

SK HYNIX, INC. and Subsidiaries

Condensed Consolidated Interim Financial Statements

September 30, 2017 and 2016

(Unaudited)

(With Independent Auditors' Review Report Thereon)

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Independent Auditors' Review Report

Based on a report originally issued in Korean

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

Reviewed financial statements

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

Management's responsibility

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

Auditors' review responsibility

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

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

Conclusion

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

Other matters

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

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

KPMG Samjong Accounting Corp.
Seoul, Korea
November 7, 2017

This report is effective as of November 7, 2017, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying condensed consolidated interim financial statements and notes thereto. Accordingly, the readers of the review report should understand that the above review report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

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

(In millions of won)

	Note	2017	2016
Assets			
Current assets			
Cash and cash equivalents	5,6 ₩	1,123,119	613,786
Short-term financial instruments	5,6,7	5,191,503	3,521,893
Trade receivables, net	5,6,8,30	5,260,576	3,251,652
Loans and other receivables, net	5,6,8	34,943	25,611
Inventories, net	9	2,557,403	2,026,198
Current tax assets		1,665	489
Other current assets	10	388,701	399,353
		<u>14,557,910</u>	<u>9,838,982</u>
Non-current assets			
Investments in associates and joint ventures	11	376,459	131,016
Available-for-sale financial assets	5,6,12	55,378	147,779
Loans and other receivables, net	5,6,8	43,066	39,490
Other financial assets	5,6,7	595	423
Property, plant and equipment, net	13,31	21,977,158	18,777,402
Intangible assets, net	14	2,236,944	1,915,591
Investment property, net	15	2,494	2,573
Deferred tax assets		781,408	792,368
Other non-current assets	10	699,041	570,402
		<u>26,172,543</u>	<u>22,377,044</u>
Total assets	₩	<u>40,730,453</u>	<u>32,216,026</u>

See accompanying notes to the condensed consolidated interim financial statements.

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

(In millions of won)

	<u>Note</u>	<u>2017</u>	<u>2016</u>
Liabilities			
Current liabilities			
Trade payables	5,6 ₩	745,056	696,144
Other payables	5,6,30	1,501,816	1,606,417
Other non-trade payables	5,6	1,034,172	685,154
Borrowings	5,6,16	633,151	704,860
Other financial liabilities	5,6,20	-	288
Provisions	18	66,622	42,822
Current tax liabilities		1,620,360	374,666
Other current liabilities	17	41,610	50,498
		<u>5,642,787</u>	<u>4,160,849</u>
Non-current liabilities			
Other non-trade payables	5,6	3,478	27,426
Borrowings	5,6,16	3,670,387	3,631,118
Defined benefit liabilities, net	19	441,614	306,488
Deferred tax liabilities		5,156	4,732
Other non-current liabilities	17	62,533	61,883
		<u>4,183,168</u>	<u>4,031,647</u>
Total liabilities		<u>9,825,955</u>	<u>8,192,496</u>
Equity			
Equity attributable to owners of the Parent Company			
Capital stock	1,21	3,657,652	3,657,652
Capital surplus	21	4,143,736	4,143,736
Other equity	21	(771,365)	(771,913)
Accumulated other comprehensive loss	22	(184,564)	(79,103)
Retained earnings	23	24,051,224	17,066,583
Total equity attributable to owners of the Parent Company		<u>30,896,683</u>	<u>24,016,955</u>
Non-controlling interests		<u>7,815</u>	<u>6,575</u>
Total equity		<u>30,904,498</u>	<u>24,023,530</u>
Total liabilities and equity	₩	<u>40,730,453</u>	<u>32,216,026</u>

See accompanying notes to the condensed consolidated interim financial statements.

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

(In millions of won, except per share information)

	Note	2017		2016	
		Three-month period	Nine-month period	Three-month period	Nine-month period
Revenue	4,30 ₩	8,100,085	21,081,881	4,243,645	11,840,289
Cost of sales	25,30	3,398,157	9,241,783	2,792,288	7,819,077
Gross profit		4,701,928	11,840,098	1,451,357	4,021,212
Selling and administrative expense	24,25	964,735	2,584,606	725,401	2,280,605
Operating profit		3,737,193	9,255,492	725,956	1,740,607
Finance income	26	252,745	750,110	235,662	623,886
Finance expense	26	159,536	739,685	243,216	690,151
Share of profit of equity-accounted investees	11	3,524	8,027	2,419	16,600
Other income	27	24,472	62,695	10,869	24,869
Other expenses	27	15,542	54,320	27,526	70,449
Profit before income tax		3,842,856	9,282,319	704,164	1,645,362
Income tax expense	28	787,327	1,859,600	106,413	313,453
Profit for the period		3,055,529	7,422,719	597,751	1,331,909
Other comprehensive income (loss)					
Item that will never be reclassified to profit or loss:					
Remeasurements of defined benefit liability, net of tax	19	(4,210)	(12,521)	(2,161)	(6,436)
Items that are or may be reclassified to profit or loss:					
Foreign operations – foreign currency translation differences, net of tax	22	86,708	(101,252)	(285,079)	(347,977)
Equity-accounted investees – share of other comprehensive income (loss), net of tax	11,22	2,422	(4,925)	(6,753)	(7,119)
Other comprehensive income (loss) for the period, net of tax		84,920	(118,698)	(293,993)	(361,532)
Total comprehensive income for the period	₩	3,140,449	7,304,021	303,758	970,377

See accompanying notes to the condensed consolidated interim financial statements.

SK HYNIX, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income, Continued

For the three and nine-month periods ended September 30, 2017 and 2016

(Unaudited)

(In millions of won, except per share information)

	<i>Note</i>	2017		2016	
		Three-month period	Nine-month period	Three-month period	Nine-month period
Profit (loss) attributable to:					
Owners of the Parent Company		3,054,248	7,420,763	596,774	1,327,109
Non-controlling interests		1,281	1,956	977	4,800
Total comprehensive income					
(loss) attributable to:					
Owners of the Parent Company		3,139,284	7,302,781	303,475	966,382
Non-controlling interests		1,165	1,240	283	3,995
Earnings per share					
Basic earnings per share (in won)	29	4,326	10,511	845	1,880
Diluted earnings per share (in won)	29	4,326	10,511	845	1,880

See accompanying notes to the condensed consolidated interim financial statements.

SK HYNIX, INC. and Subsidiaries
Condensed Consolidated Statements of Changes in Equity
For the nine-month periods ended September 30, 2017 and 2016
(Unaudited)

	Note	Attributable to owners of the Parent Company					Total	Non-controlling interests	Total equity
		Capital stock	Capital surplus	Other equity	Accumulated other comprehensive income (loss)	Retained earnings			
<i>(In millions of won)</i>									
Balance at January 1, 2016	₩	3,657,652	4,143,736	(771,913)	(1,600)	14,358,988	21,386,863	840	21,387,703
Total comprehensive income									
Profit for the period		-	-	-	-	1,327,109	1,327,109	4,800	1,331,909
Remeasurements of defined benefit liability, net of tax	19	-	-	-	-	(6,436)	(6,436)	-	(6,436)
Other comprehensive income from joint venture and associate, net of tax	11,22	-	-	-	(7,119)	-	(7,119)	-	(7,119)
Foreign currency translation differences for foreign operations, net of tax	22	-	-	-	(347,172)	-	(347,172)	(805)	(347,977)
Total comprehensive income		-	-	-	(354,291)	1,320,673	966,382	3,995	970,377
Transactions with owners of the Parent Company									
Dividends paid		-	-	-	-	(353,001)	(353,001)	-	(353,001)
Disposal of a subsidiary		-	-	-	390	-	390	(889)	(499)
Transactions with owners of the Parent Company		-	-	-	390	(353,001)	(352,611)	(889)	(353,500)
Balance at September 30, 2016	₩	<u>3,657,652</u>	<u>4,143,736</u>	<u>(771,913)</u>	<u>(355,501)</u>	<u>15,326,660</u>	<u>22,000,634</u>	<u>3,946</u>	<u>22,004,580</u>

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 nine-month periods ended September 30, 2017 and 2016
(Unaudited)

	Note	Attributable to owners of the Parent Company						Non-controlling interests	Total equity
		Capital stock	Capital surplus	Other equity	Accumulated other comprehensive income (loss)	Retained earnings	Total		
<i>(In millions of won)</i>									
Balance at January 1, 2017		₩ 3,657,652	4,143,736	(771,913)	(79,103)	17,066,583	24,016,955	6,575	24,023,530
Total comprehensive income									
Profit for the period		-	-	-	-	7,420,763	7,420,763	1,956	7,422,719
Remeasurements of defined benefit liability, net of tax	19	-	-	-	-	(12,521)	(12,521)	-	(12,521)
Other comprehensive income from joint venture and associate, net of tax	11,22	-	-	-	(4,925)	-	(4,925)	-	(4,925)
Foreign currency translation differences for foreign operations, net of tax	22	-	-	-	(100,536)	-	(100,536)	(716)	(101,252)
Total comprehensive income		<u>-</u>	<u>-</u>	<u>-</u>	<u>(105,461)</u>	<u>7,408,242</u>	<u>7,302,781</u>	<u>1,240</u>	<u>7,304,021</u>
Transactions with owners of the Parent Company									
Dividends paid	23	-	-	-	-	(423,601)	(423,601)	-	(423,601)
Share-based payment transaction	33	-	-	548	-	-	548	-	548
Transactions with owners of the Parent Company		<u>-</u>	<u>-</u>	<u>548</u>	<u>-</u>	<u>(423,601)</u>	<u>(423,053)</u>	<u>-</u>	<u>(423,053)</u>
Balance at September 30, 2017		₩ <u>3,657,652</u>	<u>4,143,736</u>	<u>(771,365)</u>	<u>(184,564)</u>	<u>24,051,224</u>	<u>30,896,683</u>	<u>7,815</u>	<u>30,904,498</u>

See accompanying notes to the condensed consolidated interim financial statements.

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

(In millions of won)

	<u>Note</u>	<u>2017</u>	<u>2016</u>
Cash flows from operating activities			
Cash generated from operating activities	32 ₩	10,572,132	4,512,315
Interest received		22,329	36,356
Interest paid		(92,061)	(97,338)
Dividends received		14,841	20,744
Income tax paid		(613,161)	(902,918)
Net cash provided by operating activities		<u>9,904,080</u>	<u>3,569,159</u>
Cash flows from investing activities			
Net change in short-term financial instruments		(1,658,146)	1,252,100
Collection of loans and other receivables		14,171	10,590
Increase in loans and other receivables		(17,568)	(10,376)
Proceeds from disposal of available-for-sale financial assets		1,916	2,294
Acquisition of available-for-sale financial assets		(21,798)	(16,323)
Decrease in other financial assets		1	-
Increase in other financial assets		(168)	-
Cash inflows from derivative transactions		902	876
Cash outflows from derivative transactions		(1,201)	(1,218)
Proceeds from disposal of property, plant and equipment		221,136	109,806
Acquisition of property, plant and equipment		(6,852,671)	(4,600,747)
Proceeds from disposal of intangible assets		985	1,577
Acquisition of intangible assets		(622,245)	(375,594)
Acquisition of investments in associates		(113,960)	(2,293)
Net cash used in investing activities	₩	<u>(9,048,646)</u>	<u>(3,629,309)</u>

See accompanying notes to the condensed consolidated interim financial statements.

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

(In millions of won)

	2017	2016
Cash flows from financing activities		
Proceeds from borrowings	₩ 752,944	2,081,562
Repayments of borrowings	(691,642)	(1,593,315)
Dividends paid	(423,601)	(353,001)
Net cash provided by (used in) financing activities	<u>(362,299)</u>	<u>135,246</u>
Effect of movements in exchange rates on cash and cash equivalents	<u>16,198</u>	<u>(36,112)</u>
Net increase in cash and cash equivalents	509,333	38,984
Cash and cash equivalents at beginning of the period	613,786	1,175,719
Cash and cash equivalents at end of the period	₩ <u><u>1,123,119</u></u>	<u><u>1,214,703</u></u>

See accompanying notes to the condensed consolidated interim financial statements.

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

1. Reporting Entity

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

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

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

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

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

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

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

1. Reporting Entity, Continued

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

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

¹ SK hynix system ic Inc. was established during the nine-month period ended September 30, 2017.

² Subsidiary of SK hynix Asia Pte. Ltd.

³ Subsidiary of SK APTECH Ltd.

(3) Changes in consolidated subsidiaries for the nine-month period ended September 30, 2017 are as follows.

Company	Reason
Newly included	SK hynix system ic Inc. Newly established

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

1. Reporting Entity, Continued

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

(In millions of won)

	2017			2016		
	Assets	Liabilities	Equity	Assets	Liabilities	Equity
SK hynix America Inc. (SKHYA)	₩ 2,501,072	2,141,640	359,432	1,584,043	1,279,493	304,550
SK hynix Asia Pte. Ltd. (SKHYS)	680,548	599,452	81,096	337,506	253,918	83,588
SK hynix Semiconductor Hong Kong Ltd. (SKHYH)	1,242,854	1,116,148	126,706	932,437	810,556	121,881
SK hynix Japan Inc. (SKHYJ)	466,423	401,017	65,406	251,274	184,504	66,770
SK hynix Semiconductor Taiwan Inc. (SKHYT)	446,892	445,230	1,662	310,933	290,174	20,759
SK hynix Semiconductor (China) Ltd. (SKHYCL)	3,504,997	222,895	3,282,102	3,476,086	232,117	3,243,969
SK hynix Deutschland GmbH (SKHYD)	101,859	59,734	42,125	83,388	45,575	37,813
SK hynix U.K. Ltd. (SKHYU)	317,106	302,537	14,569	146,327	128,807	17,520
SK hynix Semiconductor (Chongqing) Ltd. (SKHYCQL)	373,330	180,267	193,063	350,305	171,088	179,217

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

(In millions of won)

	2017			2016		
	Revenue	Profit (loss)	Total comprehensive income (loss)	Revenue	Profit (loss)	Total comprehensive income (loss)
SK hynix America Inc. (SKHYA)	7,616,352	69,963	69,963	3,446,475	24,221	24,221
SK hynix Asia Pte. Ltd. (SKHYS)	1,895,313	1,743	1,743	1,089,957	2,718	2,718
SK hynix Semiconductor Hong Kong Ltd. (SKHYH)	6,656,870	11,850	11,850	3,845,154	18,530	18,530
SK hynix Japan Inc. (SKHYJ)	666,189	(307)	(307)	518,388	(2,200)	(2,200)
SK hynix Semiconductor Taiwan Inc. (SKHYT)	1,930,326	(16,551)	(16,551)	1,290,825	546	546
SK hynix Semiconductor (China) Ltd. (SKHYCL)	1,630,954	53,631	53,631	1,611,836	79,377	79,377
SK hynix Deutschland GmbH (SKHYD)	356,401	1,718	1,718	225,617	355	355
SK hynix U.K. Ltd. (SKHYU)	779,432	(2,040)	(2,040)	368,620	3,371	3,371
SK hynix Semiconductor (Chongqing) Ltd. (SKHYCQL)	254,625	14,375	14,375	218,002	4,917	4,917

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

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

2. Basis of Preparation

(1) Statement of compliance

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

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

(2) Use of estimates and judgments

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

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

3. Significant Accounting Policies

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

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
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4. Geographic, Product and Customer Information

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

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

(In millions of won)

	2017		2016	
	Three-month period	Nine-month period	Three-month period	Nine-month period
Sale of goods	₩ 8,077,799	21,028,014	4,232,760	11,806,569
Sale of services	22,286	53,867	10,885	33,720
	₩ <u>8,100,085</u>	<u>21,081,881</u>	<u>4,243,645</u>	<u>11,840,289</u>

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

(In millions of won)

	2017		2016	
	Three-month period	Nine-month period	Three-month period	Nine-month period
DRAM	₩ 6,262,013	15,996,044	2,918,998	8,478,980
NAND Flash	1,683,190	4,678,746	1,191,994	2,997,327
Other	154,882	407,091	132,653	363,982
	₩ <u>8,100,085</u>	<u>21,081,881</u>	<u>4,243,645</u>	<u>11,840,289</u>

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

(In millions of won)

	2017		2016	
	Three-month period	Nine-month period	Three-month period	Nine-month period
Korea	₩ 272,769	907,950	263,559	812,892
China	2,559,772	6,977,013	1,426,879	4,107,324
Taiwan	662,243	1,928,781	420,706	1,282,725
Asia (other than China and Taiwan)	1,021,771	2,558,695	559,272	1,603,337
U.S.A.	3,161,812	7,575,610	1,384,577	3,442,420
Europe	421,718	1,133,832	188,652	591,591
	₩ <u>8,100,085</u>	<u>21,081,881</u>	<u>4,243,645</u>	<u>11,840,289</u>

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4. Geographic, Product and Customer Information, Continued

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

<i>(In millions of won)</i>		2017	2016
Korea	₩	21,702,767	18,078,337
China		2,858,151	2,805,712
Taiwan		5,849	6,835
Asia (other than China and Taiwan)		1,261	1,522
U.S.A.		338,449	364,188
Europe		9,160	9,374
	₩	<u>24,915,637</u>	<u>21,265,968</u>

(5) Revenues from customers "A" and "B" that each constitute more than 10% of the Group's consolidated revenue for the nine-month period ended September 30, 2017 amount to ₩2,707,017 million (2016: ₩1,189,485 million) and ₩2,580,512 million (2016: ₩1,061,999 million), respectively.

5. Categories of Financial Instruments

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

<i>(In millions of won)</i>		2017			
		Financial assets at fair value through profit or loss	Available-for- sale financial assets	Loans and receivables	Total
Cash and cash equivalents	₩	-	-	1,123,119	1,123,119
Short-term financial instruments		2,237,593	-	2,953,910	5,191,503
Trade receivables		-	-	5,260,576	5,260,576
Loans and other receivables		-	-	78,009	78,009
Other financial assets		-	-	595	595
Available-for-sale financial assets		-	55,378	-	55,378
	₩	<u>2,237,593</u>	<u>55,378</u>	<u>9,416,209</u>	<u>11,709,180</u>

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

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5. Categories of Financial Instruments, Continued

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

(In millions of won)

	2017		
	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Total
Trade payables	₩ -	745,056	745,056
Other payables	-	1,501,816	1,501,816
Other non-trade payables ¹	-	1,037,650	1,037,650
Borrowings	-	4,303,538	4,303,538
	₩ -	7,588,060	7,588,060

(In millions of won)

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

¹ Details of other non-trade payables as of September 30, 2017 and December 31, 2016 are as follows:

(In millions of won)

	2017	2016
Current		
Accrued expenses	₩ 1,034,172	685,154
Non-current		
Rent deposit payables	3,478	2,554
Long-term other payables	-	24,872
	₩ 3,478	27,426
	₩ 1,037,650	712,580

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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 nine-month period ended September 30, 2017.

(a) Market risk

(i) Foreign exchange risk

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

Monetary foreign currency assets and liabilities as of September 30, 2017 are as follows:

(In millions of won and millions of foreign currencies)

	Assets		Liabilities	
	Foreign currencies	Korean won equivalent	Foreign currencies	Korean won equivalent
USD	7,259	8,323,657	4,359	4,998,563
EUR	15	19,704	155	209,370
JPY	4,347	44,358	38,744	395,352

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

(In millions of won)

		<u>If increased by 10%</u>	<u>If decreased by 10%</u>
USD	₩	332,509	(332,509)
EUR		(18,967)	18,967
JPY		(35,099)	35,099

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6. Financial Risk Management, Continued

(1) Financial risk management, Continued

(ii) Interest rate risk

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

As of September 30, 2017, the Group is partially exposed to the risk of fluctuation of net interest expenses arisen from change in interest rates. If interest rates on borrowings had been 100 basis points higher/lower with all other variables held constant, profit before income tax for the next nine-month period would have been ₩5,475 million lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings and interest income on floating rate financial assets.

(iii) Price risk

As of September 30, 2017, there are no available-for-sale equity securities measured at fair value held by the Group. Accordingly, the Group is not exposed to any equity securities price risk.

(b) Credit risk

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

(i) Trade and other receivables

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

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

(ii) Other financial assets

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

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6. Financial Risk Management, Continued

(1) Financial risk management, Continued

(c) Liquidity risk

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

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

(2) Capital management

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

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

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

<i>(In millions of won)</i>	2017	2016
Total liabilities (A)	₩ 9,825,955	8,192,496
Total equity (B)	30,904,498	24,023,530
Cash and cash equivalents and short-term financial instruments (C)	6,314,622	4,135,679
Total borrowings (D)	4,303,538	4,335,978
Debt-to-equity ratio (A/B)	32%	34%
Net borrowing ratio (D-C)/B ¹	-	1%

¹ Does not present net borrowing ratio as of September 30, 2017 as the ratio was calculated as 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 September 30, 2017 and December 31, 2016:

(In millions of won)

	Carrying amounts	2017			Total
		Level 1	Level 2	Level 3	
Financial assets measured at fair value					
Short-term financial instruments	₩ 2,237,593	-	2,237,593	-	2,237,593
	<u>2,237,593</u>	<u>-</u>	<u>2,237,593</u>	<u>-</u>	<u>2,237,593</u>
Financial assets not measured at fair value					
Cash and cash equivalents ¹	1,123,119	-	-	-	-
Short-term financial instruments ¹	2,953,910	-	-	-	-
Trade receivables ¹	5,260,576	-	-	-	-
Loans and other receivables ¹	78,009	-	-	-	-
Other financial assets ¹	595	-	-	-	-
Available-for-sale financial assets ^{1,2}	55,378	-	-	-	-
	<u>9,471,587</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Financial liabilities not measured at fair value					
Trade payables ¹	745,056	-	-	-	-
Other payables ¹	1,501,816	-	-	-	-
Other non-trade payables ¹	1,037,650	-	-	-	-
Borrowings	4,303,538	-	4,319,311	-	4,319,311
	<u>₩ 7,588,060</u>	<u>-</u>	<u>4,319,311</u>	<u>-</u>	<u>4,319,311</u>

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6. Financial Risk Management, Continued

(In millions of won)

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

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

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

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

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

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7. Restricted Financial Instruments

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

<i>(In millions of won)</i>	2017	2016	Description
Short-term financial instruments	₩ 227,500	77,500	Restricted for supporting small businesses
	6,123	6,220	Pledged for consumption tax
	<u>233,623</u>	<u>83,720</u>	
Other financial assets	308	308	Pledged for borrowings
	11	12	Bank overdraft guarantee deposit
	276	104	Others
	<u>595</u>	<u>424</u>	
	₩ <u>234,218</u>	<u>84,144</u>	

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8. Trade Receivables and Loans and Other Receivables

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

<i>(In millions of won)</i>	2017	2016
Current		
Other receivables	₩ 9,343	11,571
Accrued income	21,388	9,732
Short-term loans	2,740	3,145
Short-term guarantee and other deposits	1,472	1,163
	<u>34,943</u>	<u>25,611</u>
Non-current		
Long-term other receivables	59	60
Long-term loans	10,019	6,008
Guarantee deposits	32,835	33,261
Long-term deposits	153	161
	<u>43,066</u>	<u>39,490</u>
	<u>₩ 78,009</u>	<u>65,101</u>

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

<i>(In millions of won)</i>	2017		
	Gross amount	Provision for impairment	Carrying amount
Trade receivables	₩ 5,262,433	(1,857)	5,260,576
Current loans and other receivables	36,344	(1,401)	34,943
Non-current loans and other receivables	44,494	(1,428)	43,066
	<u>₩ 5,343,271</u>	<u>(4,686)</u>	<u>5,338,585</u>
<i>(In millions of won)</i>	2016		
	Gross amount	Provision for impairment	Carrying amount
Trade receivables	₩ 3,253,489	(1,837)	3,251,652
Current loans and other receivables	26,982	(1,371)	25,611
Non-current loans and other receivables	40,966	(1,476)	39,490
	<u>₩ 3,321,437</u>	<u>(4,684)</u>	<u>3,316,753</u>

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8. Trade Receivables and Loans and Other Receivables, Continued

(3) Details of provision for impairment

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

(In millions of won)

	2017	2016
Beginning balance	₩ 1,837	2,974
Provision	240	-
Reversal	(238)	(1,282)
Foreign exchange difference	18	(23)
Ending balance	₩ 1,857	1,669

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

(In millions of won)

	2017	2016
Beginning balance	₩ 1,371	1,433
Reversal	(14)	(70)
Foreign exchange difference	44	-
Ending balance	₩ 1,401	1,363

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

(In millions of won)

	2017	2016
Beginning balance	₩ 1,476	6,143
Provision	53	51
Reversal	(3)	(27)
Foreign exchange difference	(98)	(95)
Ending balance	₩ 1,428	6,072

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9. Inventories

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

(In millions of won)

	2017		
	Acquisition cost	Inventory valuation allowance	Carrying amount
Finished goods	₩ 513,405	(98,447)	414,958
Work-in-process	1,568,168	(48,798)	1,519,370
Raw materials	350,909	(36,336)	314,573
Supplies	281,462	(7,053)	274,409
Goods in transit	34,093	-	34,093
	₩ 2,748,037	(190,634)	2,557,403

(In millions of won)

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

10. Other Current and Non-current Assets

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

(In millions of won)

	2017	2016
Current		
Advance payments	₩ 2,182	1,853
Prepaid expenses	223,074	238,831
Value added tax refundable	158,506	148,756
Others	4,939	9,913
	388,701	399,353
Non-current		
Long-term advance payments	150,000	-
Long-term prepaid expenses	549,041	568,907
Others	-	1,495
	699,041	570,402
	₩ 1,087,742	969,755

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11. Investments in Associates and Joint Ventures

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

(In millions of won)

Type	Investee	Ownership (%) in 2017	2017		2016
			Net asset value	Carrying amount	Carrying amount
Associate	Stratio, Inc. ¹	9.10	₩ 120	2,120	2,151
	SK China Company Limited ^{1,2}	11.87	206,095	258,775	-
	Gemini Partners Pte. Ltd.	20.00	2,983	4,678	5,199
	TCL Fund ¹	11.06	2,216	2,216	2,219
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd. (HITECH)	45.00	108,670	108,670	121,447
			₩	376,459	131,016

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 accounted for using the equity method.

² The Group acquired shares of SK China through a combination of investment-in-kind of available-for-sale financial assets and cash amounting to ₩113,960 million during the nine-month period ended September 30, 2017.

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

(In millions of won)

		2017					Ending balance
		Beginning balance	Acquisition	Share of profit (loss)	Other equity movement	Dividend	
Stratio, Inc.	₩	2,151	-	(23)	(8)	-	2,120
SK China		-	257,169	-	1,607	-	258,776
Gemini Partners Pte. Ltd.		5,199	-	(552)	31	-	4,678
TCL Fund		2,219	-	9	(12)	-	2,216
HITECH		121,447	-	8,593	(6,543)	(14,828)	108,669
	₩	131,016	257,169	8,027	(4,925)	(14,828)	376,459

(In millions of won)

		2016					Ending balance
		Beginning balance	Acquisition	Share of profit (loss)	Other equity movement	Dividend	
Stratio, Inc.	₩	2,171	-	(24)	(11)	-	2,136
Gemini Partners Pte. Ltd.		7,976	-	(2,360)	(19)	-	5,597
TCL Fund		-	2,293	(8)	(243)	-	2,042
HITECH		112,462	-	18,992	(6,846)	(20,726)	103,882
	₩	122,609	2,293	16,600	(7,119)	(20,726)	113,657

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11. Investments in Associates and Joint Ventures, Continued

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

	2017			
	Current assets	Non-current assets	Current liabilities	Non-current liabilities
Stratio, Inc.	₩ 1,131	187	1	-
SK China	870,013	1,000,577	58,601	75,148
Gemini Partners Pte. Ltd.	10,706	4,289	81	-
TCL Fund	3,220	16,805	-	-
HITECH	218,608	356,967	95,761	238,324

(In millions of won)

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

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

	2017		2016	
	Revenue	Profit (loss) for the period	Revenue	Profit (loss) for the period
Stratio, Inc.	₩ 30	(245)	4	(23)
SK China ¹	-	-	-	-
Gemini Partners Pte. Ltd.	-	(1,486)	-	(3,106)
TCL Fund	-	(58)	-	(76)
HITECH	443,803	20,735	426,948	42,221

¹ Condensed statements of comprehensive income (loss) after the date of acquisition on SK China.

12. Available-for-sale Financial Assets

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

	2017	2016
Beginning balance	₩ 147,779	131,354
Acquisition	21,798	16,077
Disposal ¹	(114,180)	(2,294)
Foreign exchange difference	(19)	-
Ending balance	₩ 55,378	145,137

¹ The Group acquired shares in SK China Company Limited (SK China) through a combination of investment-in-kind of available-for-sale financial assets (SKY Property Mgmt. Ltd.) with the book value of ₩112,360 million on the date of disposal and cash amounting to ₩113,960 million. The Group recognized a gain on disposal of available-for-sale financial assets amounted to ₩30,848 million during the nine-month period ended September 30, 2017.

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13. Property, Plant and Equipment

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

<i>(In millions of won)</i>	2017	2016
Beginning balance	₩ 18,777,402	16,966,252
Acquisition	6,821,718	4,354,917
Disposal	(198,041)	(114,131)
Depreciation	(3,408,687)	(3,065,877)
Impairment	-	(3,746)
Foreign exchange difference and other	(15,234)	(248,832)
Ending balance	₩ 21,977,158	17,888,583

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

(3) Finance lease and operating lease

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

The book value of the machinery and others subject to finance lease agreement amounted to ₩78,868 million as of September 30, 2017 (as of December 31, 2016: ₩67,245 million). The machinery and others are pledged as collateral for the finance lease liabilities.

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

<i>(In millions of won)</i>	Minimum lease payments
Within 1 year	₩ 186,849
After 1 year	234,680
	₩ 421,529

14. Intangible Assets

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

<i>(In millions of won)</i>	2017	2016
Beginning balance	₩ 1,915,591	1,704,896
Acquisition	622,245	375,875
Disposal	(4,911)	(4,992)
Amortization	(279,087)	(247,027)
Impairment	(47)	(63)
Foreign exchange difference and other	(16,847)	(23,023)
Ending balance	₩ 2,236,944	1,805,666

(2) Among costs associated with development activities, ₩11,424 million that met capitalization criteria were capitalized as development cost for the nine-month period ended September 30, 2017 (2016: ₩253,286 million). In addition, costs associated with research activities and other development expenditures that did not meet the criteria and amounted to ₩1,389,797 million were recognized as expenses for the nine-month period ended September 30, 2017 (2016: ₩1,279,160 million).

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15. Investment Property

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

<i>(In millions of won)</i>	2017	2016
Beginning balance	₩ 2,573	2,679
Depreciation	(79)	(79)
Ending balance	₩ 2,494	2,600

¹ Transferred to property, plant and equipment for the nine-month periods ended September 30, 2016.

(2) The depreciation expense of ₩79 million was charged to cost of sales for the nine-month period ended September 30, 2017 (2016: ₩79 million).

(3) Rental income from investment property during the nine-month period ended September 30, 2017 was ₩372 million (2016: ₩376 million).

16. Borrowings

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

<i>(In millions of won)</i>	2017	2016
Current		
Short-term borrowings	₩ 183,302	-
Current installments of long-term borrowings	300,012	384,124
Current installments of debentures	149,837	320,736
	633,151	704,860
Non-current		
Long-term borrowings	2,283,630	2,095,737
Debentures	1,386,757	1,535,381
	3,670,387	3,631,118
	₩ 4,303,538	4,335,978

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

<i>(In millions of won)</i>	2017	2016
Beginning balance	₩ 4,335,978	3,818,595
Borrowings	752,944	2,081,562
Repayments	(691,642)	(1,593,315)
Other ¹	(93,742)	(158,071)
Ending balance	₩ 4,303,538	4,148,771

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

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17. Other Current and Non-current Liabilities

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

<i>(In millions of won)</i>	2017	2016
Current		
Advance receipts	₩ 7,219	3,781
Unearned income	118	228
Withholdings	29,795	42,622
Deposits received	951	1,539
Others	3,527	2,328
	<u>41,610</u>	<u>50,498</u>
Non-current		
Other long-term employee benefits	62,533	61,883
	<u>₩ 104,143</u>	<u>112,381</u>

18. Provisions

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

<i>(In millions of won)</i>		2017				
	Beginning					Ending
	Balance	Increase	Utilization	Reversal		Balance
Warranty	₩ 2,997	1,803	(809)	-		3,991
Sales returns	13,317	88,543	(73,382)	-		28,478
Legal claims	400	4,391	-	(400)		4,391
Emission allowances	26,108	4,349	(695)	-		29,762
	<u>₩ 42,822</u>	<u>99,086</u>	<u>(74,886)</u>	<u>(400)</u>		<u>66,622</u>

<i>(In millions of won)</i>		2016				
	Beginning					Ending
	balance	Increase	Utilization	Reversal		Balance
Warranty	₩ 2,936	21,382	(21,130)	-		3,188
Sales returns	14,736	19,478	(22,735)	-		11,479
Legal claims	1,523	-	(1,097)	(426)		-
Emission allowances	6,081	14,016	(1,339)	-		18,758
	<u>₩ 25,276</u>	<u>54,876</u>	<u>(46,301)</u>	<u>(426)</u>		<u>33,425</u>

(2) Provisions for warranty

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

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18. Provisions, Continued

(3) Provisions for sales returns

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

(4) Provisions for legal claims

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

(5) Provision for emission allowances

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

19. Defined Benefit Liabilities

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

<i>(In millions of won)</i>	2017	2016
Present value of defined benefit obligations	₩ 1,319,330	1,195,047
Fair value of plan assets	(877,716)	(888,559)
	₩ 441,614	306,488

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

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

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

<i>(In millions of won)</i>	2017	2016
Beginning balance	₩ 1,195,047	1,055,340
Current service cost	114,084	111,909
Interest cost	35,191	31,151
Transferred from (to) associates	331	(2,098)
Benefits paid	(25,337)	(23,885)
Others	14	41
Ending balance	₩ 1,319,330	1,172,458

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19. Defined Benefit Liabilities, Continued

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

(In millions of won)

	2017	2016
Beginning balance	₩ 888,559	570,363
Interest income	26,192	16,765
Contributions	-	120
Transferred from associates	334	(1,197)
Benefits paid	(24,848)	(15,644)
Remeasurements	(12,521)	(6,436)
Ending balance	<u>₩ 877,716</u>	<u>563,971</u>

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

(In millions of won)

	2017		2016	
	Three-month period	Nine-month period	Three-month period	Nine-month period
Current service cost	₩ 38,453	114,084	35,643	111,909
Net interest cost	2,958	8,999	4,796	14,386
	<u>₩ 41,411</u>	<u>123,083</u>	<u>40,439</u>	<u>126,295</u>

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

(In millions of won)

	2017	2016
Deposits	₩ 876,344	887,074
Other	1,372	1,485
	<u>₩ 877,716</u>	<u>888,559</u>

Actual return on plan assets for the Nine-month periods ended September 30, 2017 and 2016 amounted to ₩13,671 million and ₩10,330 million, respectively.

(7) The Group adopted defined contribution retirement pension for the employees subject to peak wage system. Contributions to defined contribution plans amounting to ₩48 million was recognized as cost of sales for the nine-month period ended September 30, 2017.

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20. Derivative Financial Instruments

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

(In millions of won)

		<u>2017</u>	<u>2016</u>
Non-current			
Interest rates swap	₩	-	288

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

(In millions of won)

		Gain on valuation			
		<u>2017</u>		<u>2016</u>	
		<u>Three-month period</u>	<u>Nine-month period</u>	<u>Three-month period</u>	<u>Nine-month period</u>
Interest rates swap	₩	(188)	-	128	248

(In millions of won)

		Loss on valuation			
		<u>2017</u>		<u>2016</u>	
		<u>Three-month period</u>	<u>Nine-month period</u>	<u>Three-month period</u>	<u>Nine-month period</u>
Interest rates swap	₩	-	-	-	-

(In millions of won)

		Gain on transaction			
		<u>2017</u>		<u>2016</u>	
		<u>Three-month period</u>	<u>Nine-month period</u>	<u>Three-month period</u>	<u>Nine-month period</u>
Interest rates swap	₩	492	902	292	876

(In millions of won)

		Loss on transaction			
		<u>2017</u>		<u>2016</u>	
		<u>Three-month period</u>	<u>Nine-month period</u>	<u>Three-month period</u>	<u>Nine-month period</u>
Interest rates swap	₩	304	913	406	1,218

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21. Capital Stock, Capital Surplus and Other Equity

(1) The Parent Company's outstanding share capital consists entirely of common stocks with a par value of ₩ 5,000. Details of capital stock, capital surplus and other equity as of September 30, 2017 and December 31, 2016 are as follows:

<i>(In millions of won and thousands of shares)</i>	2017	2016
Authorized shares	9,000,000	9,000,000
Issued shares ¹	731,530	731,530
Capital stock:		
Common stock	₩ 3,657,652	3,657,652
Capital surplus:		
Additional paid-in capital	3,625,797	3,625,797
Others	517,939	517,939
	₩ <u>4,143,736</u>	<u>4,143,736</u>
Other equity:		
Acquisition cost of treasury shares	₩ (771,913)	(771,913)
Stock option	548	-
	₩ <u>(771,365)</u>	<u>(771,913)</u>
Number of treasury shares	<u>22,001</u>	<u>22,001</u>

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

(2) There are no changes in number of outstanding shares for the nine-month period ended September 30, 2017 and for the year ended December 31, 2016 are as follows:

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22. Accumulated Other Comprehensive Loss

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

<i>(In millions of won)</i>	2017	2016
Equity-accounted investees – share of other comprehensive income	₩ 1,019	5,944
Foreign operations – foreign currency translation differences	(185,583)	(85,047)
	<u>₩ (184,564)</u>	<u>(79,103)</u>

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

<i>(In millions of won)</i>	2017		
	Beginning	Change	Ending
Equity-accounted investees – share of other comprehensive income	₩ 5,944	(4,925)	1,019
Foreign operations – foreign currency translation differences	(85,047)	(100,536)	(185,583)
	<u>₩ (79,103)</u>	<u>(105,461)</u>	<u>(184,564)</u>

<i>(In millions of won)</i>	2016		
	Beginning	Change	Ending
Equity-accounted investees – share of other comprehensive loss	₩ 1,856	(7,119)	(5,263)
Foreign operations – foreign currency translation differences	(3,456)	(346,782)	(350,238)
	<u>₩ (1,600)</u>	<u>(353,901)</u>	<u>(355,501)</u>

23. Retained Earnings

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

<i>(In millions of won)</i>	2017	2016
Legal reserve ¹	₩ 108,354	65,994
Discretionary reserve ²	235,506	235,506
Unappropriated retained earnings ³	23,707,364	16,765,083
	<u>₩ 24,051,224</u>	<u>17,066,583</u>

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

² Discretionary reserve represents reserve for technology development.

³ Dividends in the amount of ₩423,601 million were approved at shareholders' meeting held on March 24, 2017 and paid during the nine-month period ended September 30, 2017.

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24. Selling and Administrative Expenses

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

(In millions of won)

	2017		2016	
	Three-month period	Nine-month period	Three-month period	Nine-month period
Salaries	₩ 124,651	345,671	90,069	245,218
Defined benefit plan	6,669	19,956	4,507	20,762
Employee benefits	21,311	62,195	20,841	64,037
Commission	56,878	170,160	55,039	166,152
Depreciation	24,174	70,119	19,232	60,505
Amortization	104,897	237,846	49,904	217,758
Freight and custody charge	9,780	28,111	7,732	23,357
Legal cost	8,638	25,380	1,059	4,687
Rental	3,186	10,398	3,529	10,991
Taxes and dues	4,518	11,946	4,083	14,595
Training	7,103	17,364	3,254	13,544
Advertising	15,178	36,557	14,663	30,652
Supplies	18,097	50,133	17,990	40,445
Repair	13,796	20,412	1,453	4,616
Travel and transportation	3,063	8,262	2,676	7,918
Sales repair	190	1,803	6,820	21,382
Sales promotion	11,887	41,710	8,748	29,309
Other	7,899	36,786	6,245	25,517
	<u>441,915</u>	<u>1,194,809</u>	<u>317,844</u>	<u>1,001,445</u>
Research and development:				
Expenditure on research and development	638,639	1,801,221	500,453	1,532,446
Development cost capitalized	(115,819)	(411,424)	(92,896)	(253,286)
	<u>522,820</u>	<u>1,389,797</u>	<u>407,557</u>	<u>1,279,160</u>
	<u>₩ 964,735</u>	<u>2,584,606</u>	<u>725,401</u>	<u>2,280,605</u>

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25. Expenses by Nature

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

(In millions of won)

	2017		2016	
	Three-month period	Nine-month period	Three-month period	Nine-month period
Changes in finished goods and work-in-process	₩ (37,666)	(412,332)	6,109	(50,421)
Raw materials and consumables	1,028,672	2,987,097	872,864	2,442,437
Labor costs	802,729	2,250,107	594,401	1,637,241
Depreciation and amortization	1,281,172	3,598,274	1,093,283	3,271,920
Royalty	55,946	163,691	57,159	172,607
Commission	333,726	889,567	254,818	721,569
Utilities	251,763	696,641	216,922	619,399
Repair	254,047	665,520	158,889	434,068
Outsourcing	228,046	662,541	190,801	565,456
Others	164,457	325,283	72,443	285,406
Total ¹	₩ <u>4,362,892</u>	<u>11,826,389</u>	<u>3,517,689</u>	<u>10,099,682</u>

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

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26. Finance Income and Expense

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

(In millions of won)

	2017		2016	
	Three-month period	Nine-month period	Three-month period	Nine-month period
Finance income				
Interest income	₩ 14,632	33,983	6,987	26,185
Dividend income	-	13	-	18
Foreign exchange differences	202,297	672,703	225,988	584,337
Gain from derivative instruments	304	902	420	1,124
Gain on valuation of financial assets at fair value through profit or loss	1,201	2,937	-	690
Gain on disposal of financial assets at fair value through profit or loss	3,366	8,627	2,267	11,532
Gain on disposal of available-for-sale financial assets	30,945	30,945	-	-
	<u>252,745</u>	<u>750,110</u>	<u>235,662</u>	<u>623,886</u>
Finance expense				
Interest expenses	32,304	96,330	32,095	96,836
Foreign exchange differences	126,927	642,441	210,473	592,097
Loss from derivative instruments	304	913	406	1,218
Loss on valuation of financial assets at fair value through profit or loss	-	-	242	-
Loss on disposal of available-for-sale financial assets	1	1	-	-
	<u>159,536</u>	<u>739,685</u>	<u>243,216</u>	<u>690,151</u>
Net finance income (expense)	₩ <u>93,209</u>	<u>10,425</u>	<u>(7,554)</u>	<u>(66,265)</u>

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27. Other Income and Expenses

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

(In millions of won)

	2017		2016	
	Three-month period	Nine-month period	Three-month period	Nine-month period
Gain on disposal of property, plant and equipment	₩ 19,890	29,379	2,084	4,263
Others	4,582	33,316	8,785	20,606
	₩ 24,472	62,695	10,869	24,869

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

(In millions of won)

	2017		2016	
	Three-month period	Nine-month period	Three-month period	Nine-month period
Loss on disposal of property, plant and equipment	₩ 954	6,284	906	5,765
Loss on disposal of intangible assets	730	3,926	1,719	3,415
Loss on disposal of trade receivables	1,776	5,401	904	1,521
Donation	3,843	25,179	20,793	24,897
Loss on impairment of property, plant and equipment	-	-	-	3,746
Loss on impairment of intangible assets	47	47	26	63
Other	8,192	13,483	3,178	31,042
	₩ 15,542	54,320	27,526	70,449

28. Income Tax Expense

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

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29. Earnings per Share

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

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

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

	2017		2016	
	Three-month period	Nine-month period	Three-month period	Nine-month period
Profit attributable to ordinary shareholders	₩ 3,054,248	7,420,763	596,774	1,327,109
Weighted average number of outstanding ordinary shares ¹	706,001,795	706,001,795	706,001,795	706,001,795
Basic earnings per share(in won)	₩ 4,326	10,511	845	1,880

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

(In shares)

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

(2) Diluted earnings per share for the three and nine-month periods ended September 30, 2017 and 2016 are as follows:

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

	2017		2016	
	Three-month period	Nine-month period	Three-month period	Nine-month period
Profit attributable to ordinary shareholders	₩ 3,054,248	7,420,763	596,774	1,327,109
Weighted average number of diluted outstanding ordinary shares ¹	706,046,520	706,010,823	706,001,795	706,001,795
Diluted earnings per share (in won)	₩ 4,326	10,511	845	1,880

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

(In shares)

	2017		2016	
	Three-month period	Nine-month period	Three-month period	Nine-month period
Weighted average number of outstanding ordinary shares	706,001,795	706,001,795	706,001,795	706,001,795
Stock options	44,725	9,028	-	-
Weighted average number of diluted outstanding ordinary shares	706,046,520	706,010,823	706,001,795	706,001,795

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30. Related Party Transactions

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

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

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

(In millions of won)

		For the three-month period ended September 30, 2017			
Company	Operating revenue and others	Operating expense and others	Asset acquisition	Dividend income	
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	₩ 289	153,585	-	-
Other related parties	SK Telecom Co., Ltd. ¹	11	2,053	16,740	-
	SK Holdings Co., Ltd. ²	278	44,501	21,825	-
	ESSEN CORE Limited	189,653	-	-	-
	SK Engineering & Construction Co., Ltd.	6,870	125	307,022	-
	SK Energy Co., Ltd.	1,236	8,813	-	-
	SK Networks Co., Ltd.	-	1,102	-	-
	SKC solmics Co., Ltd.	-	5,098	168	-
	Chungcheong energy service Co., Ltd.	-	1,600	-	-
	Happynarae Co., Ltd.	8	128,171	11,011	-
	SK Materials Co., Ltd.	3	14,033	-	-
SK Siltron Co., Ltd.	583	28,610	-	-	
Others	163	45,226	2,818	-	
	₩ 199,094	432,917	359,584	-	

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30. Related Party Transactions, Continued

(In millions of won)

For the nine-month period ended September 30, 2017

	Company	Operating revenue and others	Operating expense and others	Asset acquisition	Dividend income
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	₩ 5,755	442,061	-	14,828
Other related parties	SK Telecom Co., Ltd. ¹	224	93,875	22,286	-
	SK Holdings Co., Ltd. ²	730	124,697	100,347	-
	ESSEN CORE Limited	537,469	-	-	-
	SK Engineering & Construction Co., Ltd.	15,559	351	641,325	-
	SK Energy Co., Ltd.	3,723	42,132	-	-
	SK Networks Co., Ltd.	-	3,090	-	-
	SKC solmics Co., Ltd.	-	25,493	744	-
	Chungcheong energy service Co., Ltd.	-	11,921	10	-
	Happynarae Co., Ltd.	26	314,324	23,913	-
	SK Materials Co., Ltd.	3	36,981	-	-
	SK Siltron Co., Ltd.	583	28,610	-	-
	Others	590	122,247	17,620	-
		<u>₩ 564,662</u>	<u>1,245,782</u>	<u>806,245</u>	<u>14,828</u>

¹ Operating expense and others include dividends of ₩87,660 million

² The Group entered into a contract with SK Holdings Co., Ltd. under which the Group pays royalty for the use of SK brand in proportion to sales amount. For the nine-month period ended September 30, 2017, royalty on the use of the SK brand amounted to ₩26,180 million.

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30. Related Party Transactions, Continued

(In millions of won)

For the three-month period ended September 30, 2016

	Company	Operating revenue and others	Operating expense and others	Asset acquisition	Dividend income
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	₩ 127	135,902	-	-
Other related parties	SK Telecom Co., Ltd. ¹	9	1,974	5,569	-
	SK Holdings Co., Ltd. ²	163	32,856	30,610	-
	ESSENCORE Limited	146,720	-	-	-
	SK Engineering & Construction Co., Ltd.	219	816	59,371	-
	SK Energy Co., Ltd.	1,083	5,973	-	-
	SK Networks Co., Ltd.	-	1,061	-	-
	SKC solmics Co., Ltd.	-	8,804	86	-
	Chungcheong energy service Co., Ltd.	-	1,540	-	-
	HAPPYNARAE Co., Ltd.	12	58,545	4,593	-
	SK Materials Co., Ltd.	-	11,335	-	-
	Others	134	31,291	1,235	-
		<u>₩ 148,467</u>	<u>290,097</u>	<u>101,464</u>	<u>-</u>

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

(In millions of won)

For the nine-month period ended September 30, 2016

	Company	Operating revenue and others	Operating expense and others	Asset acquisition	Dividend income
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	₩ 416	427,099	17,864	20,726
Other related parties	SK Telecom Co., Ltd. ¹	216	78,816	9,824	-
	SK Holdings Co., Ltd. ²	672	88,005	106,054	-
	ESSENCORE Limited	383,413	-	-	-
	SK Engineering & Construction Co., Ltd.	452	21,253	188,758	-
	SK Energy Co., Ltd.	3,501	37,388	-	-
	SK Networks Co., Ltd.	-	3,117	-	-
	SKC solmics Co., Ltd.	-	24,298	253	-
	Chungcheong energy service Co., Ltd.	-	12,804	-	-
	HAPPYNARAE Co., Ltd.	22	105,220	7,303	-
	SK Materials Co., Ltd.	-	32,601	-	-
	Others	312	84,785	14,020	-
		<u>₩ 389,004</u>	<u>915,386</u>	<u>344,076</u>	<u>20,726</u>

¹ Operating expense and others include dividends of ₩73,050 million

² The Group entered into a contract with SK Holdings Co., Ltd. under which the Group pays royalty for the use of SK brand in proportion to sales amount. For the nine-month period ended September 30, 2016, royalty on the use of the SK brand amounted to ₩28,415 million.

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30. Related Party Transactions, Continued

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

(In millions of won)

		2017		
	Company	Trade receivables and others	Other payables and others	
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	₩ 266	106,331	
Other related parties	SK Telecom Co., Ltd.	-	4,633	
	SK Holdings Co., Ltd.	5,533	95,129	
	ESSENCORE Limited	59,974		
	SK Engineering & Construction Co., Ltd.	111	329,123	
	SK Energy Co., Ltd.	441	2,734	
	SK Networks Co., Ltd.	-	358	
	SKC solmics Co., Ltd.	-	2,892	
	Chungcheong energy service Co., Ltd.	-	542	
	Happynarae Co., Ltd.	3	32,220	
	SK Materials Co., Ltd.	3	12,550	
	SK Siltron Co., Ltd. ¹	150,329	20,312	
	Others	80	45,367	
			₩ <u>216,740</u>	<u>652,191</u>

¹ The Group has entered into a procurement agreement with SK Siltron Co., Ltd. from 2019 to 2023 for stable supply of wafer with an advanced payment of ₩150,000 million for the nine-month period ended September 30, 2017. In addition, SK Siltron Co., Ltd has pledged its properties as collateral for the advanced payment of ₩150,000 million received from the Group.

(In millions of won)

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

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

(4) Key management compensation

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

(In millions of won)

Details	2017		2016	
	Three-month period	Nine-month period	Three-month period	Nine-month period
Salaries	₩ 32,418	79,001	15,794	39,730
Defined benefit plan	2,167	6,621	2,059	6,176
Share-based payment	263	548	-	-
Others	3	9	3	10
	₩ 34,851	86,179	17,856	45,916

(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 September 30, 2017 and 2016 are as follows. These entities are not related parties according to K-IFRS No. 1024, 'Related Party Disclosures'.

(In millions of won)

Company	2017				
	Operating revenue		Operating expense		
	Three-month period	Nine-month period	Three-month period	Nine-month period	
Companies in the Conglomerate	₩	-	-	310	870

(In millions of won)

Company	2016				
	Operating revenue		Operating expense		
	Three-month period	Nine-month period	Three-month period	Nine-month period	
Companies in the Conglomerate	₩	-	-	92	140

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30. Related Party Transactions, Continued

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

<i>(In millions of won)</i>		2017		
Company		Trade receivables and others		Payables and others
Companies in the Conglomerate	SK Chemicals Co., Ltd.	₩	-	314
<i>(In millions of won)</i>		2016		
Company		Trade receivables and others		Payables and others
Companies in the Conglomerate	SK Chemicals Co., Ltd.	₩	-	183

31. Commitments and Contingencies

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

(a) Lawsuit from Netlist, Inc.

Netlist, Inc. filed a lawsuit against SK hynix, the Parent Company and others, which are subsidiaries of the Parent Company alleging infringement of multiple patents to U.S. District Court for the Central District of California, on August 31, 2016 and June 14, 2017, to the U.S. International Trade Commission on September 1, 2016 and October 31, 2017 and to German District Court of Munich and Beijing Intellectual Property Court, respectively, on July 11, 2017. As of September 30, 2017, the patent infringement lawsuit filed by Netlist, Inc. in the U.S. has not been finalized and the final result cannot be predicted.

(b) Other patent infringement claims and litigation

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

(2) Technology and patent license agreements

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

(3) Contract for supply of industrial water

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

(4) Post-process service contract with HITECH

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

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31. Commitments and Contingencies, Continued

(5) Assets provided as collateral

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

<i>(In millions of won)</i>	Book value	Pledged amount	Remark
Land	₩ 19,118		
Buildings	55,546	1,451,861	Borrowings for equipment and others
Machinery	1,194,238		
	₩ <u>1,268,902</u>	<u>1,451,861</u>	

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

(6) Financing agreements

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

<i>(In millions of won and millions of foreign currencies)</i>	Financial Institution	Commitment	Currency	Amount
The Parent Company	KEB Hana Bank and others	Import finance including usance	USD	265
		Export finance including bills bought	USD	250
		Comprehensive limit contract for import and export	USD	960
SK hynix Semiconductor (China) Ltd. (SKHYCL)	Agricultural Bank of China and others	Import finance including usance	RMB	1,300
			USD	232
SK hynix America Inc. (SKHYA) and other sales entities	Citibank and others	Accounts receivable factoring contracts which have no right to recourse	USD	500
Domestic subsidiaries	KEB Hana Bank and others	Export finance including bills bought	KRW	500
		Finance secured by accounts receivable	KRW	10,000
		Agency agreement for payment of goods received	KRW	15,000

(7) Details of guarantees provided to others as of September 30, 2017 are as follows:

<i>(In millions of won)</i>	Amount	Remark
Employees	₩ 8	Guarantees for employees' borrowings relating to employee stock ownership

(8) Capital commitments

As of September 30, 2017, the Group has ₩968,985 million (as of December 31, 2016: ₩293,730 million) of commitments in relation to the capital expenditures on property, plant and equipment.

(9) Equity investment in Toshiba semiconductor business

Based on the resolution in the Company's Board of Directors on September 27, 2017, the Group has decided to invest JPY 266,000 million in BCPE Pangea Intermediate Holdings Cayman, LP and acquire convertible bonds of JPY 129,000 million issued by BCPE Pangea Cayman 2 Limited, by participating in a consortium including Bain Capital ("Bain Consortium") in connection with the investment in Toshiba's semiconductor business. The agreements between Bain Consortium and Toshiba including the investment and acquisition agreement were entered into during the nine-month period ended September 30, 2017.

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32. Cash Generated from Operating Activities

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

<i>(In millions of won)</i>	2017	2016
Profit for the period	₩ 7,422,719	1,331,909
Adjustment		
Income tax expense	1,859,600	313,453
Defined benefit plan	123,083	126,295
Depreciation	3,408,687	3,065,877
Depreciation of investment property	79	79
Amortization	279,087	247,027
Compensation expense	548	-
Loss on disposal of property, plant and equipment	6,284	5,765
Loss on disposal of intangible assets	3,926	3,415
Loss on impairment of property, plant, and equipment	-	3,746
Loss on impairment of intangible assets	47	63
Interest expense	96,330	96,836
Loss on foreign currency translation	40,526	77,408
Gain on equity method investments, net	(8,027)	(16,600)
Gain on disposal of property, plant and equipment	(29,379)	(4,263)
Gain on valuation of financial assets at fair value through profit or loss	(2,937)	(690)
Gain on disposal of financial assets at fair value through profit or loss	(8,627)	(11,532)
Gain on disposal of available-for-sale financial assets	(30,945)	-
Loss on derivative instruments, net	11	94
Interest income	(33,983)	(26,185)
Gain on foreign currency translation	(213,079)	(188,256)
Others, net	5,430	3,367
Changes in operating assets and liabilities		
Decrease (increase) in trade receivables	(2,105,702)	112,708
Decrease (increase) in loans and other receivables	(1,591)	45,243
Increase in inventories	(532,470)	(97,105)
Decrease (increase) in other assets	(123,189)	79,783
Increase (decrease) in trade payables	142,577	(14,056)
Decrease in other payables	(46,469)	(100,605)
Increase (decrease) in other non-trade payables	316,910	(530,444)
Increase in provisions	23,840	8,169
Decrease in other liabilities	(7,308)	(3,349)
Contributions to plan assets	-	(120)
Payment of defined benefit liabilities	(13,846)	(15,717)
Cash generated from operating activities	₩ 10,572,132	4,512,315

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32. Cash Generated from Operating Activities, Continued

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

<i>(In millions of won)</i>	2017	2016
In-kind contribution for SK China Company Limited	₩ 143,208	-

33. Share-based payment

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

(In shares)

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

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

(2) Measurement of fair value

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

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

(3) The compensation expense for the nine-month period ended September 30, 2017 was ₩548 million.