December 31, 2018.

(c) There was no transfer between fair value hierarchy levels for the three-month period ended March 31, 2019. The movements in financial assets classified as level 3 fair value measurements during the three-month period ended March 31, 2019 are as follows:

(In millions of won)

	Beginning Balance	Acquisition	Disposals	Loss on valuation	Foreign exchange difference	Ending Balance
Long-term investment assets	₩ 4,325,550	29,251	(170)	(13)	63,915	4,418,533

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7. Restricted Financial Instruments

Details of restricted financial instruments as of March 31, 2019 and December 31, 2018 are as follows:

(In millions of won)

		2019	2018	Description
Short-term financial instruments	₩	227,500	227,500	Restricted for supporting small businesses
		6,169	6,079	Pledged for consumption tax
		<u>233,669</u>	<u>233,579</u>	
Other financial assets		13	11	Bank overdraft guarantee deposit
		300	265	Others
		<u>313</u>	<u>276</u>	
	₩	<u><u>233,982</u></u>	<u><u>233,855</u></u>	

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8. Trade Receivables and Loans and Other Receivables

(1) Details of loans and other receivables as of March 31, 2019 and December 31, 2018 are as follows:

(In millions of won)

	2019	2018
Current		
Other receivables	₩ 25,492	8,465
Accrued income	8,057	3,899
Short-term loans	5,958	4,807
Short-term guarantee and other deposits	1,605	1,221
	<u>41,112</u>	<u>18,392</u>
Non-current		
Long-term other receivables	55	54
Long-term loans	30,054	28,125
Guarantee deposits	65,837	40,117
Others	224	218
	<u>96,170</u>	<u>68,514</u>
	<u>₩ 137,282</u>	<u>86,906</u>

(2) Trade receivables and loans and other receivables, net of provision for impairment, as of March 31, 2019 and December 31, 2018 are as follows:

(In millions of won)

	2019	
	Gross amount	Provision for impairment
Trade receivables	₩ 5,496,861	(48)
Current loans and other receivables	42,436	(1,324)
Non-current loans and other receivables	97,305	(1,135)
	<u>₩ 5,636,602</u>	<u>(2,507)</u>

(In millions of won)

	2018	
	Gross amount	Provision for impairment
Trade receivables	₩ 6,320,042	(48)
Current loans and other receivables	19,715	(1,323)
Non-current loans and other receivables	69,631	(1,117)
	<u>₩ 6,409,388</u>	<u>(2,488)</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, 2019 and 2018 are as follows:

(In millions of won)

	2019	2018
Beginning balance	₩ 48	46
Foreign exchange difference	-	1
Ending balance	₩ 48	47

Movements in the provision for impairment of current loans and other receivables for the three-month periods ended March 31, 2019 and 2018 are as follows:

(In millions of won)

	2019	2018
Beginning balance	₩ 1,323	1,327
Reversal	(1)	(1)
Foreign exchange difference	2	2
Ending balance	₩ 1,324	1,328

Movements in the provision for impairment of non-current loans and other receivables for the three-month periods ended March 31, 2019 and 2018 are as follows:

(In millions of won)

	2019	2018
Beginning balance	₩ 1,117	1,087
Foreign exchange difference	18	(4)
Ending balance	₩ 1,135	1,083

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9. Inventories

Details of inventories as of March 31, 2019 and December 31, 2018 are as follows:

(In millions of won)

		2019	
	Acquisition cost	Inventory valuation allowance	Carrying amount
Merchandise	₩ 1,756	(11)	1,745
Finished goods	2,295,121	(417,830)	1,877,291
Work-in-process	2,536,633	(316,382)	2,220,251
Raw materials	520,057	(34,605)	485,452
Supplies	490,382	(20,246)	470,136
Goods in transit	62,616	-	62,616
	₩ 5,906,565	(789,074)	5,117,491

(In millions of won)

		2018	
	Acquisition cost	Inventory valuation allowance	Carrying amount
Merchandise	₩ 1,648	(14)	1,634
Finished goods	1,532,188	(127,749)	1,404,439
Work-in-process	2,327,178	(208,197)	2,118,981
Raw materials	486,436	(24,894)	461,542
Supplies	433,017	(17,138)	415,879
Goods in transit	20,258	-	20,258
	₩ 4,800,725	(377,992)	4,422,733

10. Other Current and Non-current Assets

Details of other current and non-current assets as of March 31, 2019 and December 31, 2018 are as follows:

(In millions of won)

	2019	2018
Current		
Advance payments	₩ 102,311	113,030
Prepaid expenses	296,616	260,064
Value added tax refundable	332,962	343,821
Contract assets	30,146	24,294
Others	157	216
	762,192	741,425
Non-current		
Long-term advance payments	89,283	96,817
Long-term prepaid expenses	519,047	528,837
	608,330	625,654
	₩ 1,370,522	1,367,079

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11. Investments in Associates and Joint Ventures

(1) Details of investments in associates and joint ventures as of March 31, 2019 and December 31, 2018 are as follows:

(In millions of won)

Type	Investee	Location	Business	Owner-ship(%)	2019		2018	
					Net asset value	Carrying amount	Owner-ship(%)	Carrying amount
Associate	Stratio, Inc. ¹	U.S.A	Development and manufacturing semiconductor	9.12	69	2,070	9.12	2,079
	SK China Company Limited ¹	China	Consulting and investment	11.87	206,349	258,699	11.87	246,052
	Gemini Partners Pte. Ltd.	Singapore	Consulting	20.00	2,602	2,602	20.00	2,601
	TCL Fund ¹	China	Investment	11.06	3,585	3,582	11.06	3,464
	SK South East Asia Investment Pte. Ltd.	Singapore	Consulting and investment	20.00	227,346	227,346	20.00	111,810
	Hushan Xinju (Chengdu) Venture Investment Center(Smartsources)	China	Venture Capital	46.30	3,341	3,341	46.30	3,241
	HYTECH Semiconductor (Wuxi) Co., Ltd.	China	Manufacturing semiconductor parts	45.00	114,755	114,755	45.00	109,708
	Hystars Semiconductor (Wuxi) Co., Ltd.	China	Foundry factory construction	50.10	83,865	85,284	50.10	83,239
					<u>641,912</u>	<u>697,679</u>		<u>562,194</u>

¹ The Group is able to exercise significant influence through its right to appoint a director to the board of directors of each investee. Accordingly, the investments in these investees have been classified as associates.

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11. Investments in Associates and Joint Ventures, Continued

(2) Changes in investments in associates and a joint ventures for the three-month periods ended March 31, 2019 and 2018 are as follows:

(In millions of won)

		2019				
		Beginning balance	Acquisition	Share of profit (loss)	Other equity movement	Ending balance
Stratio, Inc.	₩	2,079	-	(10)	1	2,070
SK China Company Limited		246,052	-	2,644	10,003	258,699
Gemini Partners Pte. Ltd.		2,601	-	(62)	63	2,602
TCL Fund		3,464	-	-	127	3,582
SK South East Asia Investment Pte. Ltd.		111,810	113,470	(207)	2,273	227,346
Hushan Xinju (Chengdu) Venture Investment Center(Smartsources)		3,241	-	(19)	119	3,341
HITECH Semiconductor (Wuxi) Co., Ltd.		109,708	-	3,029	2,018	114,755
Hystars Semiconductor (Wuxi) Co., Ltd.		83,239	-	(949)	2,994	85,284
	₩	562,194	113,470	4,426	17,598	697,679

(In millions of won)

		2018				
		Beginning balance	Share of income (loss)	Other equity movement	Dividend	Ending balance
Stratio, Inc.	₩	2,105	1	-	-	2,106
SK China Company Limited		244,912	1,387	(960)	-	245,339
Gemini Partners Pte. Ltd.		4,003	14	35	-	4,052
TCL Fund		2,634	(8)	97	-	2,723
HITECH Semiconductor (Wuxi) Co., Ltd.		106,210	3,132	(411)	(13,120)	95,811
	₩	359,864	4,526	(1,239)	(13,120)	350,031

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11. Investments in Associates and Joint Ventures, Continued

(3) Associates and joint ventures' summarized statements of financial position as of March 31, 2019 and December 31, 2018 are as follows:

(In millions of won)

	2019			
	Current assets	Non-current assets	Current liabilities	Non-current liabilities
Stratio, Inc.	₩ 294	622	158	-
SK China Company Limited	687,389	1,240,404	58,776	130,037
Gemini Partners Pte. Ltd.	5,718	7,362	68	-
TCL Fund	948	34,775	3,305	-
SK South East Asia Investment Pte. Ltd.	1,136,732	-	-	-
Hushan Xinju (Chengdu) Venture Investment Center(Smartsource)	6,373	844	-	-
HITECH Semiconductor (Wuxi) Co., Ltd.	233,562	390,610	93,933	275,229
Hystars Semiconductor (Wuxi) Co., Ltd.	149,558	105,615	16,907	70,871

(In millions of won)

	2018			
	Current assets	Non-current assets	Current liabilities	Non-current liabilities
Stratio, Inc.	₩ 403	617	159	-
SK China Company Limited	646,779	1,148,281	65,037	97,633
Gemini Partners Pte. Ltd.	5,357	7,649	-	-
TCL Fund	915	33,596	3,188	-
SK South East Asia Investment Pte. Ltd.	559,050	-	-	-
Hushan Xinju (Chengdu) Venture Investment Center(Smartsource)	6,187	814	-	-
HITECH Semiconductor (Wuxi) Co., Ltd.	211,273	376,266	114,756	228,987
Hystars Semiconductor (Wuxi) Co., Ltd.	145,509	19,295	1,490	-

(4) Associates and joint ventures' summarized statements of comprehensive income (loss) for the three-month periods ended March 31, 2019 and 2018 are as follows:

(In millions of won)

	2019		2018	
	Revenue	Profit (loss) for the period	Revenue	Profit (loss) for the period
Stratio, Inc.	₩ 7	(114)	8	13
SK China Company Limited	49,310	22,279	28,878	11,689
Gemini Partners Pte. Ltd.	-	(309)	-	68
TCL Fund	-	2	-	(74)
SK South East Asia Investment Pte. Ltd.	-	(1,033)	-	-
Hushan Xinju (Chengdu) Venture Investment Center(Smartsource)	-	(42)	-	-
HITECH Semiconductor (Wuxi) Co., Ltd.	168,672	6,731	148,958	6,610
Hystars Semiconductor (Wuxi) Co., Ltd.	-	(1,894)	-	-

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12. Long-term investment assets

Changes in the carrying amount of long-term investment assets for the three-month periods ended March 31, 2019 and 2018 are as follows:

(In millions of won)

	2019	2018
Beginning balance	₩ 4,325,550	43,226
Acquisition	29,251	12,994
Disposal	(170)	(309)
Profit and loss on valuation	(13)	-
Foreign exchange difference	63,915	209
Ending balance	₩ 4,418,533	56,120

13. Property, Plant and Equipment

(1) Changes in property, plant and equipment for the three-month periods ended March 31, 2019 and 2018 are as follows:

(In millions of won)

	2019	2018
Beginning balance	₩ 34,952,617	24,062,601
Impacts on transition to K-IFRS No. 1116	(73,069)	-
Beginning balance after transition adjustments	34,879,548	24,062,601
Acquisition	3,058,891	4,521,120
Disposal and retirement	(2,353)	(3,086)
Depreciation	(1,750,151)	(1,318,830)
Foreign exchange difference	199,166	102,964
Ending balance	₩ 36,385,101	27,364,769

(2) Certain property, plant and equipment are pledged as collaterals for borrowings of the Group as of March 31, 2019 (Note 33).

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14. Leases

(1) Changes in right-of-use assets for the three-month period ended March 31, 2019 are as follows:

(In millions of won)

	2019
Beginning balance	₩ -
Impacts on transition to K-IFRS No. 1116	1,188,304
Beginning balance after transition adjustments	1,188,304
Increase	3,838
Depreciation	(66,710)
Foreign exchange difference	14,607
Ending balance	₩ 1,140,039

(2) Changes in lease liabilities for the three-month period ended March 31, 2019 are as follows:

(In millions of won)

	2019
Beginning balance	₩ -
Impacts on transition to K-IFRS No. 1116	1,192,094
Beginning balance after transition adjustments	1,192,094
Increase	3,678
Interest	6,447
Payments	(68,156)
Foreign exchange difference	19,785
Ending balance	₩ 1,153,848

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15. Intangible Assets

(1) Changes in intangible assets for the three-month periods ended March 31, 2019 and 2018 are as follows:

(In millions of won)

	2019	2018
Beginning balance	₩ 2,678,770	2,247,290
Acquisition	148,436	192,226
Disposal and retirement	(1,674)	(1,659)
Amortization	(221,098)	(129,801)
Impairment	(70)	(3,463)
Foreign exchange difference and other	7,231	259
Ending balance	₩ 2,611,595	2,304,852

(2) Among costs associated with development activities, ₩89,478 million that met capitalization criteria, were capitalized as development cost for the three-month period ended March 31, 2019 (2018: ₩132,545 million). In addition, costs associated with research activities and other development expenditures that did not meet the criteria amounting to ₩653,973 million were recognized as expenses for the three-month period ended March 31, 2019 (2018: ₩512,389 million).

16. Investment Property

(1) Changes in investment property for the three-month periods ended March 31, 2019 and 2018 are as follows:

(In millions of won)

	2019	2018
Beginning balance	₩ 1,400	2,468
Depreciation	(16)	(26)
Ending balance	₩ 1,384	2,442

(2) The depreciation expense of ₩16 million was charged to cost of sales for the three-month period ended March 31, 2019 (2018: ₩26 million).

(3) Rental income from investment property during the three-month period ended March 31, 2019 was ₩59 million (2018: ₩122 million).

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17. Borrowings

Details of borrowings as of March 31, 2019 and December 31, 2018 are as follows:

(In millions of won)

		2019	2018¹
Current			
Short-term borrowings	₩	1,408,055	585,788
Current installments of long-term borrowings ¹		653,034	578,665
Current installments of debentures		449,963	449,850
		<u>2,511,052</u>	<u>1,614,303</u>
Non-current			
Long-term borrowings ¹		2,129,595	2,161,566
Debentures		1,506,366	1,506,068
		<u>3,635,961</u>	<u>3,667,634</u>
	₩	<u><u>6,147,013</u></u>	<u><u>5,281,937</u></u>

¹As of December 31, 2018, current portion of long-term borrowings and non-current long-term borrowings include finance lease liabilities amounting to ₩10,563 million and ₩57,594, respectively, in accordance with K-IFRS No. 1017. Meanwhile, as a result of the transition to K-IFRS No. 1116, the Group presents lease liabilities separately from borrowings in the consolidated statement of financial position as of March 31, 2019.

18. Other Current and Non-current Liabilities

Details of other current and non-current liabilities as of March 31, 2019 and December 31, 2018 are as follows:

(In millions of won)

		2019	2018
Current			
Advance receipts	₩	5,264	8,973
Unearned income		2,193	186
Withholdings		82,836	49,770
Deposits received		1,036	1,036
Contract liabilities		81,344	80,373
Others		4,440	7,500
		<u>177,113</u>	<u>147,838</u>
Non-current			
Other long-term employee benefits		75,815	74,403
Long-term advance receipts		4,900	4,900
		<u>80,715</u>	<u>79,303</u>
	₩	<u><u>257,828</u></u>	<u><u>227,141</u></u>

SK HYNIX, INC. and Subsidiaries

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19. Provisions

(1) Changes in provisions for the three-month periods ended March 31, 2019 and 2018 are as follows:

(In millions of won)

	2019				Ending Balance
	Beginning Balance	Increase	Utilization	Reversal	
Warranty	3,992	-	(206)	(671)	3,115
Legal claims	5,881	-	(5,881)	-	-
Emission allowances	46,335	17,691	-	-	64,026
₩	56,208	17,691	(6,087)	(671)	67,141

(In millions of won)

	2018				Ending Balance
	Beginning Balance	Increase	Utilization	Foreign exchange difference	
Warranty	₩ 3,807	14	(268)	-	3,553
Legal claims	9,460	-	(4,391)	264	5,333
Emission allowances	37,412	17,242	-	-	54,654
₩	50,679	17,256	(4,659)	264	63,540

(2) Provisions for warranty

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

(3) 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.

(4) 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 March 31, 2019 and December 31, 2018 are as follows:

(In millions of won)

	2019	2018
Present value of defined benefit obligations	₩ 1,667,664	1,609,055
Fair value of plan assets	(1,603,716)	(1,608,832)
Net defined benefit liabilities	₩ 63,948	223
Defined benefit liabilities	63,948	5,387
Defined benefit assets ¹	-	(5,164)

¹ The Parent Company's fair value of plan assets in excess of the present value of defined benefit obligations, presented as defined benefit assets, amounted to ₩5,164 million as of December 31, 2018.

(2) Principal actuarial assumptions as of March 31, 2019 and December 31, 2018 are as follows:

	2019 (%)	2018 (%)
Discount rate for defined benefit obligations	2.64 ~ 3.78	2.64 ~ 3.78
Expected rate of salary increase	2.70 ~ 5.83	2.70 ~ 5.83

(3) Changes in defined benefit obligations for the three-month periods ended March 31, 2019 and 2018 are as follows:

(In millions of won)

	2019	2018
Beginning balance	₩ 1,609,055	1,330,559
Current service cost	54,369	42,502
Interest cost	14,898	14,117
Transferred from associates	2,287	1,024
Benefits paid	(12,955)	(8,662)
Others	10	36
Ending balance	₩ 1,667,664	1,379,576

(4) Changes in plan assets for the three-month periods ended March 31, 2019 and 2018 are as follows:

(In millions of won)

	2019	2018
Beginning balance	₩ 1,608,832	1,337,848
Interest income	15,123	14,186
Transferred from associates	3,120	1,016
Benefits paid	(17,447)	(16,078)
Remeasurements	(5,912)	(7,040)
Ending balance	₩ 1,603,716	1,329,932

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20. Defined Benefit Liabilities, Continued

(5) The amounts recognized in profit or loss for the three-month periods ended March 31, 2019 and 2018 are as follows:

(In millions of won)

	2019	2018
Current service cost	₩ 54,369	42,502
Net interest cost	(225)	(69)
	<u>₩ 54,144</u>	<u>42,433</u>

(6) Details of plan assets as of March 31, 2019 and December 31, 2018 are as follows:

(In millions of won)

	2019	2018
Deposits	₩ 1,602,005	1,607,552
Other	1,711	1,280
	<u>₩ 1,603,716</u>	<u>1,608,832</u>

Actual return on plan assets for the three-month periods ended March 31, 2019 and 2018 amounted to ₩ 9,211 million and ₩ 7,147 million, respectively.

(7) Contributions to defined contribution plans amounting to ₩101 million (2018: ₩44 million) was recognized as cost of sales for the three-month period ended March 31, 2019.

21. Derivative Financial Instruments

(1) There was no derivative financial instruments as of March 31, 2019 and December 31, 2018.

(2) There was no gains and losses from derivative instruments for the three-month periods ended March 31, 2019 and 2018.

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22. Capital Stock, Capital Surplus and Other Equity

(1) The Parent Company has 9,000,000,000 authorized shares and the face value per share is ₩5,000 as of March 31, 2019. The number of shares issued, common stock, capital surplus and other capital as of March 31, 2019 and December 31, 2018, are as follows:

(In millions of won and thousands of shares)

	2019	2018
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
Others	517,939	517,939
	<u>4,143,736</u>	<u>4,143,736</u>
Other equity:		
Acquisition cost of treasury shares	(2,508,427)	(2,508,427)
Share options	2,294	1,976
	<u>₩ (2,506,133)</u>	<u>(2,506,451)</u>
Number of treasury shares	44,001	44,001

¹ As of March 31, 2019, the number of outstanding shares is 728,002 thousand shares, which differs from total issued shares due to stock retirement.

(2) As of March 31, 2019 and December 31, 2018, the number of outstanding shares are 684,002 thousand and 706,002 thousand.

23. Accumulated Other Comprehensive Loss

(1) Details of accumulated other comprehensive loss as of March 31, 2019 and December 31, 2018 are as follows:

(In millions of won)

	2019	2018
Equity-accounted investees – share of other comprehensive loss	₩ (568)	(18,166)
Foreign operations – foreign currency translation differences	(239,291)	(464,653)
	<u>₩ (239,859)</u>	<u>(482,819)</u>

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23. Accumulated Other Comprehensive Loss, Continued

(2) Changes in accumulated other comprehensive loss for the three-month periods ended March 31, 2019 and 2018 are as follows:

(In millions of won)

		2019		
		Beginning	Change	Ending
Equity-accounted investees – share of other comprehensive income (loss)	₩	(18,166)	17,598	(568)
Foreign operations – foreign currency translation differences		(464,653)	225,362	(239,291)
	₩	<u>(482,819)</u>	<u>242,960</u>	<u>(239,859)</u>

(In millions of won)

		2018			
		Beginning	Change	Impacts on transition to K-IFRS No. 1109	Ending
Equity-accounted investees – share of other comprehensive loss	₩	(20,442)	(1,239)	-	(21,681)
Loss on valuation of long-term investment assets		(10,735)	-	10,735	-
Foreign operations – foreign currency translation differences		(471,087)	150,300	-	(320,787)
	₩	<u>(502,264)</u>	<u>149,061</u>	<u>10,735</u>	<u>(342,468)</u>

24. Retained Earnings

Retained earnings as of March 31, 2019 and December 31, 2018 are as follows:

(In millions of won)

	2019	2018
Legal reserve ¹	₩ 281,555	178,954
Discretionary reserve ²	235,506	235,506
Unappropriated retained earnings ³	41,587,379	41,619,141
	<u>₩ 42,104,440</u>	<u>42,033,601</u>

¹ The Commercial Code of the Republic of Korea requires the Parent 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 ₩1,026,003 million were approved at shareholders' meeting held on March 22, 2019, and dividends payables are included in other payables as of March 31, 2019.

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25. Revenue

(1) Details of the Group's revenue for the three-month periods ended March 31, 2019 and 2018 are as follows:

(In millions of won)

	2019	2018
Sale of goods	₩ 6,753,808	8,705,845
Providing services	18,847	13,846
	<u>₩ 6,772,655</u>	<u>8,719,691</u>

(2) Details of the Group's revenue by product and service types for the three-month periods ended March 31, 2019 and 2018 are as follows:

(In millions of won)

	2019	2018
DRAM	₩ 5,353,137	6,880,516
NAND Flash	1,155,316	1,693,838
Other	264,202	145,337
	<u>₩ 6,772,655</u>	<u>8,719,691</u>

(3) The Group's revenue information by region based on the location of selling entities for the three-month periods ended March 31, 2019 and 2018 are as follows:

(In millions of won)

	2019	2018
Korea	₩ 209,498	308,041
China	3,158,068	3,258,755
Taiwan	327,918	759,068
Asia (other than China and Taiwan)	630,369	990,082
U.S.A.	2,097,673	2,995,086
Europe	349,129	408,659
	<u>₩ 6,772,655</u>	<u>8,719,691</u>

(4) Details of the Group's revenue by the timing of revenue recognition during the three-month periods ended March 31, 2019 and 2018 is as follows:

(In millions of won)

	2019	2018
Performance obligations satisfied at a point in time	₩ 6,753,808	8,705,845
Performance obligations satisfied over time	18,847	13,846
	<u>₩ 6,772,655</u>	<u>8,719,691</u>

25. Revenue, Continued

(5) Revenue recognition policies and performance obligation

Revenue is measured based on the consideration promised in the contract with customers. The Group recognizes revenue when control of goods or services is transferred to the customers.

Revenue recognition policies regarding the nature and timing of performance obligations satisfaction in the contract are as follows:

	Nature of goods or services and timing of performance obligation satisfaction.	Revenue recognition under K-IFRS No. 1115.
	Revenue is recognized when (or as) goods are transferred to a customer and the customer obtains control of that asset, which is typically upon delivery or shipment depending on the terms of the contract.	Revenue is measured at the amount of consideration for the sale of goods, reflecting the expected amount of return estimated through historical information. The Company's right to recover products from customers on settling the refund liability is recognized as asset and Refund liability is recognized as well.
Sale of goods	When the good is defective, the customer has granted the right to return the defective goods in exchange for a functioning product or cash.	Settling a refund liability shall initially be measured by reference to the former carrying amount of the product less any expected costs to recover those products. Refund liability is included in other current liabilities (See note 18) and right to recover products from customers on settling the refund liability is included in other current assets (See note 10). The Company updates the measurement of the asset arising from changes in expectations about products to be returned at the end of each reporting period.

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26. Selling and Administrative Expenses

Selling and administrative expenses for the three-month periods ended March 31, 2019 and 2018 are as follows:

(In millions of won)

	2019	2018
Selling and Administrative Expenses:		
Salaries	₩ 147,407	135,533
Defined benefit plan	11,452	7,602
Employee benefits	34,611	25,312
Commission	106,331	57,299
Depreciation	43,714	28,749
Amortization	196,784	110,962
Freight and custody charge	7,954	5,921
Legal cost	7,839	3,375
Rental	1,228	3,234
Taxes and dues	16,084	5,232
Training	11,872	7,064
Advertising	11,418	10,042
Utilities	3,424	3,591
Supplies	15,191	12,492
Repair	5,229	5,880
Travel and transportation	4,127	3,506
Sales promotion	16,721	16,875
Others	18,351	14,081
	<u>659,737</u>	<u>456,750</u>
Research and development:		
Expenditure on research and development	743,451	644,934
Development cost capitalized	(89,478)	(132,545)
	<u>653,973</u>	<u>512,389</u>
	<u>₩ 1,313,710</u>	<u>969,139</u>

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27. Expenses by Nature

Nature of expenses for the three-month periods ended March 31, 2019 and 2018 are as follows:

(In millions of won)

	2019	2018
Changes in finished goods and work-in-process	₩ (574,123)	(380,804)
Raw materials and consumables	1,510,770	1,204,220
Labor costs	937,898	843,171
Depreciation and amortization	2,013,112	1,417,526
Royalty	34,092	55,544
Commission	490,269	354,797
Utilities	323,976	264,179
Repair	263,303	225,287
Outsourcing	290,826	240,306
Other	116,042	128,127
Total ¹	₩ 5,406,165	4,352,353

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

28. Finance Income and Expenses

Finance income and expenses for the three-month periods ended March 31, 2019 and 2018 are as follows:

(In millions of won)

	2019	2018
Finance income		
Interest income	₩ 11,306	27,282
Dividend income	42	346
Foreign exchange differences ¹	320,219	207,561
Gain on valuation of short-term investment assets	20,737	1,104
Gain on disposal of short-term investment assets	6,042	3,594
Gain on disposal of long-term investment assets	-	248
	358,346	240,135
Finance expenses		
Interest expenses	41,070	24,891
Foreign exchange differences	206,772	288,387
Loss on valuation of long-term investment assets	13	-
	247,855	313,278
Net finance expense	₩ 110,491	(73,143)

¹ For the three-month period ended March 31, 2019, the foreign exchange differences of long-term investment assets amounting to ₩63,915 million are included.

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29. Other Income and Expenses

(1) Other income for the three-month periods ended March 31, 2019 and 2018 are as follows:

(In millions of won)

	2019	2018
Gain on disposal of property, plant and equipment	₩ 202	5,768
Other	24,488	1,298
	<u>₩ 24,690</u>	<u>7,066</u>

(2) Other expenses for the three-month periods ended March 31, 2019 and 2018 are as follows:

(In millions of won)

	2019	2018
Loss on disposal of property, plant and equipment	₩ 2,184	2,883
Loss on disposal of intangible assets	1,491	1,659
Impairment of intangible assets	70	3,463
Loss on disposal of trade receivables	1,609	2,235
Donation	4,557	1,047
Other	16,639	3,690
	<u>₩ 26,550</u>	<u>14,977</u>

30. 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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31. 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, 2019 and 2018 are as follows:

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

	2019	2018
Profit attributable to ordinary shareholders of the Parent Company	₩ 1,102,753	3,120,254
Weighted average number of outstanding ordinary shares ¹	684,001,795	706,001,795
Basic earnings per share (in won)	₩ 1,612	4,420

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

(In shares)

	2019	2018
Outstanding ordinary shares	728,002,365	728,002,365
Treasury shares	(44,000,570)	(22,000,570)
Weighted average number of outstanding ordinary shares	684,001,795	706,001,795

(2) Diluted earnings per share for the three-month periods ended March 31, 2019 and 2018 are as follows:

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

	2019	2018
Profit attributable to ordinary shareholders of the Parent Company	₩ 1,102,753	3,120,254
Weighted average number of diluted outstanding ordinary shares ¹	684,066,765	706,075,772
Diluted earnings per share (in won)	₩ 1,612	4,419

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

(In shares)

	2019	2018
Weighted average number of outstanding ordinary shares	684,001,795	706,001,795
Share options	64,970	73,977
Weighted average number of diluted outstanding ordinary shares	684,066,765	706,075,772

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32. Transactions with Related Parties and Others

(1) Details of related parties as of March 31, 2019 are as follows:

Type	Name of related parties
Associates	Stratio, Inc., SK China Company Limited, Gemini Partners Pte. Ltd., TCL Fund, SK South East Asia Investment Pte. Ltd., Hushan Xinju (Chengdu) Venture Investment Center(Smartsources)
Joint ventures	HITECH Semiconductor (Wuxi) Co., Ltd., Hystars 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, 2019 and 2018 are as follows:

(In millions of won)

		2019		
	Company	Operating revenue and others	Operating expense and others	Asset acquisition
Associate	Sk China Company Limited	₩ 4	2,281	-
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	1,100	168,500	-
	Hystars Semiconductor (Wuxi) Co., Ltd.	186	-	-
Other related parties	SK Telecom Co., Ltd. ¹	23,672	226,032	3,555
	SK Holdings Co., Ltd. ²	7,705	60,567	39,031
	ESSENCE Limited	176,061	-	-
	SK Engineering & Construction Co., Ltd.	13,415	-	85,184
	SK Energy Co., Ltd.	7,576	24,899	-
	SK Networks Co., Ltd.	2,574	2,540	-
	SKC Solmics Co., Ltd.	219	19,715	627
	Chungcheong energy service Co., Ltd.	6	10,718	-
	SK Materials Co., Ltd.	1,077	19,060	-
	SK Siltron Co., Ltd.	8,380	106,199	-
	Others	28,896	140,271	4,001
		₩ 270,871	780,782	132,398

¹ Operating expense and others include dividend payments of ₩219,200 million.

² For the three-month period ended March 31, 2019, royalty paid for the use of the SK brand amounted to ₩20,537 million.

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32. Transactions with Related Parties and Others, Continued

(2) Significant transactions for the three-month periods ended March 31, 2019 and 2018 are as follows,
Continued:

(In millions of won)

		2018			
		Operating revenue and others	Operating expense and others	Asset acquisition	Dividend received
Company					
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	₩ 2	148,740	-	13,120
Other related parties	SK Telecom Co., Ltd. ¹	28	151,572	2,818	-
	SK Holdings Co., Ltd. ²	274	43,336	46,096	-
	ESSENCE Limited	253,637	-	-	-
	SK Engineering & Construction Co., Ltd.	347	142	556,541	-
	SK Energy Co., Ltd.	1,383	34,345	-	-
	SK Networks Co., Ltd.	-	1,203	10,600	-
	SKC solmics Co., Ltd.	-	5,228	96	-
	Chungcheong energy service Co., Ltd.	-	8,639	-	-
	HAPPYNARAE Co., Ltd.	10	119,614	12,298	-
	SK Materials Co., Ltd.	-	14,828	-	-
	SK Siltron Co., Ltd.	808	68,061	-	-
	Others	82	55,491	6,090	-
		₩ 256,571	651,199	634,539	13,120

¹ Operating expense and others include dividend payments of ₩146,100 million.

² For the three-month period ended March 31, 2018, royalty paid for the use of the SK brand amounted to ₩8,808 million.

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32. Transactions with Related Parties and Others, Continued

(3) The balances from significant transactions as of March 31, 2019 and December 31, 2018 are as follows:

(In millions of won)

		2019	
	Company	Trade receivables and others	Other payables and others
Associate	SK China Company Limited	₩ 2	2,305
Joint ventures	HITECH Semiconductor (Wuxi) Co., Ltd.	514	113,666
	Hystars Semiconductor (Wuxi) Co., Ltd.	146	-
Other related parties	SK Telecom Co., Ltd.	5,720	225,245
	SK Holdings Co., Ltd.	4,324	136,960
	ESSENCE Limited	61,794	-
	SK Engineering & Construction Co., Ltd.	13,077	485,228
	SK Energy Co., Ltd.	1,628	6,850
	SK Networks Co., Ltd.	244	491
	SKC Solmics Co., Ltd.	73	11,653
	Chungcheong energy service Co., Ltd.	6	3,268
	SK Materials Co., Ltd.	432	13,100
	SK Siltron Co., Ltd.	142,887	50,357
	Others	9,792	92,921
		₩ 240,639	1,142,044

(In millions of won)

		2018	
	Company	Trade receivables and others	Other payables and others
Associate	SK China Company Limited	₩ 1	9,060
Joint ventures	HITECH Semiconductor (Wuxi) Co., Ltd.	33	102,932
	Hystars Semiconductor (Wuxi) Co., Ltd.	19	-
Other related parties	SK Telecom Co., Ltd.	3,339	15,489
	SK Holdings Co., Ltd.	1,876	144,225
	ESSENCE Limited	71,673	-
	SK Engineering & Construction Co., Ltd.	12,910	744,935
	SK Energy Co., Ltd.	5,350	9,005
	SK Networks Co., Ltd.	790	1,452
	SKC Solmics Co., Ltd.	57	8,113
	Chungcheong energy service Co., Ltd.	4	3,644
	SK Materials Co., Ltd.	443	18,214
	SK Siltron Co., Ltd.	156,023	37,070
	Others	14,918	120,955
		₩ 267,436	1,215,094

SK HYNIX, INC. and Subsidiaries

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32. Transactions with Related Parties and Others, Continued

(4) Key management compensation

The Group considers registered directors who have authority and responsibility for planning, directing and controlling the activities of the Group as key management. The compensation paid to key management for employee services for the three-month periods ended March 31, 2019 and 2018 are as follows:

(In millions of won)

	2019	2018
Salaries	₩ 1,932	794
Defined benefit plan related expenses	102	88
Share-based payment	47	1
	<u>₩ 2,081</u>	<u>883</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, 2019 and 2018 are as follows. These entities are not related parties according to K-IFRS No. 1024, 'Related Party Disclosures'.

(In millions of won)

		2019			
		Operating revenue and others	Operating expense and others	Asset acquisition	Dividend received
Company					
Companies in the Conglomerate	SK Discovery Co., Ltd.	₩ 108	-	-	-
	SK Chemicals Co., Ltd.	2,120	368	-	-
	SK Bioscience Co., Ltd.	957	1	-	-
	ANTS Co., Ltd.	2	3,334	-	-
		<u>₩ 3,187</u>	<u>3,703</u>	<u>-</u>	<u>-</u>

(In millions of won)

		2018			
		Operating revenue and others	Operating expense and others	Asset acquisition	Dividend received
Company					
Companies in the Conglomerate	SK Chemicals Co., Ltd.	₩ -	299	-	-

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32. Transactions with Related Parties and Others, Continued

(6) The balances of significant transactions between the Group and the companies that are in the same conglomerate group designated by 'Fair Trade Law' as of March 31, 2019 and December 31, 2018 are as follows. These entities are not related parties according to K-IFRS No. 1024, 'Related Party Disclosures'.

(In millions of won)

		2019	
		Trade receivables and others	Other payables and others
Company			
Companies in the Conglomerate	SK Discovery Co., Ltd.	₩ 90	-
	SK Chemicals Co., Ltd.	905	227
	SK Bioscience Co., Ltd.	409	1
	ANTS Co., Ltd.	-	1,461
		₩ 1,404	1,689

(In millions of won)

		2018	
		Trade receivables and others	Other payables and others
Company			
Companies in the Conglomerate	SK Discovery Co., Ltd.	₩ 5	-
	SK Chemicals Co., Ltd.	1,253	331
	SK Bioscience Co., Ltd.	884	13
		₩ 2,142	344

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33. Commitments and Contingencies

(1) Significant pending litigations and claims of the Group as of March 31, 2019 are as follows:

(a) Lawsuit from Netlist, Inc.

Netlist, Inc. filed a lawsuit against the Parent Company and its subsidiaries including SK hynix America Inc. alleging infringement of multiple patents to the U.S. District Court for the Central District of California, on August 31, 2016 and June 14, 2017, to the U.S. International Trade Commission on September 1, 2016 and October 31, 2017 and to the German District Court of Munich and the Beijing Intellectual Property Court, respectively, on July 11, 2017. As of March 31, 2019, the patent infringement lawsuits filed by Netlist, Inc. in the U.S. have not been finalized and the final result cannot be predicted.

Meanwhile, the lawsuit filed to the U.S. International Trade Commission on September 1, 2016 was finalized on January 16, 2018 with the conclusion that the Parent Company and its subsidiaries did not infringe the patents of Netlist, Inc. Netlist, Inc. filed a petition on March 26, 2018.

In addition, regarding the lawsuit filed to the Beijing Intellectual Property Court on July 11, 2017, the Patent Reexamination Board ("PRB") determined that the patent was invalid on May 30, 2018. Accordingly, the patent infringement lawsuit was dismissed on June 26, 2018. Netlist, Inc. did not appeal PRB's decision that invalidated the patent and the decision was finalized.

In addition, regarding the lawsuit filed to the German District court of Munich on July 11, 2017, the Court determined that the Group did not infringe the patent litigation of Netlist, Inc. on January 31, 2019.

(b) Price-fixing class-action lawsuits in North America

On April 27, 2018, a purported class-action lawsuit was filed against the Parent Company and its subsidiary, SK hynix America Inc. in the U.S. District Court for the Northern District of California asserting claims based on alleged price-fixing of DRAM products during the period from June 1, 2016 to February 1, 2018. Similar lawsuits were subsequently filed in federal court in the U.S., as well as in Canadian courts in British Columbia, Quebec and Ontario. As of March 31, 2019, the lawsuits filed have not been finalized and the Group is unable to predict the outcome of these matters and therefore cannot reliably estimate the range of possible loss.

(c) The antitrust investigation in China

The State Administration for Market Regulation of China initiated to investigate the violation of the antitrust law regarding on primary DRAM businesses' sales in China in May 2018. The pending case currently is under investigation. As of March 31, 2019, the Group is unable to predict the outcome of these matters and therefore cannot reliably estimate the range of possible loss.

(d) 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 represents a present obligation as a result of past event and 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 on 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 new contract with Veolia Water Industrial Development Co., Ltd. ("Veolia") under which the Group purchases industrial water from Veolia during period of June 2018 through May 2023. 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.

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33. Commitments and Contingencies, Continued

(4) Post-process service contract with HITECH Semiconductor (Wuxi) Co., Ltd.(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, 2019 are as follows:

(In millions of won)

	Book value	Pledged amount	Remark
Land	₩ 19,369		
Buildings	57,412	1,119,922	Borrowings for equipment and others
Machinery	575,652		
	₩ 652,433	1,119,922	

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

(6) Financing agreements

Details of credit lines with financial institutions as of March 31, 2019 are as follows:

(In millions of won and millions of foreign currencies)

	Financial Institution	Commitment	Currency	Amount
The Parent Company	KEB Hana Bank and others	Import finance including usance	USD	225
		Export finance including bills bought	USD	50
		Comprehensive limit contract for import and export	USD	960
		Overdrafts with banks	KRW	20,000
		Accounts receivable factoring contracts which have no right to recourse	KRW	140,000
SK hynix Semiconductor (China) Ltd.	Agricultural Bank of China and others	Import finance including usance	RMB	1,548
			USD	392
SK hynix America Inc. and other sales entities	Citibank and others	Accounts receivable factoring contracts which have no right to recourse	USD	141
Domestic subsidiaries	KEB Hana Bank and others	Import finance including bills bought	USD	45
		Finance secured by accounts receivables	KRW	57,020
		Agent agreement for payment of goods received	KRW	12,500

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33. Commitments and Contingencies, Continued

(7) Details of guarantees provided to others as of March 31, 2019 are as follows:

(In millions of won and millions of foreign currencies)

	Currency	Amount	Remark
Employees	KRW	4	Guarantees for employees' borrowings relating to employee stock ownership
Taiwan Semiconductor Manufacturing Company, Limited. ¹	USD	60	Guarantees for supply agreement

¹The Group received a deposit of ₩1,000 million as collateral from ADTechnology Inc. regarding payment guarantee for Taiwan Semiconductor Manufacturing Company, Limited.

(8) Capital commitments

The Group's unrecorded commitments in relation to the capital expenditures on property, plant and equipment as of March 31, 2019 are ₩1,779,442 million (as of December 31, 2018: ₩1,857,092 million).

(9) Long-term purchase agreement for raw materials

The Group has entered into a procurement agreement with SK Siltron Co., Ltd. from 2019 to 2023 for a stable supply of wafer with an advanced payment of ₩150,000 million during the year ended December 31, 2017. The advanced payment used in connection with the purchase of wafer during the current period is ₩13,446 million, and the balance of the advance payment as of March 31, 2019 is ₩136,554 million. Meanwhile, SK Siltron Co., Ltd. has committed to providing a certain portion of its investment assets as collateral to secure the advanced payment.

(10) Investment in Toshiba Memory Corporation ("TMC")

In regards to the Group's interests in TMC through its investments in BCPE Pangea Intermediate holdings Cayman, L.P. ("SPC1") and BCPE Pangea Cayman2 Limited ("SPC2"), equity shares in TMC owned, directly or indirectly, by the Group are limited to a certain percentage during certain periods after the date of acquisition. In addition, during the periods, the Group does not have the right in appointing TMC's directors and is unable to exercise significant influence over decision-making for TMC's operation and management.

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34. Cash Flows

(1) Reconciliations between profit and net cash inflow from operating activities for the three-month periods ended March 31, 2019 and 2018 are as follows:

(In millions of won)

	2019	2018
Profit for the period	₩ 1,102,130	3,121,329
Adjustment		
Income tax expense	377,417	1,169,481
Defined benefit plan	54,144	42,433
Depreciation of property, plant and equipment	1,750,151	1,318,830
Depreciation of investment property	16	26
Amortization	221,098	129,801
Amortization of right-of-use assets	66,710	-
Compensation expense associated with share options	318	275
Loss on disposal of property, plant and equipment	2,184	2,883
Loss on disposal of intangible assets	1,491	1,659
Impairment of intangible assets	70	3,463
Interest expense	41,070	24,891
Loss on foreign currency translation	85,781	94,235
Loss on valuation of long-term investment assets	13	-
Gain on equity method investments, net	(4,426)	(4,526)
Gain on disposal of property, plant and equipment	(202)	(5,768)
Gain on valuation of short-term investment assets	(20,737)	(1,104)
Gain on disposal of short-term investment assets	(6,042)	(3,594)
Gain on disposal of long-term investment assets	-	(248)
Interest income	(11,306)	(27,282)
Gain on foreign currency translation	(149,801)	(44,953)
Others, net	1,371	1,889
Changes in operating assets and liabilities		
Decrease (increase) in trade receivables	1,061,463	(32,970)
Decrease (increase) in loans and other receivables	(4,855)	24,711
Increase in inventories	(670,841)	(451,101)
Decrease (increase) in other assets	1,256	(130,886)
Increase (decrease) in trade payables	(318,091)	9,057
Increase (decrease) in other payables	(31,410)	955,649
Decrease in other non-trade payables	(906,108)	(656,160)
Increase (decrease) in provisions	10,952	(18,079)
Increase in other liabilities	28,545	58,594
Payment of defined benefit liabilities	(3,127)	(6,855)
Cash generated from operating activities	₩ <u>2,679,234</u>	<u>5,575,680</u>

(2) Details of significant transactions without inflows and outflows of cash for the three-month periods ended March 31, 2019 and 2018 are as follows:

(In millions of won)

	2019	2018
Increase in other payables related to acquisition of property, plant and equipment	₩ -	199,780
Increase in other payables related to dividends	1,026,003	706,002

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34. Cash Generated from Operating Activities, Continued

(3) Changes in liabilities arising from financial activities for the three-month periods ended March 31, 2019 and 2018 are as follows:

(In millions of won)

	2019	2018
Beginning balance¹	₩ 5,281,937	4,171,270
Adjustments due to the transition to K-IFRS No.1116 ¹	1,123,937	-
Beginning balance after transition adjustments	<u>6,405,874</u>	<u>4,171,270</u>
Cash flows from financing activities		
Proceeds from borrowings	983,810	298,732
Repayments of borrowings	(109,224)	(599,737)
Repayments of lease liabilities	(67,539)	-
Interest paid	(617)	-
Foreign currency differences	81,700	(3,945)
Present value discount (interest expense)	6,857	389
Ending balance	<u>₩ 7,300,861</u>	<u>3,866,709</u>

¹Lease liabilities are recognized additionally as the Company initially applied K-IFRS No. 1116 as at January 1, 2019.

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35. 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, 2019 and the details of the share options as of March 31, 2019 are as follows:

(In shares)

	Total numbers of share option granted	Exercised	Forfeited or Cancelled	Outstanding at March 31, 2019
1 st	99,600	-	-	99,600
2 nd	99,600	-	-	99,600
3 rd	99,600	-	-	99,600
4 th	7,747	-	-	7,747
5 th	7,223	-	-	7,223
6 th	8,171	-	-	8,171
7 th	61,487	-	-	61,487
8 th	61,487	-	-	61,487
9 th	61,487	-	-	61,487
	506,402	-	-	506,402

	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
4 th	January 1, 2018	January 1, 2018- December 31, 2019	January 1, 2020 - December 31, 2022	77,440
5 th	March 28, 2018	March 28, 2018 - March 28, 2020	March 29, 2020 - March 28, 2023	83,060
6 th	February 28, 2019	February 28, 2019 - February 28, 2021	March 1, 2021 - February 29, 2024	73,430
7 th	March 22, 2019	March 22, 2019 - March 22, 2021	March 23, 2021 - March 22, 2024	71,560
8 th	March 22, 2019	March 22, 2019 - March 22, 2022	March 23, 2022 - March 22, 2025	77,290
9 th	March 22, 2019	March 22, 2019 - March 22, 2023	March 23, 2023 - March 22, 2026	83,470

(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	4th	5th	6th	7th	8th	9th
Expected volatility	23.23%	23.23%	23.23%	22.50%	25.30%	25.60%	26.20%	26.20%	26.20%
Estimated fair value of share options (in won)	10,026	9,613	9,296	16,687	18,362	16,505	17,744	16,888	16,093
Dividend yield ratio	1.20%	1.20%	1.20%	0.78%	1.23%	1.36%	1.32%	1.32%	1.32%
Risk free ratio	1.86%	1.95%	2.07%	2.38%	2.46%	1.89%	1.82%	1.88%	1.91%

(3) The compensation expense for the three-month period ended March 31, 2019 was ₩318 million(2018: ₩275 million).