

SK HYNIX, INC. and Subsidiaries

Condensed Consolidated Interim Financial Statements

September 30, 2018 and 2017

(Unaudited)

(With Independent Auditors' Review Report Thereon)

Contents

	Page
Independent Auditors' Review Report	1
Condensed Consolidated Statements of Financial Position	3
Condensed Consolidated Statements of Comprehensive Income	5
Condensed Consolidated Statements of Changes in Equity	7
Condensed Consolidated Statements of Cash Flows	9
Notes to the Condensed Consolidated Interim Financial Statements	11

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, 2018, the condensed consolidated statements of comprehensive income for the three and nine-month periods ended September 30, 2018 and 2017, and changes in equity and cash flows for the nine-month periods ended September 30, 2018 and 2017 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, 2017, 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 14, 2018, expressed an unqualified opinion. The accompanying condensed consolidated statement of financial position of the Group as of December 31, 2017, presented for comparative purposes, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

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

KPMG Samjong Accounting Corp.
Seoul, Korea
November 12, 2018

This report is effective as of November 12, 2018, 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, 2018 and December 31, 2017
(Unaudited)

(In millions of won)

	<i>Note</i>	2018	2017
Assets			
Current assets			
Cash and cash equivalents	5,6 ₩	2,340,357	2,949,991
Short-term financial instruments	5,6,7	388,229	4,674,862
Short-term investment assets	5,6	2,946,807	929,801
Trade receivables, net	5,6,8,30	7,711,347	5,552,795
Loans and other receivables, net	5,6,8,30	16,101	37,613
Inventories, net	9	3,686,740	2,640,439
Current tax assets		1,663	1,305
Other current assets	10,30,31	609,289	523,638
		<u>17,700,533</u>	<u>17,310,444</u>
Non-current assets			
Investments in associates and joint ventures	11	564,441	359,864
Long-term investment assets	5,6,12	4,005,499	43,226
Loans and other receivables, net	5,6,8,30	68,950	42,410
Other financial assets	5,6,7	173	273
Property, plant and equipment, net	4,13,31	31,259,492	24,062,601
Intangible assets, net	4,14	2,469,187	2,247,290
Investment property, net	4,15	1,416	2,468
Deferred tax assets		637,326	599,783
Defined benefit assets	19	-	13,385
Other non-current assets	4,10,30,31	670,235	736,720
		<u>39,676,719</u>	<u>28,108,020</u>
Total assets	₩	<u><u>57,377,252</u></u>	<u><u>45,418,464</u></u>

See accompanying notes to the condensed consolidated interim financial statements.

SK HYNIX, INC. and Subsidiaries
Condensed Consolidated Statements of Financial Position, Continued
As of September 30, 2018 and December 31, 2017
(Unaudited)

(In millions of won)

	<i>Note</i>	2018	2017
Liabilities			
Current liabilities			
Trade payables	5,6,30 ₩	795,675	758,578
Other payables	5,6,30	3,204,547	2,724,547
Other non-trade payables	5,6,30	1,129,176	1,340,225
Borrowings	5,6,16,31	1,316,854	773,780
Provisions	18	43,152	81,351
Current tax liabilities		3,377,828	2,385,876
Other current liabilities	17	134,777	51,776
		<u>10,002,009</u>	<u>8,116,133</u>
Non-current liabilities			
Other non-trade payables	5,6	4,443	3,412
Borrowings	5,6,16,31	3,660,524	3,397,490
Defined benefit liabilities, net	19	147,453	6,096
Deferred tax liabilities		2,229	5,554
Other non-current liabilities	17	71,768	68,860
		<u>3,886,417</u>	<u>3,481,412</u>
Total liabilities		<u>13,888,426</u>	<u>11,597,545</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	(2,506,748)	(771,100)
Accumulated other comprehensive loss	22	(503,817)	(502,264)
Retained earnings	23	38,693,194	27,287,256
Total equity attributable to owners of the Parent			
Company		43,484,017	33,815,280
Non-controlling interests		<u>4,809</u>	<u>5,639</u>
Total equity		<u>43,488,826</u>	<u>33,820,919</u>
Total liabilities and equity	₩	<u><u>57,377,252</u></u>	<u><u>45,418,464</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 and nine-month periods ended September 30, 2018 and 2017
(Unaudited)

(In millions of won, except per share information)

	<i>Note</i>	2018		2017	
		Three-month period	Nine-month period	Three-month period	Nine-month period
Revenue	4,30	₩ 11,416,788	30,506,985	8,100,085	21,081,881
Cost of sales	25,30	3,871,624	11,017,081	3,398,157	9,241,783
Gross profit		7,545,164	19,489,904	4,701,928	11,840,098
Selling and administrative expense	24,25	1,072,744	3,076,229	964,735	2,584,606
Operating profit		6,472,420	16,413,675	3,737,193	9,255,492
Finance income	26	172,835	1,176,190	252,745	750,110
Finance expenses	26	251,999	929,616	159,536	739,685
Share of profit of equity-accounted investees	11	2,979	11,451	3,524	8,027
Other income	27	57,491	74,725	24,472	62,695
Other expenses	27	18,492	116,906	15,542	54,320
Profit before income tax		6,435,234	16,629,519	3,842,856	9,282,319
Income tax expense	28	1,743,041	4,487,454	787,327	1,859,600
Profit for the period		4,692,193	12,142,065	3,055,529	7,422,719
Other comprehensive income (loss)					
Item that will never be reclassified to profit or loss:					
Remeasurements of defined benefit liability, net of tax	19	(7,051)	(21,146)	(4,210)	(12,521)
Items that are or may be reclassified to profit or loss:					
Foreign operations – foreign currency translation differences, net of tax	22	(233,252)	(20,728)	86,708	(101,252)
Equity-accounted investees – share of other comprehensive income (loss), net of tax	11,22	(4,524)	9,366	2,422	(4,925)
Other comprehensive income (loss) for the period, net of tax		(244,827)	(32,508)	84,920	(118,698)
Total comprehensive income for the period		₩ 4,447,366	12,109,557	3,140,449	7,304,021

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, 2018 and 2017

(Unaudited)

(In millions of won, except per share information)

	<i>Note</i>	2018		2017	
		Three-month period	Nine-month period	Three-month period	Nine-month period
Profit (loss) attributable to:					
Owners of the Parent Company		4,693,620	12,143,821	3,054,248	7,420,763
Non-controlling interests		(1,427)	(1,756)	1,281	1,956
Total comprehensive income (loss) attributable to:					
Owners of the Parent Company		4,448,533	12,110,387	3,139,284	7,302,781
Non-controlling interests		(1,167)	(830)	1,165	1,240
Earnings per share					
Basic earnings per share (in won)	29	6,731	17,272	4,326	10,511
Diluted earnings per share (in won)	29	6,730	17,270	4,326	10,511

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, 2018 and 2017

(Unaudited)

(In millions of won)		Attributable to owners of the Parent Company						Non-controlling interests	Total equity	
		Capital stock	Capital surplus	Other equity	Accumulated other comprehensive income (loss)	Retained earnings	Total			
Note										
		₩	3,657,652	4,143,736	(771,913)	(79,103)	17,066,583	24,016,955	6,575	24,023,530
Balance at January 1, 2017										
Total comprehensive income:										
			-	-	-	-	7,420,763	7,420,763	1,956	7,422,719
			-	-	-	-	7,420,763	7,420,763	1,956	7,422,719
			-	-	-	-	(12,521)	(12,521)	-	(12,521)
			-	-	-	-	(12,521)	(12,521)	-	(12,521)
			-	-	-	-	(12,521)	(12,521)	-	(12,521)
			-	-	-	-	(12,521)	(12,521)	-	(12,521)
			-	-	-	-	(12,521)	(12,521)	-	(12,521)
			-	-	-	-	(12,521)	(12,521)	-	(12,521)
			-	-	-	-	(12,521)	(12,521)	-	(12,521)
			-	-	-	-	(12,521)	(12,521)	-	(12,521)
			-	-	-	-	(12,521)	(12,521)	-	(12,521)
			-	-	-	-	(12,521)	(12,521)	-	(12,521)
			-	-	-	-	(12,521)	(12,521)	-	(12,521)
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			-	-	-	-	(12,521)	(12,521)	-	(12,521)
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			-	-	-	-	(12,521)	(12,521)	-	(12,521)
			-	-	-	-	(12,521)	(12,521)	-	(12,521)
			-	-	-	-	(12,521)	(12,521)	-	(12,521)
			-	-	-	-	(12,521)	(12,521)	-	(12,521)
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			-	-	-	-	(12,521)	(12,521)	-	(12,521)
			-	-	-	-	(12,521)	(12,521)	-	(12,521)
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			-	-	-	-	(12,521)	(12,521)	-	(12,521)
			-	-	-	-	(12,521)	(12,521)	-	(12,521)
			-	-	-	-	(12,521)	(12,521)	-	(12,521)
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			-	-	-	-	(12,521)	(12,521)	-	(12,521)
			-	-	-	-	(12,521)	(12,521)	-	(12,521)
			-	-	-	-	(12,521)	(12,521)	-	(12,521)
			-	-	-	-	(12,521)	(12,521)	-	(12,521)
			-	-	-	-	(12,521)	(12,521)	-	(12,521)
			-	-	-	-	(12,521)	(12,521)	-	(12,521)
			-	-	-	-	(12,521)	(12,521)	-	(12,521)
			-	-	-	-	(12,521)	(12,521)	-	(12,521)

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, 2018 and 2017
(Unaudited)

	<i>Note</i>	Attributable to owners of the Parent Company					Non-controlling interests	Total equity
		Capital stock	Capital surplus	Other equity	Accumulated other comprehensive income (loss)	Retained earnings		
Balance at December 31, 2017		₩ 3,657,652	4,143,736	(771,100)	(502,264)	27,287,256	5,639	33,820,919
Adjustments on initial application of K-IFRS No.1109	3	-	-	-	10,735	(10,735)	-	-
Balance at January 1, 2018		3,657,652	4,143,736	(771,100)	(491,529)	27,276,521	5,639	33,820,919
Total comprehensive income:								
Profit for the period		-	-	-	-	12,143,821	(1,756)	12,142,065
Remeasurements of defined benefit liability, net of tax	19	-	-	-	-	(21,146)	-	(21,146)
Other comprehensive income from joint venture and associate, net of tax	11,22	-	-	-	9,366	-	-	9,366
Foreign currency translation differences for foreign operations, net of tax	22	-	-	-	(21,654)	-	926	(20,728)
Total comprehensive income		-	-	-	(12,288)	12,122,675	(830)	12,109,557
Transactions with owners of the Parent Company:								
Acquisition of treasury shares	21	-	-	(1,736,514)	-	-	-	(1,736,514)
Dividends paid	23	-	-	-	-	(706,002)	-	(706,002)
Share-based payment transactions	33	-	-	866	-	-	-	866
Transactions with owners of the Parent Company		-	-	(1,735,648)	-	(706,002)	-	(2,441,650)
Balance at September 30, 2018		₩ 3,657,652	4,143,736	(2,506,748)	(503,817)	38,693,194	4,809	43,488,826

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, 2018 and 2017
(Unaudited)

(In millions of won)

	<i>Note</i>	2018	2017
Cash flows from operating activities			
Cash generated from operating activities	32 ₩	18,252,184	10,572,132
Interest received		73,561	22,329
Interest paid		(90,820)	(92,061)
Dividends received		15,099	14,841
Income tax paid		(2,993,507)	(613,161)
Net cash provided by operating activities		15,256,517	9,904,080
Cash flows from investing activities			
Decrease in short-term financial instruments, net		4,286,955	(282,287)
Increase in short-term investment assets, net		(1,988,553)	(1,375,859)
Collection of loans and other receivables		13,338	14,171
Increase in loans and other receivables		(41,870)	(17,568)
Proceeds from disposal of long-term investment assets		1,201	1,916
Acquisition of long-term investment assets		(4,002,669)	(21,798)
Decrease in other financial assets		117	1
Increase in other financial assets		(17)	(168)
Cash inflows from derivative transactions		-	902
Cash outflows from derivative transactions		-	(1,201)
Proceeds from disposal of property, plant and equipment		122,757	221,136
Acquisition of property, plant and equipment		(11,757,688)	(6,852,671)
Proceeds from disposal of intangible assets		2,532	985
Acquisition of intangible assets		(613,359)	(622,245)
Receipt of government grants		1,422	-
Acquisition of investments in associates		(196,880)	(113,960)
Net cash used in investing activities	₩	(14,172,714)	(9,048,646)

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, 2018 and 2017
(Unaudited)

(In millions of won)

	<i>Note</i>	2018	2017
Cash flows from financing activities			
Proceeds from borrowings	₩	2,407,194	752,944
Repayments of borrowings		(1,656,045)	(691,642)
Acquisition of treasury shares		(1,736,514)	-
Dividends paid		(706,002)	(423,601)
Net cash used in financing activities		(1,691,367)	(362,299)
Effect of movements in exchange rates on cash and cash equivalents		(2,070)	16,198
Net increase (decrease) in cash and cash equivalents		(609,634)	509,333
Cash and cash equivalents at beginning of the period		2,949,991	613,786
Cash and cash equivalents at end of the period	₩	2,340,357	1,123,119

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, 2018 and 2017
(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, 2018, 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.

1. Reporting Entity, Continued

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2018 and 2017
(Unaudited)

(2) Details of the Group's consolidated subsidiaries as of September 30, 2018 and December 31, 2017 are as follows:

Company	Location	Business	Ownership (%)	
			2018	2017
SK hyeng Inc.	Korea	Construction service	100.00	100.00
SK hystec Inc.	Korea	Business support service	100.00	100.00
Siliconfile Technologies Inc. ¹	Korea	Development and manufacturing of electronic component	-	100.00
Happymore Inc.	Korea	Manufacturing and cleaning cleanroom suits	100.00	100.00
SK hynix system ic Inc. ¹	Korea	Semiconductor manufacturing and sales	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. ²	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. ³	China	Semiconductor manufacturing	100.00	100.00
SK hynix Semiconductor (Wuxi) Ltd. ³	China	Semiconductor manufacturing	-	100.00
SK hynix Semiconductor (Chongqing) Ltd. ⁴	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. ⁵	U.S.A.	Semiconductor research and development	100.00	100.00
SK hynix memory solutions Taiwan Ltd. ⁶	Taiwan	Semiconductor research and development	100.00	100.00
SK hynix memory solutions Eastern Europe LLC. ⁷	Belarus	Semiconductor research and development	100.00	100.00
SK APTECH Ltd.	Hong Kong	Overseas investment	100.00	100.00
SK hynix Venture Hong Kong Ltd.	Hong Kong	Overseas investment	100.00	100.00
SK hynix (Wuxi) Investment Ltd. ⁸	China	Overseas investment	100.00	-
SK hynix (Wuxi) Industry Development Ltd. ⁹	China	Foreign hospital construction	100.00	-
SK hynix Happiness (Wuxi) Hospital Management Ltd. ⁹	China	Foreign hospital operation	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
September 30, 2018 and 2017
(Unaudited)

1. Reporting Entity, Continued

(2) Details of the Group's consolidated subsidiaries as of September 30, 2018 and December 31, 2017 are as follows, Continued:

¹ SK hynix system ic Inc. merged Siliconfile Technologies Inc. during the nine-month period ended September 30, 2018.

² Subsidiary of SK hynix Asia Pte. Ltd.

³ SK hynix Semiconductor (China) Ltd. merged SK hynix Semiconductor (Wuxi) Ltd. during the nine-month period ended September 30, 2018.

⁴ Subsidiary of SK APTECH Ltd.

⁵ Name of the subsidiary is changed from SK hynix memory solutions Inc. to SK hynix memory solutions America Inc. during the nine-month period ended September 30, 2018.

⁶ Name of the subsidiary is changed from SK hynix Flash Solution Taiwan to SK hynix memory solutions Taiwan Ltd. during the nine-month period ended September 30, 2018.

⁷ Name of the subsidiary is changed from Softeq Flash Solutions LLC. to SK hynix memory solutions Eastern Europe LLC. during the nine-month period ended September 30, 2018.

⁸ The entity, a subsidiary of SK hynix Semiconductor (China) Ltd., was newly established during the nine-month period ended September 30, 2018.

⁹ The entities, subsidiaries of SK hynix (Wuxi) Investment Ltd., were newly established during the nine-month period ended September 30, 2018.

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2018 and 2017
(Unaudited)

1. Reporting Entity, Continued

(3) Changes in the consolidated subsidiaries during the the nine-month period ended September 30, 2018 are follows:

	Company	Description
Excluded from consolidation	Siliconfile Technologies Inc.	Excluded due to merger
Excluded from consolidation	SK hynix Semiconductor (Wuxi) Ltd.	Excluded due to merger
Included to consolidation	SK hynix (Wuxi) Investment Ltd.	Included due to new establishment
Included to consolidation	SK hynix (Wuxi) Industry Development Ltd.	Included due to new establishment
Included to consolidation	SK hynix Happiness (Wuxi) Hospital Management Ltd.	Included due to new establishment

(4) Major subsidiaries' summarized separate statements of financial position as of September 30, 2018 and December 31, 2017 are as follows:

(In millions of won)

		2018			2017		
		Assets	Liabilities	Equity	Assets	Liabilities	Equity
SK hynix system ic Inc.	₩	545,658	97,237	448,421	360,254	77,958	282,296
SK hynix America Inc.		3,409,109	3,182,829	226,280	2,522,348	2,259,210	263,138
SK hynix Deutschland GmbH		135,703	95,838	39,865	108,470	70,430	38,040
SK hynix Asia Pte. Ltd.		974,354	893,907	80,447	636,286	559,400	76,886
SK hynix Semiconductor Hong Kong Ltd.		674,986	506,089	168,897	1,043,889	918,305	125,584
SK hynix U.K. Ltd.		475,853	461,577	14,276	325,434	308,999	16,435
SK hynix Semiconductor Taiwan Inc.		639,571	621,366	18,205	566,155	536,592	29,563
SK hynix Japan Inc.		748,726	688,057	60,669	632,590	569,810	62,780
SK hynix Semiconductor (Shanghai) Co., Ltd.		1,391,995	1,311,885	80,110	414,850	379,888	34,962
SK hynix (Wuxi) Semiconductor Sales Ltd.		567,095	542,271	24,824	13,347	12,677	670
SK hynix Semiconductor (China) Ltd.		4,713,530	455,972	4,257,558	4,043,100	322,545	3,720,555
SK hynix Semiconductor (Chongqing) Ltd.		500,813	94,630	406,183	388,033	195,849	192,184

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2018 and 2017
(Unaudited)

1. Reporting Entity, Continued

(5) Major subsidiaries' summarized separate statements of comprehensive income (loss) for the nine-month periods ended September 30, 2018 and 2017 are as follows:

(In millions of won)

	2018			2017		
	Revenue	Profit (loss)	Total comprehensive income (loss)	Revenue	Profit (loss)	Total comprehensive income (loss)
SK hynix system ic Inc.	₩ 403,445	51,460	51,460	116,261	(16,301)	(16,301)
SK hynix America Inc.	10,610,821	(46,080)	(46,080)	7,616,352	69,963	69,963
SK hynix Deutschland GmbH	407,394	1,379	1,379	356,401	1,718	1,718
SK hynix Asia Pte. Ltd.	2,594,969	606	606	1,895,313	1,743	1,743
SK hynix Semiconductor Hong Kong Ltd.	3,121,929	37,582	37,582	6,656,870	11,850	11,850
SK hynix U.K. Ltd.	1,065,889	(2,738)	(2,738)	779,432	(2,040)	(2,040)
SK hynix Semiconductor Taiwan Inc.	2,370,401	(825)	(825)	1,930,326	(16,551)	(16,551)
SK hynix Japan Inc.	877,491	(4,291)	(4,291)	666,189	(307)	(307)
SK hynix Semiconductor (Shanghai) Co., Ltd.	5,763,952	47,183	47,183	330,364	9,045	9,045
SK hynix (Wuxi) Semiconductor Sales Ltd.	3,042,181	25,030	25,030	156	(108)	(108)
SK hynix Semiconductor (China) Ltd.	1,839,936	137,740	137,740	1,630,954	53,631	53,631
SK hynix Semiconductor (Chongqing) Ltd.	299,190	19,916	19,916	254,625	14,375	14,375

(6) There are no significant non-controlling interests to the Group as of September 30, 2018 and December 31, 2017.

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2018 and 2017
(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, 2017. These condensed consolidated interim financial statements do not include all of the disclosures required for full annual financial statements.

During the nine-month period ended September 30, 2018, K-IFRS No. 1109 and K-IFRS No. 1115 were applied for the first time. 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, 2017, except for new significant judgements and key sources of estimation uncertainty related to the adoption of K-IFRS No. 1109 and K-IFRS No. 1115, 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.

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2018 and 2017
(Unaudited)

2. Basis of Preparation, Continued

(2) Use of estimates and judgments, Continued

Information about assumptions used for fair value measurements are included in Note 6.

3. Significant Accounting Policies

Except for new standards, which are explained as follows, 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, 2017. The following changes of accounting policies are also expected to be reflected in the Group's consolidated financial statements as of and for the year ending December 31, 2018.

(1) Changes of accounting policies

The Group initially adopted K-IFRS No. 1115 '*Revenue from Contracts from Customers*' and K-IFRS No. 1109 '*Financial Instruments*' for the year beginning on January 1, 2018. A number of other new standards are effective from January 1, 2018 and they do not have significant impact on the Group's consolidated financial statements.

(a) K-IFRS No. 1115, '*Revenue from Contracts with Customers*'

K-IFRS No. 1115 is a comprehensive framework for determining when and how much revenue is recognized. It replaced K-IFRS No. 1018 '*Revenue*', K-IFRS No. 1011 '*Construction Contract*', K-IFRS No. 2031 '*Revenue: Barter Transactions Involving Advertising Services*', K-IFRS No. 2113 '*Customer Loyalty Program*', K-IFRS No. 2115 '*Agreements for the construction of real estate*' and K-IFRS No. 2118 '*Transfers of assets from customers*'.

The Group has adopted K-IFRS No. 1115, '*Revenue from contracts with customers*' as of January 1, 2018 as the initial application date. The following summarizes the impact on the Group of adopting the standard.

(i) Sales with right of return

In general, the Group's contract with customers allows a customer to return the products. Under K-IFRS No. 1115, the Group initially recognizes revenue, which is measured at the gross transaction price, less the expected level of returns using the guidance on estimating variable considerations and the constraint. The expected level of returns is estimated by using the method the Group expects to better predict the amount of consideration to which it will be entitled. Also, the Group includes an amount of variable consideration in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the return period expires. The Group recognizes the amounts received or receivable for which the Group does not expect to be entitled as a refund liability.

(ii) Delivery of product ("C-terms")

When applying K-IFRS No. 1115, sales of products and delivery of products (i.e. shipping service) are identified as separate performance obligations in the contracts with customers. However, for transactions for which the shipping terms are on delivery basis, which is the Group's most common transaction term, those two performance obligations are not separately identified as the control over the products is transferred upon the completion of delivery. However, for the export transactions for which the shipping terms are on shipment basis ("C-terms") and the customer pays shipping costs or insurance premiums, the two performance obligations are separately accounted for because delivery of products is performed after the control over the products is transferred to the customer. The transaction price allocated to the performance obligation of delivery service is recognized when the obligation of delivery of the product is completed and is recognized as cost of sales.

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2018 and 2017
(Unaudited)

3. Significant Accounting Policies, Continued

(1) Changes of accounting policies, Continued

(a) K-IFRS No. 1115, 'Revenue from Contracts with Customers', Continued

The following tables summarize the impacts of adopting K-IFRS No. 1115 on the consolidated statement of financial position as of January 1, 2018.

(In millions of won)

	December 31, 2017	Adjustments - Sales with right of return	January 1, 2018
Assets			
Current assets			
Other current assets	₩ 523,638	17,884	541,522
Others	16,786,806	-	16,786,806
	17,310,444	17,884	17,328,328
Non-current assets	28,108,020	-	28,108,020
Total assets	45,418,464	17,884	45,436,348
Liabilities			
Current liabilities			
Provisions	81,351	(30,672)	50,679
Other current liabilities	51,776	48,556	100,332
Others	7,983,006	-	7,983,006
	8,116,133	17,884	8,134,017
Non-current liabilities	3,481,412	-	3,481,412
Total liabilities	11,597,545	17,884	11,615,429
Equity			
Total equity attributable to owners of the			
Parent Company	33,815,280	-	33,815,280
Non-controlling interests	5,639	-	5,639
Total equity	33,820,919	-	33,820,919
Total liabilities and equity	₩ 45,418,464	17,884	45,436,348

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2018 and 2017
(Unaudited)

3. Significant Accounting Policies, Continued

(1) Changes of accounting policies, Continued

(a) K-IFRS No. 1115, 'Revenue from Contracts with Customers', Continued

The following tables summarize the impacts of adopting K-IFRS No.1115 on the consolidated interim statement of financial position as of September 30, 2018, and the consolidated interim statement of comprehensive income for the nine-month period ended September 30, 2018. There was no material impact on the consolidated statement of cash flows for the nine-month period ended September 30, 2018.

Details of the impact on the consolidated interim statement of financial position as of September 30, 2018 are as follows:

(In millions of won)

	<u>As reported</u>	<u>Adjustments - Sales with right of return</u>	<u>Amounts without adoption of K- IFRS No. 1115</u>
Assets			
Current assets			
Other current assets	₩ 609,289	(20,509)	588,780
Others	17,091,244	-	17,091,244
	<u>17,700,533</u>	<u>(20,509)</u>	<u>17,680,024</u>
Non-current assets	<u>39,676,719</u>	<u>-</u>	<u>39,676,719</u>
Total assets	<u>57,377,252</u>	<u>(20,509)</u>	<u>57,356,743</u>
Liabilities			
Current liabilities			
Provisions	43,152	58,155	101,307
Other current liabilities	134,777	(78,664)	56,113
Others	9,824,080	-	9,824,080
	<u>10,002,009</u>	<u>(20,509)</u>	<u>9,981,500</u>
Non-current liabilities	<u>3,886,417</u>	<u>-</u>	<u>3,886,417</u>
Total liabilities	<u>13,888,426</u>	<u>(20,509)</u>	<u>13,867,917</u>
Equity			
Total equity attributable to owners of the			
Parent Company	43,484,017	-	43,484,017
Non-controlling interests	4,809	-	4,809
Total equity	<u>43,488,826</u>	<u>-</u>	<u>43,488,826</u>
Total liabilities and equity	₩ <u>57,377,252</u>	<u>(20,509)</u>	<u>57,356,743</u>

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2018 and 2017
(Unaudited)

3. Significant Accounting Policies, Continued

(1) Changes of accounting policies, Continued

Details of the impact on the consolidated interim statement of comprehensive income for the nine-month period ended September 30, 2018, are as follows:

(In millions of won)

	As reported	Adjustments - Delivery of product	Amounts without adoption of K- IFRS No. 1115
Revenue	₩ 30,506,985	-	30,506,985
Cost of sales	11,017,081	(17,247)	10,999,834
Gross profit	19,489,904	17,247	19,507,151
Selling and administrative expense	3,076,229	17,247	3,093,476
Operating profit	16,413,675	-	16,413,675
Finance income	1,176,190	-	1,176,190
Finance expenses	929,616	-	929,616
Share of profit of equity-accounted investees	11,451	-	11,451
Other income	74,725	-	74,725
Other expenses	116,906	-	116,906
Profit before income tax	16,629,519	-	16,629,519
Income tax expense	4,487,454	-	4,487,454
Profit for the period	12,142,065	-	12,142,065
Other comprehensive income	(32,508)	-	(32,508)
Total comprehensive income for the period	₩ 12,109,557	-	12,109,557

(b) K-IFRS No. 1109, *Financial Instruments*

K-IFRS No. 1109, '*Financial Instruments*' sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces K-IFRS No. 1039, '*Financial Instrument: Recognition and Measurement*'. The Group has taken advantage of the exemption allowing it not to restate the comparative information for prior periods with respect to classification and measurement (including impairment) changes.

The following table summarizes the impact of transition to K-IFRS No. 1109 on the opening balance of equity as of January 1, 2018.

(In millions of won)

	Accumulated other comprehensive income (loss)	Retained earnings
Beginning equity under K-IFRS No. 1039	₩ (502,264)	27,287,256
Reclassification from available-for-sale to FVTPL	10,735	(10,735)
Beginning equity under K-IFRS No. 1109	₩ (491,529)	27,276,521

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2018 and 2017
(Unaudited)

3. Significant Accounting Policies, Continued

(1) Changes of accounting policies, Continued

(b) K-IFRS No. 1109, '*Financial Instruments*', Continued

(i) Classification and measurement of financial assets and financial liabilities

K-IFRS No. 1109 largely retains the existing requirements in K-IFRS No. 1039 for the classification and measurement of financial liabilities. However, it eliminates the previous K-IFRS No. 1039 categories for financial assets of held to maturity, loans and receivables and available for sale.

Under K-IFRS No.1109, on initial recognition, a financial asset is classified as measured at: amortized cost; fair value through other comprehensive income (FVOCI) - debt investment; FVOCI - equity investment; or fair value through profit or loss (FVTPL). The classification of financial assets under K-IFRS No.1109 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. If a contract contains embedded derivatives and the host is an asset within the scope of K-IFRS No.1109, then such embedded derivatives are not separated.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flow; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investments is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in fair value in other comprehensive income (OCI). This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset (unless it is an account receivable - trade without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2018 and 2017
(Unaudited)

3. Significant Accounting Policies, Continued

(1) Changes of accounting policies, Continued

(b) K-IFRS No. 1109, 'Financial Instruments', Continued

The following accounting policies apply to subsequent measurements of financial assets.

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.
Financial assets at amortized cost	These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income is calculated using the effective interest method. Foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

Details of reclassification of the financial asset categories upon adoption of K-IFRS No. 1109, which was initially adopted as of January 1, 2018, are as follows:

(In millions of won)

	Classification according to K-IFRS No. 1039	Classification according to K-IFRS No. 1109	Amount in accordance with K-IFRS No. 1039	Amount in accordance with K- IFRS No. 1109
Cash and cash equivalents	Loans and receivables	Amortization cost	₩ 2,949,991	2,949,991
Short-term financial instruments	Loans and receivables	Amortization cost	4,674,862	4,674,862
Short-term investment assets	Financial assets at fair value through profit or loss	FVTPL	929,801	929,801
Trade receivables	Loans and receivables	Amortization cost	5,552,795	5,552,795
Other receivables	Loans and receivables	Amortization cost	80,023	80,023
Other financial assets	Loans and receivables	Amortization cost	273	273
Long-term investment assets ¹	Available-for-sale financial assets	FVTPL	43,226	43,226
			₩ <u>14,230,971</u>	<u>14,230,971</u>

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2018 and 2017
(Unaudited)

3. Significant Accounting Policies, Continued

(1) Changes of accounting policies, Continued

(b) K-IFRS No. 1109, '*Financial Instruments*', Continued

¹ As of January 1, 2018, available-for-sale financial assets for equity investments amounting to ₩43,226 million were reclassified to financial assets measured at FVTPL. As the contractual terms of these assets do not give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, these assets were not designated as financial assets measured at amortized cost. As a result of this reclassification, as at January 1, 2018, other comprehensive loss of ₩10,735 million was reclassified to retained earnings. There was no change in fair value in these financial assets for the period ended September 30, 2018.

(ii) Impairment of financial assets

K-IFRS No. 1109 replaces the 'Incurred Loss' model of K-IFRS No. 1039 with the 'Expected Credit Loss (ECL)' model. The new impairment model is applied to financial instruments measured at amortized cost, contract assets and other comprehensive income – fair value instruments measured at fair value, but not equity instrument investments. Applying K-IFRS No. 1109, credit losses are recognized earlier than when applying K-IFRS No. 1039.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

At each reporting date, the Group assesses whether financial assets carried at amortized cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

For loss allowance on financial assets measured at amortized cost is deducted from the carrying amount of the respective assets, while loss allowance on debt instruments at FVOCI is recognized in OCI.

As of January 1, 2018, there is no impact of changing accounting policies arising from the application of the impairment of financial assets.

(iii) Hedge accounting

The Group decided to apply the requirements of hedge accounting when the Group initially adopted K-IFRS No. 1109. As the Group has no derivatives designated as hedge instruments as of January 1, 2018, there is no impact of changing accounting policies arising from the application of the hedge accounting requirements of K-IFRS No. 1109.

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2018 and 2017
(Unaudited)

3. Significant Accounting Policies, Continued

(2) Standards issued but not yet effective

The following new standards, amendments to standards are effective for annual periods beginning after January 1, 2018 and earlier application is permitted; however, the Group has not early adopted them in preparing these financial statements.

K-IFRS No. 1116, '*Leases*'

The Group plans to adopt K-IFRS No. 1116, '*Leases*' for the year beginning on January 1, 2019. During the year ending December 31, 2018, the Group will assess the impacts of adoption of K-IFRS No. 1116 on its financial statements and report the results in the note of financial statements as of December 31, 2018. There are no significant changes in preparation for the introduction of new standards except for general impact analysis described in the financial statements ended December 31, 2017.

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2018 and 2017
(Unaudited)

4. Geographic, Product and Customer Information

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

(1) Details of the Group's revenue for the three and nine-month periods ended September 30, 2018 and 2017 are as follows:

(In millions of won)

		2018		2017	
		Three-month period	Nine-month period	Three-month period	Nine-month period
Sale of goods	₩	11,404,467	30,468,084	8,077,799	21,028,014
Sale of services		12,321	38,901	22,286	53,867
	₩	11,416,788	30,506,985	8,100,085	21,081,881

(2) Details of the Group's revenue by product and service types for the three and nine-month periods ended September 30, 2018 and 2017 are as follows:

(In millions of won)

		2018		2017	
		Three-month period	Nine-month period	Three-month period	Nine-month period
DRAM	₩	9,201,152	24,402,869	6,262,013	15,996,044
NAND Flash		2,045,502	5,609,054	1,683,190	4,678,746
Other		170,134	495,062	154,882	407,091
	₩	11,416,788	30,506,985	8,100,085	21,081,881

(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, 2018 and 2017 are as follows:

(In millions of won)

		2018		2017	
		Three-month period	Nine-month period	Three-month period	Nine-month period
Korea	₩	191,014	717,143	272,769	907,950
China		4,532,705	11,904,846	2,559,772	6,977,013
Taiwan		785,736	2,369,867	662,243	1,928,781
Asia (other than China and Taiwan)		1,244,343	3,471,220	1,021,771	2,558,695
U.S.A.		4,102,850	10,608,979	3,161,812	7,575,610
Europe		560,140	1,434,930	421,718	1,133,832
	₩	11,416,788	30,506,985	8,100,085	21,081,881

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2018 and 2017
(Unaudited)

4. Geographic, Product and Customer Information, Continued

(4) 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 September 30, 2018 and December 31, 2017 are as follows:

(In millions of won)

	2018	2017
Korea	₩ 30,481,039	23,959,991
China	3,574,974	2,768,494
Taiwan	6,155	5,752
Asia (other than China and Taiwan)	967	1,100
U.S.A.	327,550	318,567
Europe	9,645	8,560
	₩ <u>34,400,330</u>	<u>27,062,464</u>

(5) Revenues from customers "A", "B" and "C" that each constitutes more than 10% of the Group's consolidated revenue for the nine-month period ended September 30, 2018 amount to ₩3,917,063 million (2017: ₩2,580,498 million), ₩3,762,588 million (2017: ₩1,787,100 million) and ₩2,148,500 million (2017: ₩2,707,017 million), respectively.

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2018 and 2017
(Unaudited)

5. Categories of Financial Instruments

(1) Categories of financial assets as of September 30, 2018 and December 31, 2017 are as follows:

(In millions of won)

		2018		
		Financial assets at fair value through profit or loss	Financial assets at amortized cost	Total
Cash and cash equivalents	₩	-	2,340,357	2,340,357
Short-term financial instruments		-	388,229	388,229
Short-term investment assets		2,946,807	-	2,946,807
Trade receivables		-	7,711,347	7,711,347
Loans and other receivables		-	85,051	85,051
Other financial assets		-	173	173
Long-term investment assets		4,005,499	-	4,005,499
	₩	<u>6,952,306</u>	<u>10,525,157</u>	<u>17,477,463</u>

(In millions of won)

		2017			
		Financial assets at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Total
Cash and cash equivalents	₩	-	-	2,949,991	2,949,991
Short-term financial instruments ¹		-	-	4,674,862	4,674,862
Short-term investment assets ¹		929,801	-	-	929,801
Trade receivables		-	-	5,552,795	5,552,795
Loans and other receivables		-	-	80,023	80,023
Other financial assets		-	-	273	273
Long-term investment assets ¹		-	43,226	-	43,226
	₩	<u>929,801</u>	<u>43,226</u>	<u>13,257,944</u>	<u>14,230,971</u>

¹ Short-term financial instruments and available-for-sale financial assets as of December 31, 2017 were reclassified to conform with the classification as of September 30, 2018.

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2018 and 2017
(Unaudited)

5. Categories of Financial Instruments, Continued

(2) Categories of financial liabilities as of September 30, 2018 and December 31, 2017 are as follows:

(In millions of won)

		2018
		Financial liabilities measured at amortized cost
Trade payables	₩	795,675
Other payables		3,204,547
Other non-trade payables ¹		1,133,619
Borrowings		4,977,378
	₩	<u>10,111,219</u>

(In millions of won)

		2017
		Financial liabilities measured at amortized cost
Trade payables	₩	758,578
Other payables		2,724,547
Other non-trade payables ¹		1,343,637
Borrowings		4,171,270
	₩	<u>8,998,032</u>

¹ Details of other non-trade payables as of September 30, 2018 and December 31, 2017 are as follows:

(In millions of won)

	2018	2017
Current		
Accrued expenses	₩ 1,129,176	1,340,225
Non-current		
Rent deposit payables	4,126	3,412
Long-term accrued expenses	317	-
	<u>₩ 1,133,619</u>	<u>1,343,637</u>

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2018 and 2017
(Unaudited)

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, 2018.

(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, 2018 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	12,108	₩ 13,472,705	5,565	₩ 6,192,143
EUR	20	25,255	315	408,025
JPY	25,406	249,274	181,928	1,785,027

As of September 30, 2018, 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	₩ 728,056	(728,056)
EUR	(38,277)	38,277
JPY	(153,575)	153,575

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2018 and 2017
(Unaudited)

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 September 30, 2018, the Group is partially exposed to the risk of fluctuation of net interest expenses arisen from change in interest rates. If interest rates on borrowings had been 100 basis points higher/lower with all other variables held constant, profit before income tax for the next three-month period would have been ₩5,939 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 September 30, 2018.

(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, 2018 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, short-term investment assets 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, 2018 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.

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2018 and 2017
(Unaudited)

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 September 30, 2018 and December 31, 2017 are as follows:

(In millions of won)

	2018	2017
Total liabilities (A)	₩ 13,888,426	11,597,545
Total equity (B)	43,488,826	33,820,919
Cash and cash equivalents, short-term financial instruments and short-term investment assets (C)	5,675,393	8,554,654
Total borrowings (D)	4,977,378	4,171,270
Debt-to-equity ratio (A/B)	31.94%	34.29%
Net borrowing ratio (D-C)/B ¹	-	-

¹ Net borrowing ratio as of September 30, 2018 and December 31, 2017 are not presented as the ratio was negative.

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2018 and 2017
(Unaudited)

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, 2018 and December 31, 2017:

(In millions of won)

(In millions of won)

		2018				
		Carrying amounts	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value						
Short-term investment assets	₩	2,946,807	-	2,946,807	-	2,946,807
Long-term investment assets		4,005,499	-	-	4,005,499	4,005,499
		6,952,306	-	2,946,807	4,005,499	6,952,306
Financial assets not measured at fair value						
Cash and cash equivalents ¹		2,340,357	-	-	-	-
Short-term financial instruments ¹		388,229	-	-	-	-
Trade receivables ¹		7,711,347	-	-	-	-
Loans and other receivables ¹		85,051	-	-	-	-
Other financial assets ¹		173	-	-	-	-
		10,525,157	-	-	-	-
Financial liabilities not measured at fair value						
Trade payables ¹		795,675	-	-	-	-
Other payables ¹		3,204,547	-	-	-	-
Other non-trade payables ¹		1,133,619	-	-	-	-
Borrowings		4,977,378	-	4,979,915	-	4,979,915
	₩	10,111,219	-	4,979,915	-	4,979,915

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2018 and 2017
(Unaudited)

6. Financial Risk Management, Continued

(3) Fair value, Continued

(In millions of won)

		2017			
	Carrying amounts	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Short-term investment assets	₩ 929,801	-	929,801	-	929,801
Long-term investment assets	43,226	-	-	43,226	43,226
	<u>973,027</u>	<u>-</u>	<u>929,801</u>	<u>43,226</u>	<u>973,027</u>
Financial assets not measured at fair value					
Cash and cash equivalents ¹	2,949,991	-	-	-	-
Short-term financial instruments ¹	4,674,862	-	-	-	-
Trade receivables ¹	5,552,795	-	-	-	-
Loans and other receivables ¹	80,023	-	-	-	-
Other financial assets ¹	273	-	-	-	-
	<u>13,257,944</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Financial liabilities not measured at fair value					
Trade payables ¹	758,578	-	-	-	-
Other payables ¹	2,724,547	-	-	-	-
Other non-trade payables ¹	1,343,637	-	-	-	-
Borrowings	4,171,270	-	4,178,598	-	4,178,598
	<u>₩ 8,998,032</u>	<u>-</u>	<u>4,178,598</u>	<u>-</u>	<u>4,178,598</u>

¹ Does 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.

(b) The valuation techniques used to measure financial instruments with fair value level 2 and fair value 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, 2017.

(c) There was no transfer between fair value hierarchy levels for the nine-month period ended September 30, 2018. The movements in financial assets classified as level 3 fair value measurements during the nine-month period ended September 30, 2018 are as follows:

(In millions of won)

	Beginning Balance ¹	Acquisition	Disposals	Foreign exchange difference	Ending Balance
Long-term investment assets	₩ 43,226	4,002,669	(953)	(39,443)	4,005,499

¹ Beginning balance includes equity instruments amounting to ₩29,700 million which do not have quoted price in an active market for the identical instruments (inputs for level 1). Those are measured at cost in accordance with K-IFRS 1039, 'Financial Instrument: Recognition and Measurement' as fair values of such equity instruments cannot be reliably measured using other valuation techniques as of December 31, 2017.

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2018 and 2017
(Unaudited)

7. Restricted Financial Instruments

Details of restricted financial instruments as of September 30, 2018 and December 31, 2017 are as follows:

(In millions of won)

		2018	2017	Description
Short-term financial instruments	₩	227,500	227,500	Restricted for supporting small businesses
		5,887	5,695	Pledged for consumption tax
		-	1,287	Others
		<u>233,387</u>	<u>234,482</u>	
Other financial assets		11	11	Bank overdraft guarantee deposit
		162	262	Others
		<u>173</u>	<u>273</u>	
	₩	<u>233,560</u>	<u>234,755</u>	

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2018 and 2017
(Unaudited)

8. Trade Receivables and Loans and Other Receivables

(1) Details of loans and other receivables as of September 30, 2018 and December 31, 2017 are as follows:

(In millions of won)

	2018	2017
Current		
Other receivables	₩ 7,576	10,816
Accrued income	2,758	22,308
Short-term loans	4,538	2,886
Short-term guarantee and other deposits	1,229	1,603
	<u>16,101</u>	<u>37,613</u>
Non-current		
Long-term other receivables	52	56
Long-term loans	25,589	11,098
Guarantee deposits	43,090	31,109
Others	219	147
	<u>68,950</u>	<u>42,410</u>
	<u>₩ 85,051</u>	<u>80,023</u>

(2) Trade receivables and loans and other receivables, net of provision for impairment, as of September 30, 2018 and December 31, 2017 are as follows:

(In millions of won)

	2018	
	Gross amount	Provision for impairment
Trade receivables	₩ 7,711,394	(47)
Current loans and other receivables	17,424	(1,323)
Non-current loans and other receivables	69,052	(102)
	<u>₩ 7,797,870</u>	<u>(1,472)</u>
		<u>7,796,398</u>

(In millions of won)

	2017	
	Gross amount	Provision for impairment
Trade receivables	₩ 5,552,841	(46)
Current loans and other receivables	38,940	(1,327)
Non-current loans and other receivables	43,497	(1,087)
	<u>₩ 5,635,278</u>	<u>(2,460)</u>
		<u>5,632,818</u>

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2018 and 2017
(Unaudited)

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, 2018 and 2017 are as follows:

(In millions of won)

	2018	2017
Beginning balance	₩ 46	1,837
Provision	-	240
Reversal	-	(238)
Foreign exchange difference	1	18
Ending balance	₩ 47	1,857

Movements in the provision for impairment of current loans and other receivables for the nine-month periods ended September 30, 2018 and 2017 are as follows:

(In millions of won)

	2018	2017
Beginning balance	₩ 1,327	1,371
Reversal	(3)	(14)
Foreign exchange difference	(1)	44
Ending balance	₩ 1,323	1,401

Movements in the provision for impairment of non-current loans and other receivables for the nine-month periods ended September 30, 2018 and 2017 are as follows:

(In millions of won)

	2018	2017
Beginning balance	₩ 1,087	1,476
Provision	-	53
Reversal	-	(3)
Write-off	(985)	-
Foreign exchange difference	-	(98)
Ending balance	₩ 102	1,428

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2018 and 2017
(Unaudited)

9. Inventories

Details of inventories as of September 30, 2018 and December 31, 2017 are as follows:

(In millions of won)

		2018		
		Acquisition cost	Inventory valuation allowance	Carrying amount
Finished goods	₩	980,231	(103,443)	876,788
Work-in-process		1,996,716	(28,050)	1,968,666
Raw materials		409,889	(11,033)	398,856
Supplies		418,231	(16,629)	401,602
Goods in transit		40,828	-	40,828
	₩	<u>3,845,895</u>	<u>(159,155)</u>	<u>3,686,740</u>

(In millions of won)

		2017		
		Acquisition cost	Inventory valuation allowance	Carrying amount
Finished goods	₩	544,978	(111,573)	433,405
Work-in-process		1,653,778	(36,889)	1,616,889
Raw materials		322,283	(26,031)	296,252
Supplies		278,422	(7,618)	270,804
Goods in transit		23,089	-	23,089
	₩	<u>2,822,550</u>	<u>(182,111)</u>	<u>2,640,439</u>

10. Other Current and Non-current Assets

Details of other current and non-current assets as of September 30, 2018 and December 31, 2017 are as follows:

(In millions of won)

		2018	2017
Current			
Advance payments	₩	85,631	34,887
Prepaid expenses		274,337	222,411
Value added tax refundable		228,269	263,287
Contract assets		20,796	-
Others		256	3,053
		<u>609,289</u>	<u>523,638</u>
Non-current			
Long-term advance payments		118,299	183,489
Long-term prepaid expenses		551,936	553,231
		<u>670,235</u>	<u>736,720</u>
	₩	<u>1,279,524</u>	<u>1,260,358</u>

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2018 and 2017
(Unaudited)

11. Investments in Associates and Joint Ventures

(1) Details of investments in associates and joint ventures as of September 30, 2018 and December 31, 2017 are as follows:

(In millions of won)

Type	Investee	Ownership (%) in 2018	2018		2017
			Net asset Value	Carrying amount	Carrying amount
Associate	Stratio, Inc. ¹	9.12	₩ 87	2,087	2,105
	SK China Company Limited ¹	11.87	202,229	254,579	244,912
	Gemini Partners Pte. Ltd.	20.00	2,234	3,929	4,003
	TCL Fund ¹	11.06	3,422	3,421	2,634
	SK South East Asia Investment Pte. Ltd. ²	20.00	111,270	111,270	-
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	45.00	106,394	106,394	106,210
	Hystars Semiconductor (Wuxi) Co., Ltd. ³	50.10	81,934	82,761	-
			₩	<u>564,441</u>	<u>359,864</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 accounted for using the equity method.

² The Group acquired 20.00% shares of SK South East Asia Investment Pte. Ltd. during the nine-month period ended September, 2018 and classified it as an associate because the group has significant influence over SK South East Asia Investment Pte. Ltd.

³ SK hynix system ic. Inc. acquired 50.10% shares of Hystars Semiconductor (Wuxi) Co., Ltd. during the current year and The Group classified it as a joint venture due to joint control of, or significant influence over, an investee.

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2018 and 2017
(Unaudited)

11. Investments in Associates and Joint Ventures, Continued

(2) Changes in investments in associates and joint ventures for the nine-month periods ended September 30, 2018 and 2017 are as follows:

(In millions of won)

		2018				
		Beginning balance	Acquisition	Share of profit (loss)	Other equity movement	Ending balance
Stratio, Inc.	₩	2,105	-	(22)	4	2,087
SK China Company Limited		244,912	-	2,249	7,418	254,579
Gemini Partners Pte. Ltd.		4,003	-	(110)	36	3,929
TCL Fund		2,634	720	124	(57)	3,421
SK South East Asia Investment Pte. Ltd.		-	110,880	-	390	111,270
HITECH Semiconductor (Wuxi) Co., Ltd.		106,210	-	9,506	3,798	(13,120)
Hystars Semiconductor (Wuxi) Co., Ltd.		-	85,280	(296)	(2,223)	82,761
	₩	<u>359,864</u>	<u>196,880</u>	<u>11,451</u>	<u>9,366</u>	<u>(13,120)</u>
						<u>564,441</u>

(In millions of won)

		2017				
		Beginning balance	Acquisition	Share of profit (loss)	Other equity movement	Ending balance
Stratio, Inc.	₩	2,151	-	(23)	(8)	2,120
SK China Company Limited		-	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 Semiconductor (Wuxi) Co., Ltd.		121,447	-	8,593	(6,543)	(14,828)
	₩	<u>131,016</u>	<u>257,169</u>	<u>8,027</u>	<u>(4,925)</u>	<u>(14,828)</u>
						<u>376,459</u>

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2018 and 2017
(Unaudited)

11. Investments in Associates and Joint Ventures, Continued

(3) Associates and joint ventures' summarized statements of financial position as of September 30, 2018 and December 31, 2017 are as follows:

(In millions of won)

		2018			
		Current assets	Non-current assets	Current liabilities	Non-current liabilities
Stratio, Inc.	₩	516	580	146	-
SK China Company Limited		792,885	1,058,845	64,391	83,082
Gemini Partners Pte. Ltd.		5,095	6,092	17	-
TCL Fund		6,588	27,181	2,833	-
SK South East Asia Investment Pte. Ltd.		556,350	-	-	-
HITECH Semiconductor (Wuxi) Co., Ltd.		216,718	372,781	122,952	230,114
Hystars Semiconductor (Wuxi) Co., Ltd.		146,661	16,983	102	-

(In millions of won)

		2017			
		Current assets	Non-current assets	Current liabilities	Non-current liabilities
Stratio, Inc.	₩	681	577	111	-
SK China Company Limited		812,882	934,872	54,752	70,213
Gemini Partners Pte. Ltd.		6,227	5,314	2	-
TCL Fund		7,863	15,957	-	-
HITECH Semiconductor (Wuxi) Co., Ltd.		192,905	334,678	79,725	211,835

(4) Associates and a joint ventures' summarized statements of comprehensive income (loss) for the nine-month periods ended September 30, 2018 and 2017 are as follows:

(In millions of won)

		2018		2017	
		Revenue	Income (loss) for the period	Revenue	Income (loss) for the period
Stratio, Inc.	₩	70	(236)	30	(245)
SK China Company Limited		48,851	18,955	-	-
Gemini Partners Pte. Ltd.		-	(550)	-	(1,486)
TCL Fund		-	1,118	-	(58)
SK South East Asia Investment Pte. Ltd.		-	-	-	-
HITECH Semiconductor (Wuxi) Co., Ltd.		464,475	21,125	443,803	20,735
Hystars Semiconductor (Wuxi) Co., Ltd.		-	(591)	-	-

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2018 and 2017
(Unaudited)

12. Long-term Investment Assets

Changes in the carrying amount of long-term investment assets for the nine-month periods ended September 30, 2018 and 2017 are as follows:

(In millions of won)

	2018	2017
Beginning balance	₩ 43,226	147,779
Acquisition ¹	4,002,669	21,798
Disposal	(953)	(114,180)
Foreign exchange difference	(39,443)	(19)
Ending balance	₩ 4,005,499	55,378

¹ During the nine-month period ended September 30, 2018, in connection with the Group's participation in a consortium including Bain Capital ("Bain Consortium") entered into in 2017, the Group invested JPY 266,000 million in BCPE Pangea Intermediate Holdings Cayman, LP and acquired convertible bonds of JPY 129,000 million issued by BCPE Pangea Cayman2 Limited.

13. Property, Plant and Equipment

(1) Changes in property, plant and equipment for the nine-month periods ended September 30, 2018 and 2017 are as follows:

(In millions of won)

	2018	2017
Beginning balance	₩ 24,062,601	18,777,402
Acquisition	11,691,193	6,821,718
Disposal and retirement	(150,196)	(198,041)
Depreciation	(4,285,162)	(3,408,687)
Transfer ¹	984	-
Foreign exchange difference	(59,928)	(15,234)
Ending balance	₩ 31,259,492	21,977,158

¹ Investment property has been transferred to property, plant and equipment during the nine-month period ended September 30, 2018.

(2) Certain land and building are pledged as collaterals for borrowings of the Group as of September 30, 2018 (Note 31).

(3) Finance lease and operating lease

The Group leases certain machinery from HANSU TECHNICAL SERVICE LTD. and other under finance lease agreements as of September 30, 2018.

The book value of the machinery subject to finance lease agreement amounted to ₩74,592 million as of September 30, 2018 (as of December 31, 2017: ₩79,161 million). The machinery are pledged as collateral for the finance lease liabilities.

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2018 and 2017
(Unaudited)

13. Property, Plant and Equipment, Continued

(3) Finance lease and operating lease, Continued

The Group leases certain machinery and others from Macquarie Capital and others under operating lease agreements. The payment schedule of minimum lease payments under operating lease agreements as of September 30, 2018 is as follows:

(In millions of won)

		Minimum lease payments
No later than 1 year	₩	170,949
Later than 1 year		179,935
	₩	<u>350,884</u>

14. Intangible Assets

(1) Changes in intangible assets for the nine-month periods ended September 30, 2018 and 2017 are as follows:

(In millions of won)

		2018	2017
Beginning balance	₩	2,247,290	1,915,591
Acquisition		611,962	622,245
Disposal and retirement		(6,946)	(4,911)
Amortization		(389,993)	(279,087)
Impairment		(3,463)	(47)
Foreign exchange difference		10,337	(16,847)
Ending balance	₩	<u>2,469,187</u>	<u>2,236,944</u>

(2) Among costs associated with development activities, ₩422,270 million that met capitalization criteria were capitalized as development cost for the nine-month period ended September 30, 2018 (2017: ₩411,424 million). In addition, costs associated with research activities and other development expenditures that did not meet the criteria amounted to ₩1,589,573 million were recognized as expenses for the nine-month period ended September 30, 2018 (2017: ₩1,389,797 million).

15. Investment Property

(1) Changes in investment property during the nine-month periods ended September 30, 2018 and 2017 are as follows:

(In millions of won)

		2018	2017
Beginning balance	₩	2,468	2,573
Depreciation		(68)	(79)
Transfer ¹		(984)	-
Ending balance	₩	<u>1,416</u>	<u>2,494</u>

¹ Investment property has been transferred to property, plant and equipment due to the termination of the lease during the nine-month period ended September 30, 2018.

(2) The depreciation expense of ₩68 million was charged to cost of sales for the nine-month period ended September 30, 2018 (2017: ₩79 million).

(3) Rental income from investment property for the nine-month period ended September 30, 2018 was ₩248 million (2017: ₩372 million).

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2018 and 2017
(Unaudited)

16. Borrowings

Details of borrowings as of September 30, 2018 and December 31, 2017 are as follows:

(In millions of won)

		2018	2017
Current			
Short-term borrowings	₩	265,799	192,686
Current installments of long-term borrowings		531,327	361,258
Current installments of debentures		519,728	219,836
		<u>1,316,854</u>	<u>773,780</u>
Non-current			
Long-term borrowings		2,154,754	2,080,333
Debentures		1,505,770	1,317,157
		<u>3,660,524</u>	<u>3,397,490</u>
	₩	<u><u>4,977,378</u></u>	<u><u>4,171,270</u></u>

17. Other Current and Non-current Liabilities

Details of other current and non-current liabilities as of September 30, 2018 and December 31, 2017 are as follows:

(In millions of won)

		2018	2017
Current			
Advance receipts	₩	9,016	3,040
Unearned income		47	81
Withholdings		41,176	39,862
Deposits received		874	989
Contract liabilities		80,176	-
Others		3,488	7,804
		<u>134,777</u>	<u>51,776</u>
Non-current			
Other long-term employee benefits		66,868	63,960
Long-term advance receipts		4,900	4,900
		<u>71,768</u>	<u>68,860</u>
	₩	<u><u>206,545</u></u>	<u><u>120,636</u></u>

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2018 and 2017
(Unaudited)

18. Provisions

(1) Changes in provisions for the nine-month periods ended September 30, 2018 and 2017 are as follows:

(In millions of won)

	2018				
	Beginning Balance	Increase	Utilization / Transfer	Reversal	Ending Balance
Warranty	₩ 3,807	10,508	(9,009)	-	5,306
Sales returns ¹	-	-	-	-	-
Legal claims	9,460	5,119	(9,460)	-	5,119
Emission allowances	37,412	-	-	(4,685)	32,727
	₩ 50,679	15,627	(18,469)	(4,685)	43,152

¹ Due to the application of K-IFRS No.1115 the amount expected to be incurred in the future and the Group's right to collect the product from the customer has been recognized as other current liabilities(contract liabilities) and other current assets(contract assets) respectively.

(In millions of won)

	2017				
	Beginning Balance	Increase	Utilization / Transfer	Reversal	Ending 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
	₩ 42,822	99,086	(74,886)	(400)	66,622

(2) Provisions for warranty

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

(3) Provisions for sales returns

The Group estimated 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*.

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2018 and 2017
(Unaudited)

19. Defined Benefit Liabilities

(1) Details of defined benefit liabilities as of September 30, 2018 and December 31, 2017 are as follows:

(In millions of won)

	2018	2017
Present value of defined benefit obligations	₩ 1,478,151	1,330,559
Fair value of plan assets	(1,330,698)	(1,337,848)
Net defined benefit liabilities (assets)	₩ 147,453	(7,289)
Defined benefit liabilities	147,453	6,096
Defined benefit assets ¹	-	(13,385)

¹ The Parent Company's fair value of plan assets in excess of the present value of defined benefit obligations amounted to ₩13,385 million as of December 31, 2017 is presented as defined benefit assets.

(2) Principal actuarial assumptions as of September 30, 2018 and December 31, 2017 are as follows:

	2018 (%)	2017 (%)
Discount rate for defined benefit obligations	3.81 ~ 4.35	3.81 ~ 4.35
Expected rate of salary increase	2.20 ~ 5.46	2.20 ~ 5.46

(3) Changes in defined benefit obligations for the nine-month periods ended September 30, 2018 and 2017 are as follows:

(In millions of won)

	2018	2017
Beginning balance	₩ 1,330,559	1,195,047
Current service cost	127,355	114,084
Interest cost	42,348	35,191
Transferred from associates	1,277	331
Benefits paid	(23,408)	(25,337)
Others	20	14
Ending balance	₩ 1,478,151	1,319,330

(4) Changes in plan assets for the nine-month periods ended September 30, 2018 and 2017 are as follows:

(In millions of won)

	2018	2017
Beginning balance	₩ 1,337,848	888,559
Interest income	42,559	26,192
Contributions	91	-
Transferred from associates	1,328	334
Benefits paid	(29,982)	(24,848)
Remeasurements	(21,146)	(12,521)
Ending balance	₩ 1,330,698	877,716

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2018 and 2017
(Unaudited)

19. Defined Benefit Liabilities, Continued

(5) The amounts recognized in profit or loss for the three and nine-month periods ended September 30, 2018 and 2017 are as follows:

(In millions of won)

	2018		2017	
	Three-month period	Nine-month period	Three-month period	Nine-month period
Current service cost	₩ 42,440	127,355	38,453	114,084
Net interest cost (income)	(70)	(211)	2,958	8,999
	<u>₩ 42,370</u>	<u>127,144</u>	<u>41,411</u>	<u>123,083</u>

(6) Details of plan assets as of September 30, 2018 and December 31, 2017 are as follows:

(In millions of won)

	2018	2017
Deposits	₩ 1,329,318	1,336,484
Other	1,380	1,364
	<u>₩ 1,330,698</u>	<u>1,337,848</u>

Actual return on plan assets for the nine-month periods ended September 30, 2018 and 2017 amounted to ₩21,412 million and ₩13,671 million, respectively.

(7) Contributions to defined contribution plans amounting to ₩129 million (2017: ₩48 million) was recognized as cost of sales for the nine-month period ended September 30, 2018.

20. Derivative Financial Instruments

(1) There was no derivative financial instruments as of September 30, 2018 and December 31, 2017.

(2) Details of gains and losses from derivative instruments for the three and nine-month period ended September 30, 2017 are as follows (2018 : nil):

(In millions of won)

		2017			
		Gain on valuation		Loss on valuation	
		Three-month period	Nine-month period	Three-month period	Nine-month period
Interest rates swap	₩	(188)	-	-	-

(In millions of won)

		2017			
		Gain on transaction		Loss on transaction	
		Three-month period	Nine-month period	Three-month period	Nine-month period
Interest rates swap	₩	492	902	304	913

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2018 and 2017
(Unaudited)

21. Capital Stock, Capital Surplus and Other Equity

(1) Details of capital stock, capital surplus and other equity as of September 30, 2018 and December 31, 2017 are as follows:

(In millions of won and thousands of shares)

	2018	2017
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	(2,508,427)	(771,913)
Stock options	1,679	813
	<u>₩ (2,506,748)</u>	<u>(771,100)</u>
Number of treasury shares	44,001	22,001

¹ As of September 30, 2018, the number of outstanding shares is 728,002 thousand shares, which differs from total issued shares due to stock retirement.

(2) As of September 30, 2018, the number of outstanding shares decreased to 684,002 thousand shares due to acquisition of treasury stock.

22. Accumulated Other Comprehensive Loss

(1) Details of accumulated other comprehensive loss as of September 30, 2018 and December 31, 2017 are as follows:

(In millions of won)

	2018	2017
Equity-accounted investees – share of other comprehensive loss	₩ (11,076)	(20,442)
Loss on valuation of long-term investment assets ¹	-	(10,735)
Foreign operations – foreign currency translation differences	(492,741)	(471,087)
	<u>₩ (503,817)</u>	<u>(502,264)</u>

¹ As of January 1, 2018, available-for-sale financial assets for equity investments were reclassified to financial assets measured at FVTPL. As a result of this reclassification, as at January 1, 2018, other comprehensive loss of ₩10,735 million was reclassified to retained earnings.

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2018 and 2017
(Unaudited)

22. Accumulated Other Comprehensive Loss, Continued

(2) Changes in accumulated other comprehensive income (loss) for the nine-month periods ended September 30, 2018 and 2017 are as follows:

(In millions of won)

		2018		
		Adjustments on initial application of K-IFRS No.		
		Beginning	Change	Ending
Equity-accounted investees – share of other comprehensive loss	₩	(20,442)	9,366	(11,076)
Loss on valuation of long-term investment assets		(10,735)	-	-
Foreign operations – foreign currency translation differences		(471,087)	(21,654)	(492,741)
	₩	<u>(502,264)</u>	<u>(12,288)</u>	<u>(503,817)</u>

(In millions of won)

		2017		
		Beginning	Change	Ending
Equity-accounted investees – share of other comprehensive income (loss)	₩	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>

23. Retained Earnings

Retained earnings as of September 30, 2018 and December 31, 2017 are as follows:

(In millions of won)

	2018	2017
Legal reserve ¹	₩ 178,955	108,354
Discretionary reserve ²	235,506	235,506
Unappropriated retained earnings ³	38,278,733	26,943,396
	<u>₩ 38,693,194</u>	<u>27,287,256</u>

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

² Discretionary reserve is the reserve for technology development.

³ Dividends in the amount of ₩706,002 million were approved at shareholders' meeting held on March 28, 2018 and paid during the nine-month period ended September 30, 2018.

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2018 and 2017
(Unaudited)

24. Selling and Administrative Expenses

Selling and administrative expenses for the three and nine-month periods ended September 30, 2018 and 2017 are as follows:

(In millions of won)

	2018		2017	
	Three-month period	Nine-month period	Three-month period	Nine-month period
Salaries	₩ 126,936	383,647	124,651	345,671
Defined benefit plan	7,793	23,304	6,669	19,956
Employee benefits	27,227	79,920	21,311	62,195
Commission	85,464	264,381	56,878	170,160
Depreciation	32,808	90,695	24,174	70,119
Amortization	110,027	330,949	104,897	237,846
Freight and custody charge	9,106	21,682	9,780	28,111
Legal cost	6,615	17,039	8,638	25,380
Rental	3,341	9,948	3,186	10,398
Taxes and dues	9,901	19,554	4,518	11,946
Training	7,964	21,335	7,103	17,364
Advertising	21,347	50,845	15,178	36,557
Supplies	26,179	57,495	18,097	50,133
Repair	5,511	18,546	13,796	20,412
Travel and transportation	4,147	11,138	3,063	8,262
Sales promotion	17,981	51,442	11,887	41,710
Others	12,184	34,736	8,089	38,589
	<u>514,531</u>	<u>1,486,656</u>	<u>441,915</u>	<u>1,194,809</u>
Research and development:				
Expenditure on research and development	718,589	2,011,843	638,639	1,801,221
Development cost capitalized	(160,376)	(422,270)	(115,819)	(411,424)
	<u>558,213</u>	<u>1,589,573</u>	<u>522,820</u>	<u>1,389,797</u>
₩	<u><u>1,072,744</u></u>	<u><u>3,076,229</u></u>	<u><u>964,735</u></u>	<u><u>2,584,606</u></u>

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2018 and 2017
(Unaudited)

25. Expenses by Nature

Nature of expenses for the three and nine-month periods ended September 30, 2018 and 2017 is as follows:

(In millions of won)

		2018		2017²	
		Three-month period	Nine-month period	Three-month period	Nine-month period
Changes in finished goods and work-in-process	₩	(235,018)	(795,160)	(37,666)	(412,332)
Raw materials and consumables		1,419,455	3,978,281	1,028,672	2,987,097
Labor costs		797,316	2,421,656	802,729	2,250,107
Depreciation and amortization		1,612,895	4,574,972	1,281,172	3,598,274
Royalty		41,946	134,980	55,946	163,691
Commission		397,477	1,179,141	333,726	889,567
Utilities		294,785	816,506	251,763	696,641
Repair		219,403	675,632	254,047	665,520
Outsourcing		286,975	787,430	228,046	662,541
Others		109,134	319,872	164,457	325,283
Total ¹	₩	<u>4,944,368</u>	<u>14,093,310</u>	<u>4,362,892</u>	<u>11,826,389</u>

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

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2018 and 2017
(Unaudited)

26. Finance Income and Expense

Finance income and expense for the three and nine-month periods ended September 30, 2018 and 2017 are as follows:

(In millions of won)

	2018		2017	
	Three-month period	Nine-month period	Three-month period	Nine-month period
Finance income				
Interest income	₩ 10,598	53,791	14,632	33,983
Dividend income	-	1,979	-	13
Foreign exchange differences ¹	145,913	1,091,720	202,297	672,703
Gain from derivative instruments	-	-	304	902
Gain on valuation of short-term investment assets ³	4,750	9,578	1,201	2,937
Gain on disposal of short-term investment assets ³	11,574	18,874	3,366	8,627
Gain on disposal of long-term investment assets ³	-	248	30,945	30,945
	<u>172,835</u>	<u>1,176,190</u>	<u>252,745</u>	<u>750,110</u>
Finance expense				
Interest expenses	23,404	65,781	32,304	96,330
Foreign exchange differences ²	228,595	863,835	126,927	642,441
Loss from derivative instruments	-	-	304	913
Loss on disposal of long-term investment assets ³	-	-	1	1
	<u>251,999</u>	<u>929,616</u>	<u>159,536</u>	<u>739,685</u>
Net finance income (expense)	<u>₩ (79,164)</u>	<u>246,574</u>	<u>93,209</u>	<u>10,425</u>

¹ Foreign exchange differences from long-term investment assets for the three and nine-month period ended September 30, 2018 amounting to ₩1,272 million are included.

² Foreign exchange differences from long-term investment assets for the three and nine-month period ended September 30, 2018 amounting to ₩40,715 million are included.

³ Gain and loss related to investment assets for the three and nine-month period ended September 30, 2017 were reclassified to conform with the classification for the three and nine-month period ended September 30, 2018.

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2018 and 2017
(Unaudited)

27. Other Income and Expenses

(1) Other income for the three and nine-month periods ended September 30, 2018 and 2017 are as follows:

(In millions of won)

	2018		2017	
	Three-month period	Nine-month period	Three-month period	Nine-month period
Gain on disposal of property, plant and equipment	₩ 17,231	30,475	19,890	29,379
Others	40,260	44,250	4,582	33,316
	<u>₩ 57,491</u>	<u>74,725</u>	<u>24,472</u>	<u>62,695</u>

(2) Other expenses for the three and nine-month periods ended September 30, 2018 and 2017 are as follows:

(In millions of won)

	2018		2017	
	Three-month period	Nine-month period	Three-month period	Nine-month period
Loss on disposal of property, plant and equipment	₩ 4,242	57,759	954	6,284
Loss on disposal of intangible assets	1,834	4,414	730	3,926
Loss on disposal of trade receivables	2,873	6,522	1,776	5,401
Donation	7,035	35,028	3,843	25,179
Impairment of intangible assets	-	3,463	47	47
Others	2,508	9,720	8,192	13,483
	<u>₩ 18,492</u>	<u>116,906</u>	<u>15,542</u>	<u>54,320</u>

28. Income Tax Expense

Income tax expense is recognized based on management's best estimate of the average 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.

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2018 and 2017
(Unaudited)

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, 2018 and 2017 are as follows:

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

	2018		2017	
	Three-month period	Nine-month period	Three-month period	Nine-month period
Profit attributable to ordinary shareholders of the Parent company	₩ 4,693,620	12,143,821	3,054,248	7,420,763
Weighted average number of outstanding ordinary shares ¹	697,358,807	703,089,140	706,001,795	706,001,795
Basic earnings per share (in won)	₩ 6,731	17,272	4,326	10,511

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

(In shares)

	2018		2017	
	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	(30,643,558)	(24,913,225)	(22,000,570)	(22,000,570)
Weighted average number of outstanding ordinary shares	697,358,807	703,089,140	706,001,795	706,001,795

(2) Diluted earnings per share for the three and nine-month periods ended September 30, 2018 are as follows:

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

	2018		2017	
	Three-month period	Nine-month period	Three-month period	Nine-month period
Profit attributable to ordinary shareholders of the Parent Company	₩ 4,693,620	12,143,821	3,054,248	7,420,763
Weighted average number of diluted outstanding ordinary shares ¹	697,448,623	703,181,187	706,046,520	706,010,823
Diluted earnings per share (in won)	₩ 6,730	17,270	4,326	10,511

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

(In shares)

	2018		2017	
	Three-month period	Nine-month period	Three-month period	Nine-month period
Outstanding ordinary shares	697,358,807	703,089,140	706,001,795	706,001,795
Stock options	89,816	92,047	44,725	9,028
Weighted average number of outstanding ordinary shares	697,448,623	703,181,187	706,046,520	706,010,823

30. Transactions with Related Parties and Others

(1) Details of related parties as of September 30, 2018 are as follows:

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2018 and 2017
(Unaudited)

Type	Name of related parties
Associate	Stratio, Inc., SK China Company Limited, Gemini Partners Pte. Ltd., TCL Fund, SK South East Asia Investment Pte. Ltd.
Joint venture	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 and nine-month periods ended September 30, 2018 and 2017 are as follows:

(In millions of won)

		For the three-month period ended September 30, 2018		
	Company	Operating revenue and others	Operating expense and others	Asset acquisition
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	₩ 2,632	163,908	1,901
	Hystars Semiconductor (Wuxi) Co., Ltd.	108	-	-
Other related parties	SK Telecom Co., Ltd. ¹	14	3,414	3,249
	SK Holdings Co., Ltd. ²	510	53,246	50,915
	ESSENCORE Limited	217,783	-	-
	SK Engineering & Construction Co., Ltd.	804	135	738,938
	SK Energy Co., Ltd.	781	11,604	-
	SK Networks Co., Ltd.	-	1,646	-
	SKC solmics Co., Ltd.	-	4,376	384
	Chungcheong energy service Co., Ltd.	-	2,541	-
	Happynarae Co., Ltd.	9	134,720	18,074
	SK Materials Co., Ltd.	-	17,686	-
	SK Siltron Co., Ltd.	1,224	94,976	-
	Others	86	97,140	8,123
		₩ <u>223,951</u>	<u>585,392</u>	<u>821,584</u>

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2018 and 2017
(Unaudited)

30. Related Party Transactions, Continued

(2) Significant transactions for the three and nine-month periods ended September 30, 2018 and 2017 are as follows, Continued:

(In millions of won)

For the nine-month period ended September 30, 2018						
	Company		Operating revenue and others	Operating expense and others	Asset acquisition	Dividend income
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	₩	3,318	464,832	1,901	13,120
	Hystars Semiconductor (Wuxi) Co., Ltd.		108	-	-	-
Other related parties	SK Telecom Co., Ltd. ¹		220	158,326	6,772	-
	SK Holdings Co., Ltd. ²		1,102	166,857	170,888	-
	ESSEN CORE Limited		712,307	-	-	-
	SK Engineering & Construction Co., Ltd.		3,806	427	1,770,175	-
	SK Energy Co., Ltd.		3,417	49,352	-	-
	SK Networks Co., Ltd.		-	4,016	10,600	-
	SKC solmics Co., Ltd.		-	14,060	847	-
	Chungcheong energy service Co., Ltd.		-	11,719	203	-
	Happynarae Co., Ltd.		29	384,833	42,786	-
	SK Materials Co., Ltd.		-	49,326	-	-
	SK Siltron Co., Ltd.		3,333	243,260	-	-
	Others		249	228,573	24,188	-
	₩	727,889	1,775,581	2,028,360	13,120	

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

² For the nine-month period ended September 30, 2018, royalty paid for the use of the SK brand amounted to ₩46,466 million.

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2018 and 2017
(Unaudited)

30. Related Party Transactions, Continued

(2) Significant transactions for the three and nine-month periods ended September 30, 2018 and 2017 are as follows, Continued:

(In millions of won)

For the three-month period ended September 30, 2017				
	Company	Operating revenue and others	Operating expense and others	Asset acquisition
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

(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	-
	₩	564,662	1,245,782	806,245	14,828

¹ Operating expense and others include dividend payments of ₩87,660 million.

² For the nine-month period ended September 30, 2017, royalty paid for the use of the SK brand amounted to ₩26,180 million.

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2018 and 2017
(Unaudited)

30. Related Party Transactions, Continued

(3) The balances of significant transactions as of September 30, 2018 and December 31, 2017 are as follows:

(In millions of won)

		2018	
	Company	Trade receivables and others	Other payables and others
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	₩ 1,921	109,154
	Hystars Semiconductor (Wuxi) Co., Ltd.	93	-
Other related parties	SK Telecom Co., Ltd.	-	4,577
	SK Holdings Co., Ltd.	5,583	136,557
	ESSEN CORE Limited	64,328	-
	SK Engineering & Construction Co., Ltd.	8,737	678,914
	SK Energy Co., Ltd.	169	3,383
	SK Networks Co., Ltd.	-	406
	SKC solmics Co., Ltd.	-	2,874
	Chungcheong energy service Co., Ltd.	-	954
	Happynarae Co., Ltd.	4	32,528
	SK Materials Co., Ltd.	-	16,274
	SK Siltron Co., Ltd. ¹	151,033	38,909
	Others	79	75,161
		₩ <u>231,947</u>	<u>1,099,691</u>

(In millions of won)

		2017	
	Company	Trade receivables and others	Other payables and others
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	₩ -	90,782
Other related parties	SK Telecom Co., Ltd.	94	3,014
	SK Holdings Co., Ltd.	5,530	108,038
	ESSEN CORE Limited	90,367	-
	SK Engineering & Construction Co., Ltd.	7,327	946,517
	SK Energy Co., Ltd.	500	10,505
	SK Networks Co., Ltd.	-	1,395
	SKC solmics Co., Ltd.	-	3,393
	Chungcheong energy service Co., Ltd.	11	2,128
	Happynarae Co., Ltd.	3	55,126
	SK Materials Co., Ltd.	-	11,692
	SK Siltron Co., Ltd. ¹	150,521	21,071
	Others	90	99,043
		₩ <u>254,443</u>	<u>1,352,704</u>

¹ The Group has paid ₩150,000 million in advance for the purchase of wafers during the year ended December 31, 2017 (See Note 31).

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2018 and 2017
(Unaudited)

30. Related Party Transactions, Continued

(4) Key management compensation

Key management includes the Parent company's 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, 2018 and 2017 are as follows:

(In millions of won)

	2018		2017	
	Three-month period	Nine-month period	Three-month period	Nine-month period
Salaries	₩ 28,184	78,803	32,418	79,001
Defined benefit plan	2,631	7,821	2,167	6,621
Share-based payment	297	866	263	548
Others	4	12	3	9
	<u>₩ 31,116</u>	<u>87,502</u>	<u>34,851</u>	<u>86,179</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 and nine-month periods ended September 30, 2018 and 2017 are as follows. These entities are not related parties according to K-IFRS No. 1024, 'Related Party Disclosures'.

(In millions of won)

		2018	
		Operating expense	
	Company	Three-month period	Nine-month period
Companies in the Conglomerate	SK Chemicals Co., Ltd.	₩ 292	882

(In millions of won)

		2017	
		Operating expense	
	Company	Three-month period	Nine-month period
Companies in the Conglomerate	SK Chemicals Co., Ltd.	₩ 310	870

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2018 and 2017
(Unaudited)

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, 2018 and December 31, 2017 are as follows. These entities are not related parties according to K-IFRS No. 1024, 'Related Party Disclosures'.

(In millions of won)

		2018	
	Company		Other payables and others
Companies in the Conglomerate	SK Chemicals Co., Ltd.	₩	290

(In millions of won)

		2017	
	Company		Other payables and others
Companies in the Conglomerate	SK Discovery Co., Ltd	₩	339
	SK Chemicals Co., Ltd.		38
		₩	377

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2018 and 2017
(Unaudited)

31. Commitments and Contingencies

(1) Significant pending litigations and claims of the Group as of September 30, 2018 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 U.S. District Court for the Central District of California, USA, on August 31, 2016 and June 14, 2017, to US International Trade Commission on September 1, 2016 and on October 31, 2017, to the German District court of Munich and the Beijing Intellectual Property Court, respectively on July 11, 2017. As of September 30, 2018, the patent infringement lawsuits filed by Netlist, Inc. in the U.S. and Germany 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 Court determined that the patent litigation was invalid on May 30, 2018. Accordingly, the patent infringement lawsuit was dismissed on June 26, 2018.

(b) Hagens Berman's price-fixing class-action lawsuit

Hagens Berman (attorneys) filed a class-action lawsuit against the Parent Company and its subsidiary, SK hynix America Inc. on April 27, 2018 in the Northern District of California, USA., for price-fixing. As of September 30, 2018, the filed lawsuits have not been finalized and the final result cannot be predicted.

(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. As of the year ended September 30, 2018 the final result of the investigation cannot be predicted.

(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 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 contract with Veolia Water Industrial Development Co., Ltd ("VWID"), under which the Group purchases industrial water from VWID. The old contract was expired in May, 2018 and new contract was signed for 5 years from June, 2018 to May, 2023. According to the contract, the Group is obligated to pay Base Service Charge which are predetermined and Additional Service Charge 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.

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2018 and 2017
(Unaudited)

31. Commitments and Contingencies, Continued

(5) Assets provided as collateral

Details of assets provided as collateral as of September 30, 2018 are as follows:

(In millions of won)

	Book value	Pledged amount	Remark
Land	₩ 1,260		
Buildings	6,810	939,664	Borrowings for equipment and others
Machinery	656,710		
	₩ 664,780	939,664	

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, 2018 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
		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 USD	2,000 492
SK Hynix America Inc. and other sales entities	Citibank and others	Accounts receivable factoring contracts which have no right to recourse	USD	369
Domestic subsidiaries	KEB Hana Bank and others	Import finance including usance	USD	45
		Export finance including bills bought	KRW	46,000
		Agent contract for procurement payment	KRW	12,500

(7) Details of guarantees provided to others as of September 30, 2018 are as follows:

(In millions of won)

	Amount	Remark
Employees	₩ 5	Guarantees for employees' borrowings relating to employee stock ownership plan

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2018 and 2017
(Unaudited)

31. Commitments and Contingencies, Continued

(8) Capital commitments

The Group's commitments in relation to the capital expenditures on property, plant and equipment as of September 30, 2018 are ₩2,100,358 million (as of December 31, 2017: ₩661,588million).

(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 stable supply of wafer with an advanced payment of ₩ 150,000 million during the year ended December 31, 2017. In addition, SK Siltron Co., Ltd. has committed to provide certain portion of its investment assets as collateral to secure the advanced payment of ₩ 150,000 million prepaid by the Group.

(10) SK hynix system ic Inc.'s joint-venture investment agreement

SK hynix system ic Inc. ("SKHYIC"), a consolidated subsidiary of the Group, has entered into a joint venture agreement with Wuxi Industrial Development Group Co., Ltd. (China) and Hystars Semiconductor (Wuxi) Co., Ltd. SKHYIC owns more than 50% of the equity interest in the investee. Pursuant to the joint venture agreement, which requires unanimous vote of the board for significant decisions in the investee. Based on the requirements in K-IFRS 1111 the above is accounted for as a joint venture. SKHYIC invested USD 75,150 thousand on July 23, 2018.

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2018 and 2017
(Unaudited)

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, 2018 and 2017 are as follows:

(In millions of won)

	2018	2017
Profit for the period	₩ 12,142,065	7,422,719
Adjustment		
Income tax expense	4,487,454	1,859,600
Defined benefit plan	127,144	123,083
Depreciation of property, plant and equipment	4,285,162	3,408,687
Depreciation of investment property	68	79
Amortization	389,993	279,087
Compensation expense associated with stock option	866	548
Loss on disposal of property, plant and equipment	57,759	6,284
Loss on disposal of intangible assets	4,414	3,926
Loss on impairment of intangible assets	3,463	47
Interest expense	65,781	96,330
Loss on foreign currency translation	188,233	40,526
Gain on equity method investments, net	(11,451)	(8,027)
Gain on disposal of property, plant and equipment	(30,475)	(29,379)
Gain on valuation of short-term investment assets	(9,578)	(2,937)
Gain on disposal of short-term investment assets	(18,874)	(8,627)
Gain on disposal of long-term investment assets	(248)	(30,945)
Loss on derivative instruments, net	-	11
Interest income	(53,791)	(33,983)
Gain on foreign currency translation	(69,563)	(213,079)
Others, net	4,661	5,430
Changes in operating assets and liabilities		
Increase in trade receivables	(2,056,686)	(2,105,702)
Decrease (increase) in loans and other receivables	19,914	(1,591)
Increase in inventories	(1,051,823)	(532,470)
Decrease (Increase) in other assets	(18,494)	(123,189)
Increase (decrease) in trade payables	(79,100)	142,577
Increase (decrease) in other payables	34,583	(46,469)
Increase (decrease) in other non-trade payables	(199,454)	316,910
Increase (decrease) in provisions	(38,214)	23,840
Increase (decrease) in other liabilities	87,007	(7,308)
Contributions to plan assets	(91)	-
Payment of defined benefit liabilities	(8,541)	(13,846)
Cash generated from operating activities	₩ 18,252,184	10,572,132

(2) Details of significant transactions without inflows and outflows of cash for the nine-month periods ended September 30, 2018 and 2017 are as follows:

(In millions of won)

	2018	2017
In-kind contribution for SK China Company Limited	₩ -	143,208
Increase in other payables related to acquisition of property, plant and equipment	94,604	-

32. Cash Generated from Operating Activities, Continued

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2018 and 2017
(Unaudited)

(3) Changes in liabilities arising from financial activities during the years ended September 30, 2018 and 2017 are as follows:

(In millions of won)

	2018	2017
Beginning balance	₩ 4,171,270	4,335,978
Cash flows from financing activities		
Proceeds from borrowings	2,407,194	752,944
Repayments of borrowings	(1,656,045)	(691,642)
Foreign currency differences	53,767	(95,054)
Present value discount (interest expense)	1,192	1,312
Ending balance	₩ 4,977,378	4,303,538

33. Share-based Payment

(1) The Group granted equity-settled share options to the Group's key management during the nine-month period ended September 30, 2018 and the details of the share options as of September 30, 2018 are as follows:

(In shares)

	Total numbers of share option granted	Exercised	Forfeited or Cancelled	Outstanding at September 30, 2018
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
	<u>313,770</u>	<u>-</u>	<u>-</u>	<u>313,770</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
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

(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
Expected volatility	23.23%	23.23%	23.23%	22.50%	25.30%
Estimated fair value of share option (in won)	10,026	9,613	9,296	16,687	18,362
Dividend yield ratio	1.20%	1.20%	1.20%	0.78%	1.23%
Risk free ratio	1.86%	1.95%	2.07%	2.38%	2.46%

(3) The compensation expense for the nine-month period ended September 30, 2018 was ₩866 million (2017: ₩548 million).

34. Subsequent Event

(1) SK hynix system ic Inc.'s investment

SK hynix system ic Inc., a consolidated subsidiary of the parent company, invested USD 10 millions to Semiconductor manufacturing and sales company in China in November 2018.

SK HYNIX, INC. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

September 30, 2018 and 2017

(Unaudited)