

SK HYNIX, INC. and Subsidiaries

Condensed Consolidated Interim Financial Statements

March 31, 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	10

Independent Auditors' Review Report

Based on a report originally issued in Korean

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

Reviewed financial statements

We have reviewed the accompanying condensed consolidated interim financial statements of SK hynix, Inc. and its subsidiaries (the "Group") which comprise the condensed consolidated statement of financial position as of March 31, 2018, the condensed consolidated statements of comprehensive income, changes in equity and cash flows for the three-month periods ended March 31, 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
May 11, 2018

This report is effective as of May 11, 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 March 31, 2018 and December 31, 2017
(Unaudited)

(In millions of won)

	<u>Note</u>	<u>2018</u>	<u>2017</u>
Assets			
Current assets			
Cash and cash equivalents	5,6 ₩	3,477,358	2,949,991
Short-term financial instruments	5,6,7	3,312,376	4,674,862
Short-term investment assets	5,6	1,476,079	929,801
Trade receivables, net	5,6,8,30	5,574,098	5,552,795
Loans and other receivables, net	5,6,8	53,127	37,613
Inventories, net	9	3,103,142	2,640,439
Current tax assets		421	1,305
Other current assets	10	636,277	523,638
		<u>17,632,878</u>	<u>17,310,444</u>
Non-current assets			
Investments in associates and joint ventures	11	350,031	359,864
Long-term investment assets	5,6,12	56,120	43,226
Loans and other receivables, net	5,6,8	46,571	42,410
Other financial assets	5,6,7	283	273
Property, plant and equipment, net	13,31	27,364,769	24,062,601
Intangible assets, net	14	2,304,852	2,247,290
Investment property, net	15	2,442	2,468
Deferred tax assets		610,667	599,783
Employee benefit assets		-	13,385
Other non-current assets	10	756,510	736,720
		<u>31,492,245</u>	<u>28,108,020</u>
Total assets	₩	<u>49,125,123</u>	<u>45,418,464</u>

See accompanying notes to the condensed consolidated interim financial statements.

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

(In millions of won)

	<u>Note</u>	<u>2018</u>	<u>2017</u>
Liabilities			
Current liabilities			
Trade payables	5,6 ₩	779,527	758,578
Other payables	5,6,23,30	4,622,901	2,724,547
Other non-trade payables	5,6	670,845	1,340,225
Borrowings	5,6,16	598,104	773,780
Provisions	18	63,540	81,351
Current tax liabilities		2,508,545	2,385,876
Other current liabilities	17	109,311	51,776
		<u>9,352,773</u>	<u>8,116,133</u>
Non-current liabilities			
Other non-trade payables	5,6	3,562	3,412
Borrowings	5,6,16	3,268,605	3,397,490
Defined benefit liabilities, net	19	49,644	6,096
Deferred tax liabilities		2,708	5,554
Other non-current liabilities	17	69,345	68,860
		<u>3,393,864</u>	<u>3,481,412</u>
Total liabilities		<u>12,746,637</u>	<u>11,597,545</u>
Equity			
Equity attributable to owners of the Parent Company			
Capital stock	21	3,657,652	3,657,652
Capital surplus	21	4,143,736	4,143,736
Other equity	21	(770,825)	(771,100)
Accumulated other comprehensive loss	22	(342,468)	(502,264)
Retained earnings	23	29,683,733	27,287,256
Total equity attributable to owners of the Parent Company		<u>36,371,828</u>	<u>33,815,280</u>
Non-controlling interests		<u>6,658</u>	<u>5,639</u>
Total equity		<u>36,378,486</u>	<u>33,820,919</u>
Total liabilities and equity	₩	<u>49,125,123</u>	<u>45,418,464</u>

See accompanying notes to the condensed consolidated interim financial statements.

SK HYNIX, INC. and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

(In millions of won, except per share information)

	<u>Note</u>	<u>2018</u>	<u>2017</u>
Revenue	4	₩ 8,719,691	6,289,518
Cost of sales	25	3,383,214	2,984,822
Gross profit		<u>5,336,477</u>	<u>3,304,696</u>
Selling and administrative expense	24,25	969,139	837,097
Operating profit		4,367,338	2,467,599
Finance income	26	240,135	377,849
Finance expenses	26	313,278	467,249
Share of profit (loss) of equity-accounted investees	11	4,526	(227)
Other income	27	7,066	5,592
Other expenses	27	14,977	13,421
Profit before income tax		<u>4,290,810</u>	<u>2,370,143</u>
Income tax expense	28	1,169,481	471,465
Profit for the period		<u>3,121,329</u>	<u>1,898,678</u>
Other comprehensive income (loss)			
Item that will never be reclassified to profit or loss:			
Remeasurements of defined benefit liability, net of tax	19	(7,040)	(4,170)
Items that are or may be reclassified to profit or loss:			
Foreign operations – foreign currency translation differences, net of tax	22	150,244	(315,967)
Equity-accounted investees – share of other comprehensive loss, net of tax	11,22	(1,239)	(9,574)
Other comprehensive income(loss) for the period, net of tax		<u>141,965</u>	<u>(329,711)</u>
Total comprehensive income for the period		<u>₩ 3,263,294</u>	<u>1,568,967</u>

See accompanying notes to the condensed consolidated interim financial statements.

SK HYNIX, INC. and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income, Continued
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

(In millions of won, except per share information)

	<u>Note</u>	<u>2018</u>	<u>2017</u>
Profit attributable to:			
Owners of the Parent Company	₩	3,120,254	1,897,969
Non-controlling interests		1,075	709
Total comprehensive income attributable to:			
Owners of the Parent Company		3,262,275	1,568,951
Non-controlling interests		1,019	16
Earnings per share			
Basic earnings per share (in won)	29	4,420	2,688
Diluted earnings per share (in won)	29	4,419	2,688

See accompanying notes to the condensed consolidated interim financial statements.

SK HYNIX, INC. and Subsidiaries
Condensed Consolidated Statements of Changes in Equity

For the three-month periods ended March 31, 2018 and 2017

(Unaudited)

	Note	Attributable to owners of the Parent Company						Non-controlling interests	Total equity
		Capital stock	Capital surplus	Other equity	Accumulated other comprehensive income (loss)	Retained earnings	Total		
Balance at January 1, 2017		₩ 3,657,652	4,143,736	(771,913)	(79,103)	17,066,583	24,016,955	6,575	24,023,530
Total comprehensive income:									
Profit for the period		-	-	-	-	1,897,969	1,897,969	709	1,898,678
Remeasurements of defined benefit liability, net of tax	19	-	-	-	-	(4,170)	(4,170)	-	(4,170)
Other comprehensive loss from joint venture and associate, net of tax	11,22	-	-	-	(9,574)	-	(9,574)	-	(9,574)
Foreign currency translation differences for foreign operations, net of tax	22	-	-	-	(315,274)	-	(315,274)	(693)	(315,967)
Total comprehensive income		<u>-</u>	<u>-</u>	<u>-</u>	<u>(324,848)</u>	<u>1,893,799</u>	<u>1,568,951</u>	<u>16</u>	<u>1,568,967</u>
Transactions with owners of the Parent Company:									
Dividends paid	23	-	-	-	-	(423,601)	(423,601)	-	(423,601)
Share-based payment transactions	33	-	-	23	-	-	23	-	23
Transactions with owners of the Parent Company		<u>-</u>	<u>-</u>	<u>23</u>	<u>-</u>	<u>(423,601)</u>	<u>(423,578)</u>	<u>-</u>	<u>(423,578)</u>
Balance at March 31, 2017		₩ <u>3,657,652</u>	<u>4,143,736</u>	<u>(771,890)</u>	<u>(403,951)</u>	<u>18,536,781</u>	<u>25,162,328</u>	<u>6,591</u>	<u>25,168,919</u>

See accompanying notes to the condensed consolidated interim financial statements.

SK HYNIX, INC. and Subsidiaries
Condensed Consolidated Statements of Changes in Equity, Continued
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

		Attributable to owners of the Parent Company									
							Accumulated other comprehensive income (loss)	Retained earnings	Total	Non- controlling interests	Total equity
Note		Capital stock	Capital surplus	Other equity							
		₩ 3,657,652	4,143,736	(771,100)	(502,264)	27,287,256	33,815,280	5,639	33,820,919		
	3	-	-	-	10,735	(10,735)	-	-	-		
		3,657,652	4,143,736	(771,100)	(491,529)	27,276,521	33,815,280	5,639	33,820,919		
		-	-	-	-	3,120,254	3,120,254	1,075	3,121,329		
	19	-	-	-	-	(7,040)	(7,040)	-	(7,040)		
	11,22	-	-	-	(1,239)	-	(1,239)	-	(1,239)		
	22	-	-	-	150,300	-	150,300	(56)	150,244		
		-	-	-	149,061	3,113,214	3,262,275	1,019	3,263,294		
	23	-	-	-	-	(706,002)	(706,002)	-	(706,002)		
	33	-	-	275	-	-	275	-	275		
		-	-	275	-	(706,002)	(705,727)	-	(705,727)		
		₩ 3,657,652	4,143,736	(770,825)	(342,468)	29,683,733	36,371,828	6,658	36,378,486		

See accompanying notes to the condensed consolidated interim financial statements.

SK HYNIX, INC. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
For the three-month periods ended March 31, 2018 and 2017
(Unaudited)

(In millions of won)

	<u>Note</u>	<u>2018</u>	<u>2017</u>
Cash flows from operating activities			
Cash generated from operating activities	32 ₩	5,575,680	3,007,646
Interest received		28,192	2,619
Interest paid		(30,195)	(29,920)
Dividends received		346	-
Income tax paid		(1,050,447)	(160,325)
Net cash provided by operating activities		<u>4,523,576</u>	<u>2,820,020</u>
Cash flows from investing activities			
Decrease in short-term financial instruments, net		1,301,927	130,000
Decrease (increase) in short-term investment assets, net		(491,621)	685,229
Collection of loans and other receivables		2,189	3,559
Increase in loans and other receivables		(6,033)	(3,362)
Proceeds from disposal of long-term investment assets		558	452
Acquisition of long-term investment assets		(12,994)	(1,799)
Decrease in other financial assets		-	1
Cash inflows from derivative transactions		-	203
Cash outflows from derivative transactions		-	(308)
Proceeds from disposal of property, plant and equipment		5,971	2,125
Acquisition of property, plant and equipment		(4,317,223)	(2,018,470)
Acquisition of intangible assets		(192,226)	(194,297)
Net cash used in investing activities	₩	<u>(3,709,452)</u>	<u>(1,396,667)</u>
Cash flows from financing activities			
Proceeds from borrowings	32 ₩	298,732	344,893
Repayments of borrowings	32	(599,737)	(167,358)
Net cash provided by (used in) financing activities		<u>(301,005)</u>	<u>177,535</u>
Effect of movements in exchange rates on cash and cash equivalents		14,248	(51,888)
Net increase in cash and cash equivalents		527,367	1,549,000
Cash and cash equivalents at beginning of the period		2,949,991	613,786
Cash and cash equivalents at end of the period	₩	<u>3,477,358</u>	<u>2,162,786</u>

See accompanying notes to the condensed consolidated interim financial statements

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
March 31, 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 March 31, 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	559,901,795	76.91
Treasury shares	22,000,570	3.02
	728,002,365	100.00

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

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
March 31, 2018 and 2017
(Unaudited)

1. Reporting Entity, Continued

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

Company	Location	Business	Ownership (%)	
			2018	2017
SK hyeng Inc.	Korea	Domestic subsidiary	100.00	100.00
SK hystec Inc.	Korea	Domestic subsidiary	100.00	100.00
Siliconfile Technologies Inc. ¹		Development and manufacturing of electronic component		
	Korea		-	100.00
Happy More Inc.	Korea	Domestic subsidiary	100.00	100.00
SK hynix system ic Inc.	Korea	Foundry business	100.00	100.00
SK hynix America Inc. (SKHYA)	U.S.A.	Overseas sales subsidiary	97.74	97.74
SK hynix Deutschland GmbH (SKHYD)	Germany	Overseas sales subsidiary	100.00	100.00
SK hynix Asia Pte. Ltd. (SKHYS)	Singapore	Overseas sales subsidiary	100.00	100.00
SK hynix Semiconductor Hong Kong Ltd. (SKHYH)	Hong Kong	Overseas sales subsidiary	100.00	100.00
SK hynix U.K. Ltd. (SKHYU)	U.K.	Overseas sales subsidiary	100.00	100.00
SK hynix Semiconductor Taiwan Inc. (SKHYT)	Taiwan	Overseas sales subsidiary	100.00	100.00
SK hynix Japan Inc. (SKHYJ)	Japan	Overseas sales subsidiary	100.00	100.00
SK hynix Semiconductor (Shanghai) Co., Ltd. (SKHYCS)	China	Overseas sales subsidiary	100.00	100.00
SK hynix Semiconductor India Private Ltd. (SKHYIS) ²	India	Overseas sales subsidiary	100.00	100.00
SK hynix (Wuxi) Semiconductor Sales Ltd. (SKHYCW)	China	Overseas sales subsidiary	100.00	100.00
SK hynix Semiconductor (China) Ltd. (SKHYCL)	China	Overseas manufacturing subsidiary	100.00	100.00
SK hynix Semiconductor (Wuxi) Ltd. (SKHYMC)	China	Overseas manufacturing subsidiary	100.00	100.00
SK hynix Semiconductor (Chongqing) Ltd. (SKHYCQL) ³	China	Overseas manufacturing subsidiary	100.00	100.00
SK hynix Italy S.r.l (SKHYIT)	Italy	Overseas R&D center	100.00	100.00
SK hynix memory solutions Inc. (SKHMS)	U.S.A.	Overseas R&D center	100.00	100.00
SK hynix Flash Solution Taiwan (SKHYFST)	Taiwan	Overseas R&D center	100.00	100.00
Softerq Flash Solutions LLC. (SOFTEQ)	Belarus	Overseas R&D center	100.00	100.00
SK APTECH Ltd. (SKAPTECH)	Hong Kong	Holding company	100.00	100.00
SK hynix Venture Hong Kong Ltd. (SKH Ventures)	Hong Kong	Overseas investment subsidiary	100.00	100.00
MMT (Money Market Trust)	Korea	Money Market Trust	100.00	100.00

¹ SK hynix system ic Inc. merged Siliconfile Technologies Inc. during the three-month period ended March 31, 2018.

² Subsidiary of SK hynix Asia Pte. Ltd.

³ Subsidiary of SK APTECH Ltd.

(3) Changes in the consolidated subsidiaries during the the three-month period ended March 31, 2018 are follows:

Company	Description
Excluded from consolidation	Siliconfile Technologies Inc. Excluded due to merger

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
March 31, 2018 and 2017
(Unaudited)

1. Reporting Entity, Continued

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

(In millions of won)

	2018			2017		
	Assets	Liabilities	Equity	Assets	Liabilities	Equity
SK hynix America Inc. (SKHYA)	₩ 2,486,416	2,178,243	308,173	2,522,348	2,259,210	263,138
SK hynix Deutschland GmbH (SKHYD)	114,017	75,693	38,324	108,470	70,430	38,040
SK hynix Asia Pte. Ltd. (SKHYS)	629,164	554,446	74,718	636,286	559,400	76,886
SK hynix Semiconductor Hong Kong Ltd. (SKHYH)	867,902	769,217	98,685	1,043,889	918,305	125,584
SK hynix U.K. Ltd. (SKHYU)	326,364	311,370	14,994	325,434	308,999	16,435
SK hynix Semiconductor Taiwan Inc. (SKHYT)	622,899	591,346	31,553	566,155	536,592	29,563
SK hynix Japan Inc. (SKHYJ)	1,116,029	1,052,459	63,570	632,590	569,810	62,780
SK hynix Semiconductor (Shanghai) Co., Ltd. (SKHYCS)	805,886	765,384	40,502	414,850	379,888	34,962
SK hynix Semiconductor (China) Ltd. (SKHYCL)	4,436,399	533,489	3,902,910	4,043,100	322,545	3,720,555
SK hynix Semiconductor (Chongqing) Ltd. (SKHYCQL)	458,039	155,612	302,427	388,033	195,849	192,184

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
March 31, 2018 and 2017
(Unaudited)

1. Reporting Entity, Continued

(5) Major subsidiaries' summarized separate statements of comprehensive income (loss) for the three-month periods ended March 31, 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 America Inc. (SKHYA)	₩ 2,997,192	46,490	46,490	2,102,429	24,718	24,718
SK hynix Deutschland GmbH (SKHYD)	121,872	(690)	(690)	111,530	(1,352)	(1,352)
SK hynix Asia Pte. Ltd. (SKHYS)	716,691	(1,829)	(1,829)	515,220	(576)	(576)
SK hynix Semiconductor Hong Kong Ltd. (SKHYH)	1,451,249	(26,026)	(26,026)	2,162,477	(1,112)	(1,112)
SK hynix U.K. Ltd. (SKHYU)	290,593	(1,373)	(1,373)	220,478	(946)	(946)
SK hynix Semiconductor Taiwan Inc. (SKHYT)	759,872	1,405	1,405	594,164	(11,847)	(11,847)
SK hynix Japan Inc. (SKHYJ)	275,260	(2,638)	(2,638)	179,439	(3,676)	(3,676)
SK hynix Semiconductor (Shanghai) Co., Ltd. (SKHYCS)	1,765,629	4,223	4,223	44,504	(1,569)	(1,569)
SK hynix Semiconductor (China) Ltd. (SKHYCL)	575,533	44,964	44,964	513,122	7,457	7,457
SK hynix Semiconductor (Chongqing) Ltd. (SKHYCQL)	92,511	6,581	6,581	77,076	1,826	1,826

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

SK HYNIX, INC. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

March 31, 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.

This is the first set of the Group's financial statements where K-IFRS No. 1109 and K-IFRS No. 1115 have been applied. Changes to significant accounting policies are described in Note 3.

(2) Use of estimates and judgments

(a) Critical judgments, assumptions and estimation uncertainties

The preparation of the condensed consolidated interim financial statements in conformity with K-IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates if estimates and assumptions that are based on management's best judgment at the end of the interim reporting period differ from the actual environment.

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as of and for the year ended December 31, 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
March 31, 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 in accounting policies are also expected to be reflected in the Group's consolidated financial statements as of and for the year ending December 31, 2018.

(1) Changes in 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
March 31, 2018 and 2017
(Unaudited)

3. Significant Accounting Policies, Continued

(1) Changes in 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 Group's 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
	<u>17,310,444</u>	<u>17,884</u>	<u>17,328,328</u>
Non-current assets	28,108,020	-	28,108,020
Total assets	<u>45,418,464</u>	<u>17,884</u>	<u>45,436,348</u>
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
	<u>8,116,133</u>	<u>17,884</u>	<u>8,134,017</u>
Non-current liabilities	3,481,412	-	3,481,412
Total liabilities	<u>11,597,545</u>	<u>17,884</u>	<u>11,615,429</u>
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	<u>33,820,919</u>	<u>-</u>	<u>33,820,919</u>
Total liabilities and equity	<u>₩ 45,418,464</u>	<u>17,884</u>	<u>45,436,348</u>

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
March 31, 2018 and 2017
(Unaudited)

3. Significant Accounting Policies, Continued

(1) Changes in 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 Group's condensed interim consolidated statement of financial position as of March 31, 2018.

(In millions of won)

	As reported	Adjustments - Sales with right of return	Amounts without adoption of K-IFRS No. 1115
Assets			
Current assets			
Other current assets	₩ 636,277	(18,638)	617,639
Others	16,996,601	-	16,996,601
	<u>17,632,878</u>	<u>(18,638)</u>	<u>17,614,240</u>
Non-current assets	31,492,245	-	31,492,245
Total assets	<u>49,125,123</u>	<u>(18,638)</u>	<u>49,106,485</u>
Liabilities			
Current liabilities			
Provisions	63,540	32,351	95,891
Other current liabilities	109,311	(50,989)	58,322
Others	9,179,922	-	9,179,922
	<u>9,352,773</u>	<u>(18,638)</u>	<u>9,334,135</u>
Non-current liabilities	3,393,864	-	3,393,864
Total liabilities	<u>12,746,637</u>	<u>(18,638)</u>	<u>12,727,999</u>
Equity			
Total equity attributable to owners of the Parent Company	36,371,828	-	36,371,828
Non-controlling interests	6,658	-	6,658
Total equity	<u>36,378,486</u>	<u>-</u>	<u>36,378,486</u>
Total liabilities and equity	<u>₩ 49,125,123</u>	<u>(18,638)</u>	<u>49,106,485</u>

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
March 31, 2018 and 2017
(Unaudited)

3. Significant Accounting Policies, Continued

(1) Changes in accounting policies, Continued

The following tables summarize the impacts of adopting K-IFRS No. 1115 on the Group's condensed interim consolidated statements of comprehensive income for the three-month period ended March 31, 2018. There was no material impact on the Group's condensed consolidated statements of cash flows for the three-month period ended March 31, 2018.

(In millions of won)

	As reported	Adjustments - Delivery of product	Amounts without adoption of K-IFRS No. 1115
Revenue	₩ 8,719,691	-	8,719,691
Cost of sales	3,383,214	(5,454)	3,377,760
Gross profit	5,336,477	5,454	5,341,931
Selling and administrative expense	969,139	5,454	974,593
Operating profit	4,367,338	-	4,367,338
Finance income	240,135	-	240,135
Finance expenses	313,278	-	313,278
Share of profit of equity-accounted investees	4,526	-	4,526
Other income	7,066	-	7,066
Other expenses	14,977	-	14,977
Profit before income tax	4,290,810	-	4,290,810
Income tax expense	1,169,481	-	1,169,481
Profit for the period	3,121,329	-	3,121,329
Other comprehensive income	141,965	-	141,965
Total comprehensive income for the period	₩ 3,263,294	-	3,263,294

(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.

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

(In millions of won)

3. Significant Accounting Policies, Continued

(1) Changes in 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
March 31, 2018 and 2017
(Unaudited)

3. Significant Accounting Policies, Continued

(1) Changes in 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 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 finance Instruments	Loans and receivables	Amortization cost	929,801	929,801
Short-term investment assets	Financial assets at fair value through profit or loss	FVTPL	4,674,862	4,674,862
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 finance 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
March 31, 2018 and 2017
(Unaudited)

3. Significant Accounting Policies, Continued

(1) Changes in 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 income of ₩ (-)10,735 million was reclassified to retained earnings. There was no change in fair value in these financial assets for the period ended March 31, 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. As a result of applying K-IFRS No. 1109, as of January 1, 2018, the Group recognized the impairment loss on debt instruments at an amount equal to the lifetime expected credit losses.

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.

(iii) Hedge accounting

The Group decided to apply the requirements of hedge accounting when the Group applied K-IFRS No. 1109 for the first time. There are currently no derivatives designated as hedge instruments, and therefore there is not the effect of changing accounting policies arising from the application of the hedge accounting requirements of K-IFRS No. 1109.

(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
March 31, 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-month periods ended March 31, 2018 and 2017 are as follows:

(In millions of won)

	2018	2017
Sale of goods	₩ 8,705,845	6,274,658
Sale of services	13,846	14,860
	<u>₩ 8,719,691</u>	<u>6,289,518</u>

(2) Details of the Group's revenue by product and service types for the three-month periods ended March 31, 2018 and 2017 are as follows:

(In millions of won)

	2018	2017
DRAM	₩ 6,880,516	4,654,579
NAND Flash	1,693,838	1,501,592
Other	145,337	133,347
	<u>₩ 8,719,691</u>	<u>6,289,518</u>

(3) The Group's revenue information by region based on the location of selling entities for the three-month periods ended March 31, 2018 and 2017 are as follows:

(In millions of won)

	2018	2017
Korea	₩ 308,041	377,515
China	3,258,755	2,200,494
Taiwan	759,068	592,449
Asia (other than China and Taiwan)	990,082	694,762
U.S.A.	2,995,086	2,091,887
Europe	408,659	332,411
	<u>₩ 8,719,691</u>	<u>6,289,518</u>

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
March 31, 2018 and 2017
(Unaudited)

4. Geographic, Product and Customer Information, Continued

(4) The Group's non-current assets (excluding financial assets, equity-accounted investees and deferred tax assets) information by region based on the location of subsidiaries as of March 31, 2018 and December 31, 2017 are as follows:

(In millions of won)

		2018	2017
Korea	₩	26,937,535	23,959,991
China		3,163,129	2,768,494
Taiwan		5,682	5,752
Asia (other than China and Taiwan)		1,099	1,100
U.S.A.		312,396	318,567
Europe		8,732	8,560
	₩	<u>30,428,573</u>	<u>27,062,464</u>

(5) Revenues from customers "A" and "B" that each constitutes more than 10% of the Group's consolidated revenue for the three-month period ended March 31, 2018 amount to 1,007,856 million (2017: ₩657,196 million) and 918,074 million (2017: ₩711,108 million), respectively.

5. Categories of Financial Instruments

(1) Categories of financial assets as of March 31, 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	₩	-	3,477,358	3,477,358
Short-term financial instruments		-	3,312,376	3,312,376
Short-term investment assets		1,476,079	-	1,476,079
Trade receivables		-	5,574,098	5,574,098
Loans and other receivables		-	99,698	99,698
Other financial assets		-	283	283
Long-term investment assets		56,120	-	56,120
	₩	<u>1,532,199</u>	<u>12,463,813</u>	<u>13,996,012</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		-	-	4,674,862	4,674,862
Short-term investment assets		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		-	43,226	-	43,226
	₩	<u>929,801</u>	<u>43,226</u>	<u>13,257,944</u>	<u>14,230,971</u>

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
March 31, 2018 and 2017
(Unaudited)

5. Categories of Financial Instruments, Continued

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

(In millions of won)

	2018	
	Financial liabilities measured at amortized cost	
Trade payables	₩	779,527
Other payables		4,622,901
Other non-trade payables ¹		674,407
Borrowings		3,866,709
	₩	<u>9,943,544</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 March 31, 2018 and December 31, 2017 are as follows:

(In millions of won)

	<u>2018</u>	<u>2017</u>
Current		
Accrued expenses	₩ 670,845	1,340,225
Non-current		
Rent deposit payables	3,562	3,412
	₩ <u>674,407</u>	<u>1,343,637</u>

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
March 31, 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 three-month period ended March 31, 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 March 31, 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	12,559	₩ 13,394,603	5,102	₩ 5,441,469
EUR	21	28,107	129	169,047
JPY	458	4,590	113,402	1,135,675

As of March 31, 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	₩ 795,313	(795,313)
EUR	(14,094)	14,094
JPY	(113,109)	113,109

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
March 31, 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 March 31, 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 ~~₩~~3,813 million lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings and interest income on floating rate financial assets.

(iii) Price risk

The Group invests in equity and debt securities resulted from its business needs and the purpose of liquidity management. The Group's equity and debt securities are exposed to price risk as of March 31, 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 continuously managing trade and other receivables by reevaluating the customer's credit worthiness and securing collaterals in order to limit its credit risk exposure.

The Group reviews at the end of each reporting period whether trade and other receivables are impaired and maintains credit insurance policies to manage credit risk exposure from oversea customers. The maximum exposure to credit risk as of March 31, 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; and deposits with banks and financial institutions as well as short-term and long-term loans mainly due to the bankruptcy of each counterparty to those financial assets. The maximum exposure to credit risk as of March 31, 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
March 31, 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 March 31, 2018 and December 31, 2017 are as follows:

(In millions of won)

	2018	2017
Total liabilities (A)	₩ 12,746,637	11,597,545
Total equity (B)	36,378,486	33,820,919
Cash and cash equivalents, short-term investment assets and short-term financial instruments (C)	8,265,813	8,554,654
Total borrowings (D)	3,866,709	4,171,270
Debt-to-equity ratio (A/B)	35.04%	34.29%
Net borrowing ratio (D-C)/B ¹	-	-

¹ Net borrowing ratio as of March 31, 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
March 31, 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 March 31, 2018 and December 31, 2017:

(In millions of won)

	Carrying amounts	2018			
		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Short-term investment assets	₩ 1,476,079	-	1,476,079	-	1,476,079
Long-term investment assets	56,120	-	-	56,120	56,120
	<u>1,532,199</u>	<u>-</u>	<u>1,476,079</u>	<u>56,120</u>	<u>1,532,199</u>
Financial assets not measured at fair value					
Cash and cash equivalents ¹	3,477,358	-	-	-	-
Short-term financial instruments ¹	3,312,376	-	-	-	-
Trade receivables ¹	5,574,098	-	-	-	-
Loans and other receivables ¹	99,698	-	-	-	-
Other financial assets ¹	283	-	-	-	-
	<u>12,463,813</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Financial liabilities not measured at fair value					
Trade payables ¹	779,527	-	-	-	-
Other payables ¹	4,622,901	-	-	-	-
Other non-trade payables ¹	674,407	-	-	-	-
Borrowings	3,866,709	-	3,858,757	-	3,858,757
	₩ <u>9,943,544</u>	<u>-</u>	<u>3,858,757</u>	<u>-</u>	<u>3,858,757</u>

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
March 31, 2018 and 2017
(Unaudited)

6. Financial Risk Management, Continued

(In millions of won)

	Carrying amounts	2017			
		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 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 three-month period ended March 31, 2018. The movements in financial assets classified as level 3 fair value measurements during the three-month period ended March 31, 2018 are as follows:

(In millions of won)

	Beginning Balance	Acquisition	Disposals	Foreign exchange difference	Ending Balance
Long-term investment assets	₩ 43,226	12,994	(309)	209	56,120

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
March 31, 2018 and 2017
(Unaudited)

7. Restricted Financial Instruments

Details of restricted financial instruments as of March 31, 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
	6,009	5,695	Pledged for consumption tax
	-	1,287	Others
	<u>233,509</u>	<u>234,482</u>	
Other financial assets	11	11	Bank overdraft guarantee deposit
	272	262	Others
	<u>283</u>	<u>273</u>	
	<u>₩ 233,792</u>	<u>234,755</u>	

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
March 31, 2018 and 2017
(Unaudited)

8. Trade Receivables and Loans and Other Receivables

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

(In millions of won)

	2018	2017
Current		
Other receivables	₩ 26,940	10,816
Accrued income	21,421	22,308
Short-term loans	3,604	2,886
Short-term guarantee and other deposits	1,162	1,603
	<u>53,127</u>	<u>37,613</u>
Non-current		
Long-term other receivables	55	56
Long-term loans	10,921	11,098
Guarantee deposits	35,422	31,109
Long-term deposits	173	147
	<u>46,571</u>	<u>42,410</u>
	<u>₩ 99,698</u>	<u>80,023</u>

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

(In millions of won)

	2018		
	Gross amount	Provision for impairment	Carrying amount
Trade receivables	₩ 5,574,145	(47)	5,574,098
Current loans and other receivables	54,455	(1,328)	53,127
Non-current loans and other receivables	47,654	(1,083)	46,571
	<u>₩ 5,676,254</u>	<u>(2,458)</u>	<u>5,673,796</u>

(In millions of won)

	2017		
	Gross amount	Provision for impairment	Carrying amount
Trade receivables	₩ 5,552,841	(46)	5,552,795
Current loans and other receivables	38,940	(1,327)	37,613
Non-current loans and other receivables	43,497	(1,087)	42,410
	<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
March 31, 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 three-month periods ended March 31, 2018 and 2017 are as follows:

(In millions of won)

	2018	2017
Beginning balance	₩ <u>46</u>	<u>1,837</u>
Provision	-	115
Foreign exchange difference	1	(47)
Ending balance	₩ <u><u>47</u></u>	<u><u>1,905</u></u>

Movements in the provision for impairment of current loans and other receivables for the three-month periods ended March 31, 2018 and 2017 are as follows:

(In millions of won)

	2018	2017
Beginning balance	₩ <u>1,327</u>	<u>1,371</u>
Provision	-	168
Reversal	(1)	-
Foreign exchange difference	2	-
Ending balance	₩ <u><u>1,328</u></u>	<u><u>1,539</u></u>

Movements in the provision for impairment of non-current loans and other receivables for the three-month periods ended March 31, 2018 and 2017 are as follows:

(In millions of won)

	2018	2017
Beginning balance	₩ <u>1,087</u>	<u>1,476</u>
Provision	-	2
Foreign exchange difference	(4)	(82)
Ending balance	₩ <u><u>1,083</u></u>	<u><u>1,396</u></u>

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
March 31, 2018 and 2017
(Unaudited)

9. Inventories

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

(In millions of won)

	2018		
	Acquisition cost	Inventory valuation allowance	Carrying amount
Finished goods	₩ 729,856	(72,798)	657,058
Work-in-process	1,797,898	(23,857)	1,774,041
Raw materials	331,393	(13,099)	318,294
Supplies	337,778	(15,356)	322,422
Goods in transit	31,327	-	31,327
	₩ 3,228,252	(125,110)	3,103,142

(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
	₩ 2,822,550	(182,111)	2,640,439

10. Other Current and Non-current Assets

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

(In millions of won)

	2018	2017
Current		
Advance payments	₩ 50,103	34,887
Prepaid expenses	264,517	222,411
Value added tax refundable	301,606	263,287
Contract assets	18,638	-
Others	1,413	3,053
	636,277	523,638
Non-current		
Long-term advance payments	163,277	183,489
Long-term prepaid expenses	593,233	553,231
	756,510	736,720
	₩ 1,392,787	1,260,358

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
March 31, 2018 and 2017
(Unaudited)

11. Investments in Associates and Joint Ventures

(1) Details of investments in associates and joint ventures as of March 31, 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	₩ 105	2,106	2,105
	SK China Company Limited (SK China) ¹	11.87	192,989	245,339	244,912
	Gemini Partners Pte. Ltd.	20.00	2,358	4,052	4,003
	TCL Fund ¹	11.06	2,723	2,723	2,634
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd. (HITECH)	45.00	95,811	95,811	106,210
			₩	<u>350,031</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.

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
March 31, 2018 and 2017
(Unaudited)

11. Investments in Associates and Joint Ventures, Continued

(2) Changes in investments in associates and a joint venture for the three-month periods ended March 31, 2018 and 2017 are as follows:

(In millions of won)

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

(In millions of won)

		2017				
		Beginning balance	Share of income (loss)	Other equity movement	Dividend	Ending balance
₩	Stratio, Inc.	2,151	(1)	(11)	-	2,139
	Gemini Partners Pte. Ltd.	5,199	(255)	(138)	-	4,806
	TCL Fund	2,219	15	(142)	-	2,092
	HITECH	121,447	14	(9,283)	(14,828)	97,350
₩		<u>131,016</u>	<u>(227)</u>	<u>(9,574)</u>	<u>(14,828)</u>	<u>106,387</u>

(3) Associates and a joint venture' summarized statements of financial position as of March 31, 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.	693	567	107	-
	SK China	732,687	1,037,524	139,757	4,063
	Gemini Partners Pte. Ltd.	6,304	6,012	527	-
	TCL Fund	7,823	16,799	-	-
	HITECH	266,834	334,694	148,420	240,195

(In millions of won)

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

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
March 31, 2018 and 2017
(Unaudited)

11. Investments in Associates and Joint Ventures, Continued

(4) Associates and a joint venture's summarized statements of comprehensive income (loss) for the three-month periods ended March 31, 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.	₩ 8	13	6	(8)
SK China	28,878	11,689	-	-
Gemini Partners Pte. Ltd.	-	68	-	(1,276)
TCL Fund	-	(74)	-	139
HITECH	148,958	6,610	142,210	31

12. Long-term investment assets

Changes in the carrying amount of long-term investment assets for the three-month periods ended March 31, 2018 and 2017 are as follows:

(In millions of won)

	2018	2017
Beginning balance	₩ 43,226	147,779
Acquisition	12,994	1,799
Disposal	(309)	(452)
Foreign exchange difference	209	(220)
Ending balance	₩ 56,120	148,906

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
March 31, 2018 and 2017
(Unaudited)

13. Property, Plant and Equipment

(1) Changes in property, plant and equipment for the three-month periods ended March 31, 2018 and 2017 are as follows:

(In millions of won)

	2018	2017
Beginning balance	₩ 24,062,601	18,777,402
Acquisition	4,521,120	2,357,636
Disposal and retirement	(3,086)	(4,815)
Depreciation	(1,318,830)	(1,086,704)
Foreign exchange difference	102,964	(187,515)
Ending balance	₩ 27,364,769	19,856,004

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

The book value of the machinery subject to finance lease agreement amounted to ₩77,638 million as of March 31, 2018 (as of December 31, 2017: ₩79,161 million). The machinery are pledged as collateral for the finance lease liabilities.

The Group leases certain machinery and others from Macquarie Capital and others under operating lease agreements. The payment schedule of minimum lease payments under operating lease agreements as of March 31, 2018 is as follows:

(In millions of won)

	Minimum lease payments
No later than 1 year	₩ 161,167
Later than 1 year	166,703
	₩ 327,870

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
March 31, 2018 and 2017
(Unaudited)

14. Intangible Assets

(1) Changes in intangible assets for the three-month periods ended March 31, 2018 and 2017 are as follows:

(In millions of won)

	2018	2017
Beginning balance	₩ 2,247,290	1,915,591
Acquisition	192,226	194,297
Disposal and retirement	(1,659)	(1,792)
Amortization	(129,801)	(78,408)
Impairment	(3,463)	-
Foreign exchange difference and other	259	(27,069)
Ending balance	<u>₩ 2,304,852</u>	<u>2,002,619</u>

(2) Among costs associated with development activities, ₩132,545 million that met capitalization criteria, were capitalized as development cost for the three-month period ended March 31, 2018 (2017: ₩140,624 million). In addition, costs associated with research activities and other development expenditures that did not meet the criteria and amounted to ₩512,389 million were recognized as expenses for the three-month period ended March 31, 2018 (2017: ₩451,231million).

15. Investment Property

(1) Changes in investment property for the three-month periods ended March 31, 2018 and 2017 are as follows:

(In millions of won)

	2018	2017
Beginning balance	₩ 2,468	2,573
Depreciation	(26)	(26)
Ending balance	<u>₩ 2,442</u>	<u>2,547</u>

(2) The depreciation expense of ₩26 million was charged to cost of sales for the three-month period ended March 31, 2018 (2017: ₩26 million).

(3) Rental income from investment property during the three-month period ended March 31, 2018 was ₩122 million (2017: ₩124 million).

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
March 31, 2018 and 2017
(Unaudited)

16. Borrowings

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

(In millions of won)

	<u>2018</u>	<u>2017</u>
Current		
Short-term borrowings	₩ 74,688	192,686
Current installments of long-term borrowings	373,494	361,258
Current installments of debentures	149,922	219,836
	<u>598,104</u>	<u>773,780</u>
Non-current		
Long-term borrowings	1,652,413	2,080,333
Debentures	1,616,192	1,317,157
	<u>3,268,605</u>	<u>3,397,490</u>
	<u>₩ 3,866,709</u>	<u>4,171,270</u>

17. Other Current and Non-current Liabilities

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

(In millions of won)

	<u>2018</u>	<u>2017</u>
Current		
Advance receipts	₩ 7,256	3,040
Unearned income	57	81
Withholdings	46,955	39,862
Deposits received	1,033	989
Contract liabilities	50,989	-
Others	3,021	7,804
	<u>109,311</u>	<u>51,776</u>
Non-current		
Other long-term employee benefits	64,445	63,960
Long-term advance receipts	4,900	4,900
	<u>69,345</u>	<u>68,860</u>
	<u>₩ 178,656</u>	<u>120,636</u>

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
March 31, 2018 and 2017
(Unaudited)

18. Provisions

(1) Changes in provisions for the three-month periods ended March 31, 2018 and 2017 are as follows:

(In millions of won)

		2018				
		Beginning Balance	Increase	Utilization	Foreign exchange difference	Ending Balance
Warranty	₩	3,807	14	(268)	-	3,553
Sales returns ¹		-	-	-	-	-
Legal claims		9,460	-	(4,391)	264	5,333
Emission allowances		37,412	17,242	-	-	54,654
	₩	<u>50,679</u>	<u>17,256</u>	<u>(4,659)</u>	<u>264</u>	<u>63,540</u>

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

(In millions of won)

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

(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. Upon adoption 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 assets and other current liabilities respectively.

(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
March 31, 2018 and 2017
(Unaudited)

19. Defined Benefit Liabilities

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

(In millions of won)

	2018	2017
Present value of defined benefit obligations	₩ 1,379,576	1,330,559
Fair value of plan assets	(1,329,932)	(1,337,848)
Net defined benefit liabilities (assets)	₩ 49,644	(7,289)
Defined benefit liabilities	49,644	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 March 31, 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 three-month periods ended March 31, 2018 and 2017 are as follows:

(In millions of won)

	2018	2017
Beginning balance	₩ 1,330,559	1,195,047
Current service cost	42,502	38,435
Interest cost	14,117	11,752
Transferred from associates	1,024	4
Benefits paid	(8,662)	(10,138)
Others	36	(38)
Ending balance	₩ 1,379,576	1,235,062

(4) Changes in plan assets for the three-month periods ended March 31, 2018 and 2017 are as follows:

(In millions of won)

	2018	2017
Beginning balance	₩ 1,337,848	888,559
Interest income	14,186	8,731
Contributions	-	-
Transferred from(to) associates	1,016	(106)
Benefits paid	(16,078)	(12,607)
Remeasurements	(7,040)	(4,170)
Ending balance	₩ 1,329,932	880,407

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
March 31, 2018 and 2017
(Unaudited)

19. Defined Benefit Liabilities, Continued

(5) The amounts recognized in profit or loss for the three-month periods ended March 31, 2018 and 2017 are as follows:

(In millions of won)

	2018	2017
Current service cost	₩ 42,502	38,435
Net interest cost	(69)	3,021
	<u>₩ 42,433</u>	<u>41,456</u>

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

(In millions of won)

	2018	2017
Deposits	₩ 1,328,623	1,336,484
Other	1,309	1,364
	<u>₩ 1,329,932</u>	<u>1,337,848</u>

Actual return on plan assets for the three-month periods ended March 31, 2018 and 2017 amounted to ₩ 7,147 million and ₩ 4,561 million, respectively.

(7) Contributions to defined contribution plans amounting to ₩ 44 million (2017: ₩ 16 million) were recognized as cost of sales for the three-month period ended March 31, 2018.

20. Derivative Financial Instruments

(1) There were no derivative financial instruments as of March 31, 2018 and December 31, 2017.

(2) Details of gains and losses from derivative instruments for the three-month period ended March 31, 2017 are follows (2018 : nil):

(In millions of won)

	2017			
	<u>Gain on valuation</u>	<u>Loss on valuation</u>	<u>Gain on transaction</u>	<u>Loss on transaction</u>
Interest rates swap	₩ 99	-	203	308

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
March 31, 2018 and 2017
(Unaudited)

21. Capital Stock, Capital Surplus and Other Equity

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

(In millions of won and thousands of shares)

	<u>2018</u>	<u>2017</u>
Authorized shares	9,000,000	9,000,000
Issued shares ¹	731,530	731,530
Capital stock:		
Common stock	₩ 3,657,652	3,657,652
Capital surplus:		
Additional paid-in capital	3,625,797	3,625,797
Others	517,939	517,939
	<u>4,143,736</u>	<u>4,143,736</u>
Other equity:		
Acquisition cost of treasury shares	(771,913)	(771,913)
Stock option	1,088	813
	<u>₩ (770,825)</u>	<u>(771,100)</u>
Number of treasury shares	22,001	22,001

¹ As of March 31, 2018, the number of outstanding shares is 728,002 thousand shares, which differs from total issued shares due to stock retirement.

(2) There are no changes in number of outstanding shares during the period ended March 31, 2018 and December 31, 2017.

22. Accumulated Other Comprehensive Loss

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

(In millions of won)

	<u>2018</u>	<u>2017</u>
Equity-accounted investees – share of other comprehensive loss	₩ (21,681)	(20,442)
Loss on valuation of long-term investment assets	-	(10,735)
Foreign operations – foreign currency translation differences	(320,787)	(471,087)
	<u>₩ (342,468)</u>	<u>(502,264)</u>

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
March 31, 2018 and 2017
(Unaudited)

22. Accumulated Other Comprehensive Loss, Continued

(2) Changes in accumulated other comprehensive loss for the three-month periods ended March 31, 2018 and 2017 are as follows:

(In millions of won)

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

(In millions of won)

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

23. Retained Earnings

Retained earnings as of March 31, 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	29,269,272	26,943,396
	<u>₩ 29,683,733</u>	<u>27,287,256</u>

¹ The Commercial Code of the Republic of Korea requires the Group 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 dividends payables are included in other payables as of March 31, 2018.

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
March 31, 2018 and 2017
(Unaudited)

24. Selling and Administrative Expenses

Selling and administrative expenses for the three-month periods ended March 31, 2018 and 2017 are as follows:

(In millions of won)

	2018	2017
Salaries	₩ 135,533	126,021
Defined benefit plan	7,602	6,740
Employee benefits	25,312	19,403
Commission	57,299	59,170
Depreciation	28,749	22,498
Amortization	110,962	66,105
Freight and custody charge	5,921	9,802
Legal cost	3,375	6,439
Rental	3,234	3,517
Taxes and dues	5,232	3,969
Training	7,064	4,773
Advertising	10,042	7,836
Utilities	3,591	7,927
Supplies	12,492	14,836
Repair	5,880	1,983
Travel and transportation	3,506	2,700
Sales promotion	16,875	13,108
Product warranties	5,691	756
Other	8,390	8,283
	<u>456,750</u>	<u>385,866</u>
Research and development:		
Expenditure on research and development	644,934	591,855
Development cost capitalized	(132,545)	(140,624)
	<u>512,389</u>	<u>451,231</u>
	<u>₩ 969,139</u>	<u>837,097</u>

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
March 31, 2018 and 2017
(Unaudited)

25. Expenses by Nature

Nature of expenses for the three-month periods ended March 31, 2018 and 2017 is as follows:

(In millions of won)

	<u>2018</u>	<u>2017²</u>
Changes in finished goods and work-in-process	₩ (380,804)	(29,351)
Raw materials and consumables	1,204,220	920,567
Labor costs	843,171	813,531
Depreciation and amortization	1,417,526	1,135,215
Royalty	55,544	56,170
Commission	354,797	256,589
Utilities	264,179	222,074
Repair	225,287	159,505
Outsourcing	240,306	215,385
Other	128,127	72,234
Total ¹	₩ <u>4,352,353</u>	<u>3,821,919</u>

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

² Expenses for the three-month period ended March 31, 2017 were reclassified to conform with the classification for the three-month period ended March 31, 2018.

26. Finance Income and Expenses

Finance income and expenses for the three-month periods ended March 31, 2018 and 2017 are as follows:

(In millions of won)

	<u>2018</u>	<u>2017</u>
Finance income		
Interest income	₩ 27,282	9,513
Dividend income	346	-
Foreign exchange differences	207,561	364,869
Gain from derivative instruments	-	302
Gain on valuation of short-term investment assets ¹	1,104	434
Gain on disposal of short-term investment assets ¹	3,594	2,731
Gain on disposal of long-term investment assets	248	-
	<u>240,135</u>	<u>377,849</u>
Finance expenses		
Interest expenses	24,891	29,575
Foreign exchange differences	288,387	437,366
Loss from derivative instruments	-	308
	<u>313,278</u>	<u>467,249</u>
Net finance expense	₩ <u>(73,143)</u>	<u>(89,400)</u>

¹ Gain related to investment assets for the three-month period ended March 31, 2017 were reclassified to conform with the classification for the three-month period ended March 31, 2018.

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
March 31, 2018 and 2017
(Unaudited)

27. Other Income and Expenses

(1) Other income for the three-month periods ended March 31, 2018 and 2017 are as follows:

(In millions of won)

	2018	2017
Gain on disposal of property, plant and equipment	₩ 5,768	2,000
Other	1,298	3,592
	<u>₩ 7,066</u>	<u>5,592</u>

(2) Other expenses for the three-month periods ended March 31, 2018 and 2017 are as follows:

(In millions of won)

	2018	2017
Loss on disposal of property, plant and equipment	₩ 2,883	4,690
Loss on disposal of intangible assets	1,659	1,792
Impairment of intangible assets	3,463	-
Loss on disposal of trade receivables	2,235	2,094
Donation	1,047	1,912
Other	3,690	2,933
	<u>₩ 14,977</u>	<u>13,421</u>

28. Income Tax Expense

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

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
March 31, 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-month periods.

(1) Basic earnings per share for the three-month periods ended March 31, 2018 and 2017 are as follows:

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

	2018	2017
Profit attributable to ordinary shareholders of the Parent Company	₩ 3,120,254	1,897,969
Weighted average number of outstanding ordinary shares ¹	706,001,795	706,001,795
Basic earnings per share (in won)	₩ 4,420	2,688

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

(In shares)

	2018	2017
Outstanding ordinary shares	728,002,365	728,002,365
Acquisition of treasury shares	(22,000,570)	(22,000,570)
Weighted average number of outstanding ordinary shares	706,001,795	706,001,795

(2) Diluted earnings per share for the three-month periods ended March 31, 2018 and 2017 are as follows:

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

	2018	2017
Profit attributable to ordinary shareholders of the Parent Company	₩ 3,120,254	1,897,969
Weighted average number of diluted outstanding ordinary shares ¹	706,075,772	706,001,795
Diluted earnings per share (in won)	₩ 4,419	2,688

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

(In shares)

	2018	2017
Weighted average number of outstanding ordinary shares	706,001,795	706,001,795
Stock options	73,977	-
Weighted average number of diluted outstanding ordinary shares	706,075,772	706,001,795

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
March 31, 2018 and 2017
(Unaudited)

30. Transactions with Related Parties and Others

(1) Details of related parties as of March 31, 2018 are as follows:

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

(2) Significant transactions for the three-month periods ended March 31, 2018 and 2017 are as follows:

(In millions of won)

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

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

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

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
March 31, 2018 and 2017
(Unaudited)

30. Transactions with Related Parties and Others, Continued

(In millions of won)

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

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

² For the three-month period ended March 31, 2017, royalty paid for the use of the SK brand amounted to ₩9,472 million.

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
March 31, 2018 and 2017
(Unaudited)

30. Transactions with Related Parties and Others, Continued

(3) The balances from significant transactions as of March 31, 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. (HITECH)	₩ 13,066	100,243
Other related parties	SK Telecom Co., Ltd.	-	5,512
	SK Holdings Co., Ltd.	5,515	132,104
	ESSEN CORE Limited	91,790	-
	SK Engineering & Construction Co., Ltd.	103	607,205
	SK Energy Co., Ltd.	431	6,716
	SK Networks Co., Ltd.	-	400
	SKC Solmics Co., Ltd.	-	3,397
	Chungcheong energy service Co., Ltd.	-	1,653
	Happynarae Co., Ltd.	3	32,970
	SK Materials Co., Ltd.	-	15,364
	SK Siltron Co., Ltd. ¹	150,409	31,546
	Others	5	48,745
		₩	261,322

(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
		₩	254,443

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

March 31, 2018 and 2017

(Unaudited)

30. Transactions with Related Parties and Others, 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-month periods ended March 31, 2018 and 2017 are as follows:

(In millions of won)

	2018	2017
Salaries	₩ 22,248	17,354
Defined benefit plan related expenses	2,709	2,227
Share-based payment	275	23
Others	4	3
	<u>₩ 25,236</u>	<u>19,607</u>

(5) The significant transactions between the Group and the companies that are in the same conglomerate group according to 'Fair Trade Law' for the three-month periods ended March 31, 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			
Company	Operating revenue and others	Operating expense and others	Asset acquisition	Dividend received	
Companies in the Conglomerate	SK Chemicals Co., Ltd.	₩ -	299	-	-

(In millions of won)

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

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
March 31, 2018 and 2017
(Unaudited)

30. Transactions with Related Parties and Others, Continued

(6) The balances of significant transactions between the Group and the companies that are in the same conglomerate group designated by 'Fair Trade Law'. The details of the balances as of March 31, 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)

	Company	2018	
		Trade receivables and others	Other payables and others
Companies in the Conglomerate	SK Chemicals Co., Ltd.	₩ -	334

(In millions of won)

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

31. Commitments and Contingencies

(1) Significant pending litigations and claims of the Group as of March 31, 2018 are as follows:

(a) Lawsuit from Netlist, Inc.

Netlist, Inc. filed a lawsuit against SK hynix, the Parent Company and others, which are subsidiaries of the Parent Company alleging infringement of multiple patents to U.S. District Court for the Central District of California, on August 31, 2016 and June 14, 2017, to the U.S. International Trade Commission on September 1, 2016 and October 31, 2017 and to German District Court of Munich and Beijing Intellectual Property Court, respectively, on July 11, 2017. As of March 31, 2018, the patent infringement lawsuits filed by Netlist, Inc. in the U.S. have not been finalized and the final result cannot be predicted.

Meanwhile, the lawsuit filed to the US 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.

(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 March 31, 2018, the lawsuits filed have not been finalized and the final result can not be estimated as of May 11, 2018.

(c) 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.

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
March 31, 2018 and 2017
(Unaudited)

31. Commitments and Contingencies, Continued

(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 existing contract expired in March 2018 and a renewal was signed for a two-month period until May 2018. The terms of the contract are the same as the existing contract and according to the contract, the Group is obligated to pay base service charges, which are predetermined and additional service charges which are variable according to the amount of water used.

(4) Post-process service contract with HITECH

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

(5) Assets provided as collateral

Details of assets provided as collateral as of March 31, 2018 are as follows:

(In millions of won)

	Book value	Pledged amount	Remark
Land	₩ 18,618		
Buildings	53,804	1,148,273	Borrowings for equipment and others
Machinery	843,400		
	<u>₩ 915,822</u>	<u>1,148,273</u>	

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

(6) Financing agreements

Details of credit lines with financial institutions as of March 31, 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	265
		Export finance including bills bought	USD	250
		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. (SKHYCL)	Agricultural Bank of China and others	Import finance including usance	RMB	1,300
			USD	232
SK Hynix America Inc. (SKHYA) and other sales entities	Citibank and others	Accounts receivable factoring contracts which have no right to recourse	USD	365
Domestic subsidiaries	KEB Hana Bank and others	Export finance including bills bought	KRW	20,000
		Agent contract for procurement payment	KRW	17,500

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
March 31, 2018 and 2017
(Unaudited)

31. Commitments and Contingencies, Continued

(7) Details of guarantees provided to others as of March 31, 2018 are as follows:

(In millions of won)

	Amount	Remark
Employees	₩ 6	Guarantees for employees' borrowings relating to employee stock ownership

(8) Capital commitments

The Group's commitments in relation to the capital expenditures on property, plant and equipment as of March 31, 2018 are ₩2,367,693 million (as of December 31, 2017: ₩661,588 million).

(9) Equity investment in Toshiba semiconductor business

The Group has decided to invest JPY 266,000 million in BCPE Pangea Intermediate Holdings Cayman, LP and acquire convertible bonds of JPY 129,000 million issued by BCPE Pangea Cayman 2 Limited, by participating in a consortium including Bain Capital ("Bain Consortium") in connection with the Bain Consortium's acquisition of Toshiba's semiconductor business.

Meanwhile, the Bain Consortium and Toshiba signed an agreement to acquire Toshiba's semiconductor business and approvals from various countries' government were in process as of March 31, 2018. The completion of the arrangement is subject to the results of compliance in the prerequisites set forth in the arrangement including the approval by various countries' government.

(10) 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.

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
March 31, 2018 and 2017
(Unaudited)

32. Statements of Cash Flows

(1) Reconciliations between profit and net cash inflow from operating activities for the three-month periods ended March 31, 2018 and 2017 are as follows:

(In millions of won)

	2018	2017
Profit for the period	₩ 3,121,329	1,898,678
Adjustment		
Income tax expense	1,169,481	471,465
Defined benefit plan	42,433	41,456
Depreciation of property, plant and equipment	1,318,830	1,086,704
Depreciation of investment property	26	26
Amortization	129,801	78,408
Compensation expense associated with stock option	275	23
Loss on disposal of property, plant and equipment	2,883	4,690
Loss on disposal of intangible assets	1,659	1,792
Impairment of intangible assets	3,463	-
Interest expense	24,891	29,575
Loss on foreign currency translation	94,235	141,582
Gain on equity method investments, net	(4,526)	227
Gain on disposal of property, plant and equipment	(5,768)	(2,000)
Gain on valuation of short-term investment assets	(1,104)	(435)
Gain on disposal of short-term investment assets	(3,594)	(2,731)
Gain on disposal of long-term investment assets	(248)	-
Loss on derivative instruments, net	-	6
Interest income	(27,282)	(9,513)
Gain on foreign currency translation	(44,953)	(224,970)
Others, net	1,889	2,373
Changes in operating assets and liabilities		
Increase in trade receivables	(32,970)	(555,230)
Decrease (increase) in loans and other receivables	24,711	(17,111)
Increase in inventories	(451,101)	(35,785)
Increase in other assets	(130,886)	(8,886)
Increase in trade payables	9,057	235,050
Increase (decrease) in other payables	955,649	(66,564)
Decrease in other non-trade payables	(656,160)	(63,967)
Increase (decrease) in provisions	(18,079)	16,358
Increase (decrease) in other liabilities	58,594	(3,519)
Payment of defined benefit liabilities	(6,855)	(10,056)
Cash generated from operating activities	₩ <u>5,575,680</u>	<u>3,007,646</u>

(2) Details of significant transactions without inflows and outflows of cash for the three-month periods ended March 31, 2018 and 2017 are as follows:

(In millions of won)

	2018	2017
Increase in other payables related to acquisition of property, plant and equipment	₩ 199,780	337,544
Increase in other payables related to dividends	706,002	423,601

SK HYNIX, INC. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
March 31, 2018 and 2017
(Unaudited)

32. Statements of Cash Flows, Continued

(3) Changes in liabilities arising from financial activities during the years ended March 31, 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	298,732	344,893
Repayments of borrowings	(599,737)	(167,358)
Foreign currency differences	(3,945)	(170,559)
Present value discount (interest expense)	389	443
Ending balance	<u>₩ 3,866,709</u>	<u>4,343,397</u>

33. Share-based Payment

(1) The Group granted equity-settled share options to the Group's key management during the three-month period ended March 31, 2018 and the details of the share options as of March 31, 2018 are as follows:

(In shares)

	Total numbers of share option granted	Exercised	Forfeited or Cancelled	Outstanding at March 31, 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 three-month period ended March 31, 2018 was ₩275 million (2017: ₩23 million).