

SK HYNIX, INC. and Subsidiaries

Condensed Consolidated Interim Financial Statements

June 30, 2018 and 2017

(Unaudited)

(With Independent Auditors' Review Report Thereon)

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Independent Auditors' Review Report

Based on a report originally issued in Korean

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

Reviewed financial statements

We have reviewed the accompanying condensed consolidated interim financial statements of SK hynix, Inc. and its subsidiaries (the "Group") which comprise the condensed consolidated statement of financial position as of June 30, 2018, the condensed consolidated statements of comprehensive income for the three and six-month periods ended June 30, 2018 and 2017, and changes in equity and cash flows for the six-month periods ended June 30, 2018 and 2017 and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility

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

Auditors' review responsibility

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

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

Conclusion

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

Other matters

The consolidated statement of financial position of the Group as of December 31, 2016, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, which are not accompanying this report, were audited by us in accordance with Korean Standards on Auditing and our report thereon, dated February 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
August 10, 2018

This report is effective as of August 10, 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 June 30, 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 ₩	1,187,928	2,949,991
Short-term financial instruments	5,6,7	606,789	4,674,862
Short-term investment assets	5,6	2,610,660	929,801
Trade receivables, net	5,6,8,30	7,351,385	5,552,795
Loans and other receivables, net	5,6,8,30	21,401	37,613
Inventories, net	9	3,367,788	2,640,439
Current tax assets		515	1,305
Other current assets	10,30,31	548,802	523,638
		<u>15,695,268</u>	<u>17,310,444</u>
Non-current assets			
Investments in associates and joint ventures	11	369,536	359,864
Long-term investment assets	5,6,12	4,067,501	43,226
Loans and other receivables, net	5,6,8,30	61,800	42,410
Other financial assets	5,6,7	197	273
Property, plant and equipment, net	4,13,31	29,311,297	24,062,601
Intangible assets, net	4,14	2,408,291	2,247,290
Investment property, net	4,15	2,415	2,468
Deferred tax assets		638,571	599,783
Defined benefit assets, net	19	-	13,385
Other non-current assets	4,10,30,31	702,204	736,720
		<u>37,561,812</u>	<u>28,108,020</u>
Total assets	₩	<u>53,257,080</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 June 30, 2018 and December 31, 2017
(Unaudited)

(In millions of won)

	<u>Note</u>	<u>2018</u>	<u>2017</u>
Liabilities			
Current liabilities			
Trade payables	5,6,30 ₩	801,157	758,578
Other payables	5,6,30	2,237,384	2,724,547
Other non-trade payables	5,6,30	944,695	1,340,225
Borrowings	5,6,16,31	1,839,133	773,780
Provisions	18	30,139	81,351
Current tax liabilities		2,751,896	2,385,876
Other current liabilities	17	123,021	51,776
		<u>8,727,425</u>	<u>8,116,133</u>
Non-current liabilities			
Other non-trade payables	5,6	4,012	3,412
Borrowings	5,6,16,31	3,575,937	3,397,490
Defined benefit liabilities, net	19	98,655	6,096
Deferred tax liabilities		2,548	5,554
Other non-current liabilities	17	70,827	68,860
		<u>3,751,979</u>	<u>3,481,412</u>
Total liabilities		<u>12,479,404</u>	<u>11,597,545</u>
Equity			
Equity attributable to owners of the Parent Company			
Capital stock	1,21	3,657,652	3,657,652
Capital surplus	21	4,143,736	4,143,736
Other equity	21	(770,531)	(771,100)
Accumulated other comprehensive loss	22	(265,781)	(502,264)
Retained earnings	23	34,006,624	27,287,256
Total equity attributable to owners of the Parent Company		<u>40,771,700</u>	<u>33,815,280</u>
Non-controlling interests		<u>5,976</u>	<u>5,639</u>
Total equity		<u>40,777,676</u>	<u>33,820,919</u>
Total liabilities and equity	₩	<u>53,257,080</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 and six-month periods ended June 30, 2018 and 2017
(Unaudited)

(In millions of won, except per share information)

	Note	2018		2017	
		Three-month period	Six-month period	Three-month period	Six-month period
Revenue	4 ₩	10,370,507	19,090,197	6,692,278	12,981,796
Cost of sales	25	3,762,243	7,145,457	2,858,804	5,843,626
Gross profit		6,608,264	11,944,740	3,833,474	7,138,170
Selling and administrative expense	24,25	1,034,346	2,003,485	782,774	1,619,871
Operating profit		5,573,918	9,941,255	3,050,700	5,518,299
Finance income	26	763,220	1,003,355	205,623	497,365
Finance expenses	26	364,340	677,618	199,007	580,149
Share of profit of equity-accounted investees	11	3,946	8,472	4,730	4,503
Other income	27	10,168	17,234	32,744	38,336
Other expenses	27	83,437	98,414	25,473	38,892
Profit before income tax		5,903,475	10,194,284	3,069,317	5,439,462
Income tax expense	28	1,574,932	2,744,413	600,808	1,072,273
Profit for the period		4,328,543	7,449,871	2,468,509	4,367,189
Other comprehensive income (loss)					
Item that will never be reclassified to profit or loss:					
Remeasurements of defined benefit liability, net of tax	19	(7,055)	(14,095)	(4,141)	(8,311)
Items that are or may be reclassified to profit or loss:					
Foreign operations – foreign currency translation differences, net of tax	22	62,280	212,524	128,007	(187,960)
Equity-accounted investees – share of other comprehensive income (loss), net of tax	11,22	15,129	13,890	2,227	(7,347)
Other comprehensive income (loss) for the period, net of tax		70,354	212,319	126,093	(203,618)
Total comprehensive income for the period	₩	4,398,897	7,662,190	2,594,602	4,163,571

See accompanying notes to the condensed consolidated interim financial statements.

SK HYNIX, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income, Continued

For the three and six-month periods ended June 30, 2017 and 2016

(Unaudited)

(In millions of won, except per share information)

	<i>Note</i>	2018		2017	
		Three-month period	Six-month period	Three-month period	Six-month period
Profit (loss) attributable to:					
Owners of the Parent Company		4,329,947	7,450,200	2,468,544	4,366,515
Non-controlling interests		(1,404)	(329)	(35)	674
Total comprehensive income (loss) attributable to:					
Owners of the Parent Company		4,399,579	7,661,853	2,594,546	4,163,497
Non-controlling interests		(682)	337	56	74
Earnings per share					
Basic earnings per share (in won)	29	6,133	10,553	3,497	6,185
Diluted earnings per share (in won)	29	6,132	10,551	3,497	6,185

See accompanying notes to the condensed consolidated interim financial statements.

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

For the six-month periods ended June 30, 2018 and 2017

(Unaudited)

	Note	Attributable to owners of the Parent Company					Total	Non-controlling interests	Total equity
		Capital stock	Capital surplus	Other equity	Accumulated other comprehensive income (loss)	Retained earnings			
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		-	-	-	-	4,366,515	4,366,515	674	4,367,189
Remeasurements of defined benefit liability, net of tax	19	-	-	-	-	(8,311)	(8,311)	-	(8,311)
Other comprehensive loss from joint venture and associate, net of tax	11,22	-	-	-	(7,347)	-	(7,347)	-	(7,347)
Foreign currency translation differences for foreign operations, net of tax	22	-	-	-	(187,360)	-	(187,360)	(600)	(187,960)
Total comprehensive income		-	-	-	(194,707)	4,358,204	4,163,497	74	4,163,571
Transactions with owners of the Parent Company:									
Dividends paid	23	-	-	-	-	(423,601)	(423,601)	-	(423,601)
Share-based payment transactions	33	-	-	284	-	-	284	-	284
Transactions with owners of the Parent Company		-	-	284	-	(423,601)	(423,317)	-	(423,317)
Balance at June 30, 2017	₩	<u>3,657,652</u>	<u>4,143,736</u>	<u>(771,629)</u>	<u>(273,810)</u>	<u>21,001,186</u>	<u>27,757,135</u>	<u>6,649</u>	<u>27,763,784</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 six-month periods ended June 30, 2018 and 2017
(Unaudited)

	Note	Attributable to owners of the Parent Company					Total	Non-controlling interests	Total equity
		Capital stock	Capital surplus	Other equity	Accumulated other comprehensive income (loss)	Retained earnings			
Balance at December 31, 2017	₩	3,657,652	4,143,736	(771,100)	(502,264)	27,287,256	33,815,280	5,639	33,820,919
Adjustments on initial application of K-IFRS No.1109	3	-	-	-	10,735	(10,735)	-	-	-
Balance at January 1, 2018		<u>3,657,652</u>	<u>4,143,736</u>	<u>(771,100)</u>	<u>(491,529)</u>	<u>27,276,521</u>	<u>33,815,280</u>	<u>5,639</u>	<u>33,820,919</u>
Total comprehensive income:									
Profit for the period		-	-	-	-	7,450,200	7,450,200	(329)	7,449,871
Remeasurements of defined benefit liability, net of tax	19	-	-	-	-	(14,095)	(14,095)	-	(14,095)
Other comprehensive loss from joint venture and associate, net of tax	11,22	-	-	-	13,890	-	13,890	-	13,890
Foreign currency translation differences for foreign operations, net of tax	22	-	-	-	211,858	-	211,858	666	212,524
Total comprehensive income		<u>-</u>	<u>-</u>	<u>-</u>	<u>225,748</u>	<u>7,436,105</u>	<u>7,661,853</u>	<u>337</u>	<u>7,662,190</u>
Transactions with owners of the Parent Company:									
Dividends paid	23	-	-	-	-	(706,002)	(706,002)	-	(706,002)
Share-based payment transactions	33	-	-	569	-	-	569	-	569
Transactions with owners of the Parent Company		<u>-</u>	<u>-</u>	<u>569</u>	<u>-</u>	<u>(706,002)</u>	<u>(705,433)</u>	<u>-</u>	<u>(705,433)</u>
Balance at June 30, 2018	₩	<u>3,657,652</u>	<u>4,143,736</u>	<u>(770,531)</u>	<u>(265,781)</u>	<u>34,006,624</u>	<u>40,771,700</u>	<u>5,976</u>	<u>40,777,676</u>

See accompanying notes to the condensed consolidated interim financial statements.

SK HYNIX, INC. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
For the six-month periods ended June 30, 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 ₩	10,551,029	6,528,276
Interest received		64,078	13,112
Interest paid		(58,974)	(60,946)
Dividends received		15,099	14,841
Income tax paid		(2,402,969)	(391,161)
Net cash provided by operating activities		<u>8,168,263</u>	<u>6,104,122</u>
Cash flows from investing activities			
Decrease (increase) in short-term financial instruments, net		3,957,414	(511,287)
Decrease (increase) in short-term investment assets, net		(1,516,642)	242,074
Collection of loans and other receivables		5,743	7,278
Increase in loans and other receivables		(25,236)	(8,091)
Proceeds from disposal of long-term investment assets		1,058	672
Acquisition of long-term investment assets		(3,932,470)	(9,080)
Decrease in other financial assets		101	1
Increase in other financial assets		(17)	-
Cash inflows from derivative transactions		-	410
Cash outflows from derivative transactions		-	(609)
Proceeds from disposal of property, plant and equipment		16,696	9,757
Acquisition of property, plant and equipment		(8,458,983)	(4,683,431)
Proceeds from disposal of intangible assets		2,532	985
Acquisition of intangible assets		(414,471)	(429,713)
Receipt of government grants		25	-
Acquisition of investments in associates		(430)	-
Net cash used in investing activities	₩	<u>(10,364,680)</u>	<u>(5,381,034)</u>

See accompanying notes to the condensed consolidated interim financial statements.

SK HYNIX, INC. and Subsidiaries
Condensed Consolidated Statements of Cash Flows, Continued
For the six-month periods ended June 30, 2018 and 2017
(Unaudited)

(In millions of won)

	<u>Note</u>	<u>2018</u>	<u>2017</u>
Cash flows from financing activities			
Proceeds from borrowings	₩	2,063,692	697,115
Repayments of borrowings		(947,475)	(296,171)
Dividends paid		(706,002)	(423,601)
Net cash provided by (used in) financing activities		<u>410,215</u>	<u>(22,657)</u>
Effect of movements in exchange rates on cash and cash equivalents		<u>24,139</u>	<u>11,786</u>
Net increase (decrease) in cash and cash equivalents		(1,762,063)	712,217
Cash and cash equivalents at beginning of the period		2,949,991	613,786
Cash and cash equivalents at end of the period	₩	<u><u>1,187,928</u></u>	<u><u>1,326,003</u></u>

See accompanying notes to the condensed consolidated interim financial statements.

SK HYNIX, INC. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2018 and 2017

(Unaudited)

1. Reporting Entity

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

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

As of June 30, 2018, the shareholders of the Parent Company are as follows:

Shareholder	Number of shares	Percentage of ownership (%)
SK Telecom Co., Ltd.	146,100,000	20.07
National Pension Service and other investors	559,901,795	76.91
Treasury shares	22,000,570	3.02
	<u>728,002,365</u>	<u>100.00</u>

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

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

1. Reporting Entity, Continued

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

Company	Location	Business	Ownership (%)	
			2018	2017
SK hyeng Inc.	Korea	Construction service	100.00	100.00
SK hystec Inc.	Korea	Business support service	100.00	100.00
Siliconfile Technologies Inc. ¹	Korea	Development and manufacturing of electronic component	-	100.00
Happy More Inc.	Korea	Manufacturing and cleaning cleanroom suits	100.00	100.00
SK hynix system ic Inc.	Korea	Semiconductor manufacturing and sales	100.00	100.00
SK hynix America Inc.	U.S.A.	Semiconductor sales	97.74	97.74
SK hynix Deutschland GmbH	Germany	Semiconductor sales	100.00	100.00
SK hynix Asia Pte. Ltd.	Singapore	Semiconductor sales	100.00	100.00
SK hynix Semiconductor Hong Kong Ltd.	Hong Kong	Semiconductor sales	100.00	100.00
SK hynix U.K. Ltd.	U.K.	Semiconductor sales	100.00	100.00
SK hynix Semiconductor Taiwan Inc.	Taiwan	Semiconductor sales	100.00	100.00
SK hynix Japan Inc.	Japan	Semiconductor sales	100.00	100.00
SK hynix Semiconductor (Shanghai) Co., Ltd.	China	Semiconductor sales	100.00	100.00
SK hynix Semiconductor India Private Ltd. ²	India	Semiconductor sales	100.00	100.00
SK hynix (Wuxi) Semiconductor Sales Ltd.	China	Semiconductor sales	100.00	100.00
SK hynix Semiconductor (China) Ltd. ³	China	Semiconductor manufacturing	100.00	100.00
SK hynix Semiconductor (Wuxi) Ltd. ³	China	Semiconductor manufacturing	-	100.00
SK hynix Semiconductor (Chongqing) Ltd. ⁴	China	Semiconductor manufacturing	100.00	100.00
SK hynix Italy S.r.l	Italy	Semiconductor research and development	100.00	100.00
SK hynix memory solutions America Inc. ⁵	U.S.A.	Semiconductor research and development	100.00	100.00
SK hynix memory solutions Taiwan Ltd. ⁶	Taiwan	Semiconductor research and development	100.00	100.00
SK hynix memory solutions Eastern Europe LLC. ⁷	Belarus	Semiconductor research and development	100.00	100.00
SK APTECH Ltd.	Hong Kong	Overseas investment	100.00	100.00
SK hynix Venture Hong Kong Ltd.	Hong Kong	Overseas investment	100.00	100.00
MMT (Money Market Trust)	Korea	Money Market Trust	100.00	100.00

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

² Subsidiary of SK hynix Asia Pte. Ltd.

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

⁴ Subsidiary of SK APTECH Ltd.

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

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

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

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

1. Reporting Entity, Continued

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

	<u>Company</u>	<u>Description</u>
Excluded from consolidation	Siliconfile Technologies Inc.	Excluded due to merger
Excluded from consolidation	SK hynix Semiconductor (Wuxi) Ltd.	Excluded due to merger

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

(In millions of won)

	2018			2017		
	<u>Assets</u>	<u>Liabilities</u>	<u>Equity</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Equity</u>
SK hynix system ic Inc.	₩ 527,482	89,742	437,741	360,254	77,958	282,296
SK hynix America Inc.	3,061,252	2,783,203	278,049	2,522,348	2,259,210	263,138
SK hynix Deutschland GmbH	141,620	101,755	39,865	108,470	70,430	38,040
SK hynix Asia Pte. Ltd.	950,039	867,510	82,529	636,286	559,400	76,886
SK hynix Semiconductor Hong Kong Ltd.	545,626	408,001	137,625	1,043,889	918,305	125,584
SK hynix U.K. Ltd.	379,644	361,558	18,086	325,434	308,999	16,435
SK hynix Semiconductor Taiwan Inc.	791,645	768,807	22,838	566,155	536,592	29,563
SK hynix Japan Inc.	814,287	745,788	68,499	632,590	569,810	62,780
SK hynix Semiconductor (Shanghai) Co., Ltd.	1,284,410	1,212,621	71,789	414,850	379,888	34,962
SK hynix Semiconductor (China) Ltd.	4,621,495	454,657	4,166,838	4,043,100	322,545	3,720,555
SK hynix Semiconductor (Chongqing) Ltd.	598,426	183,186	415,240	388,033	195,849	192,184

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

1. Reporting Entity, Continued

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

(In millions of won)

	2018			2017		
	Revenue	Profit	Total comprehensive income	Revenue	Profit (loss)	Total comprehensive income (loss)
SK hynix system ic Inc.	261,047	40,776	40,776	-	-	-
SK hynix America Inc.	6,478,311	2,452	2,452	4,448,087	20,684	20,684
SK hynix Deutschland GmbH	274,095	1,303	1,303	231,116	1,433	1,433
SK hynix Asia Pte. Ltd.	1,644,741	1,973	1,973	1,118,498	(2,777)	(2,777)
SK hynix Semiconductor Hong Kong Ltd.	2,243,478	6,406	6,406	4,298,444	(544)	(544)
SK hynix U.K. Ltd.	629,196	843	843	483,443	(230)	(230)
SK hynix Semiconductor Taiwan Inc.	1,586,328	3,691	3,691	1,269,055	(26,581)	(26,581)
SK hynix Japan Inc.	584,773	1,341	1,341	419,870	(164)	(164)
SK hynix Semiconductor (Shanghai) Co., Ltd.	3,719,053	35,501	35,501	122,164	4,614	4,614
SK hynix Semiconductor (China) Ltd.	1,204,212	78,631	78,631	1,048,604	32,288	32,288
SK hynix Semiconductor (Chongqing) Ltd.	200,022	10,006	10,006	159,492	7,765	7,765

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

SK HYNIX, INC. and Subsidiaries

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(Unaudited)

2. Basis of Preparation

(1) Statement of compliance

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

These condensed consolidated interim financial statements were prepared in accordance with K-IFRS No. 1034, *'Interim Financial Reporting'* as part of the period covered by the Group's K-IFRS annual financial statements. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as of and for the year ended December 31, 2017. These condensed consolidated interim financial statements do not include all of the disclosures required for full annual financial statements.

During the six-month period ended June 30, 2018, K-IFRS No. 1109 and K-IFRS No. 1115 were applied for the first time. Changes to significant accounting policies are described in Note 3.

(2) Use of estimates and judgments

(a) Critical judgments, assumptions and estimation uncertainties

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

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as of and for the year ended December 31, 2017, except for new significant judgements and key sources of estimation uncertainty related to the adoption of K-IFRS No. 1109 and K-IFRS No. 1115, which are described in Note 3.

(b) Fair value measurement

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

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

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

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

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

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2. Basis of Preparation, Continued

(2) Use of estimates and judgments, Continued

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

3. Significant Accounting Policies

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

(1) Changes of accounting policies

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

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

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

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

(i) Sales with right of return

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

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

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

SK HYNIX, INC. and Subsidiaries
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3. Significant Accounting Policies, Continued

(1) Changes of accounting policies, Continued

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

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

(In millions of won)

	December 31, 2017	Adjustments - Sales with right of return	January 1, 2018
Assets			
Current assets			
Other current assets	₩ 523,638	17,884	541,522
Others	16,786,806	-	16,786,806
	<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>

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3. Significant Accounting Policies, Continued

(1) Changes of accounting policies, Continued

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

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

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

(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	₩ 548,802	(20,012)	528,790
Others	15,146,466	-	15,146,466
	<u>15,695,268</u>	<u>(20,012)</u>	<u>15,675,256</u>
Non-current assets	37,561,812	-	37,561,812
Total assets	<u>53,257,080</u>	<u>(20,012)</u>	<u>53,237,068</u>
Liabilities			
Current liabilities			
Provisions	30,139	51,271	81,410
Other current liabilities	123,021	(71,283)	51,738
Others	8,574,265	-	8,574,265
	<u>8,727,425</u>	<u>(20,012)</u>	<u>8,707,413</u>
Non-current liabilities	3,751,979	-	3,751,979
Total liabilities	<u>12,479,404</u>	<u>(20,012)</u>	<u>12,459,392</u>
Equity			
Total equity attributable to owners of the Parent Company	40,771,700	-	40,771,700
Non-controlling interests	5,976	-	5,976
Total equity	<u>40,777,676</u>	<u>-</u>	<u>40,777,676</u>
Total liabilities and equity	<u>₩ 53,257,080</u>	<u>(20,012)</u>	<u>53,237,068</u>

SK HYNIX, INC. and Subsidiaries
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3. Significant Accounting Policies, Continued

(1) Changes of accounting policies, Continued

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

(In millions of won)

	As reported	Adjustments - Delivery of product	Amounts without adoption of K-IFRS No. 1115
Revenue	₩ 19,090,197	-	19,090,197
Cost of sales	7,145,457	(11,456)	7,134,001
Gross profit	11,944,740	11,456	11,956,196
Selling and administrative expense	2,003,485	11,456	2,014,941
Operating profit	9,941,255	-	9,941,255
Finance income	1,003,355	-	1,003,355
Finance expenses	677,618	-	677,618
Share of profit of equity-accounted investees	8,472	-	8,472
Other income	17,234	-	17,234
Other expenses	98,414	-	98,414
Profit before income tax	10,194,284	-	10,194,284
Income tax expense	2,744,413	-	2,744,413
Profit for the period	7,449,871	-	7,449,871
Other comprehensive income	212,319	-	212,319
Total comprehensive income for the period	₩ 7,662,190	-	7,662,190

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

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

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

(In millions of won)

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

3. Significant Accounting Policies, Continued

(1) Changes of accounting policies, Continued

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

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

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

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

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

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

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

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

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

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

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

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3. Significant Accounting Policies, Continued

(1) Changes of accounting policies, Continued

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

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

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

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

(In millions of won)

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

3. Significant Accounting Policies, Continued

(1) Changes of accounting policies, Continued

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

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

(ii) Impairment of financial assets

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

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

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

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

(iii) Hedge accounting

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

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3. Significant Accounting Policies, Continued

(2) Standards issued but not yet effective

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

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

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

SK HYNIX, INC. and Subsidiaries

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4. Geographic, Product and Customer Information

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

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

(In millions of won)

		2018		2017	
		Three-month period	Six-month period	Three-month period	Six-month period
Sale of goods	₩	10,357,773	19,063,617	6,675,557	12,950,215
Sale of services		12,734	26,580	16,721	31,581
	₩	<u>10,370,507</u>	<u>19,090,197</u>	<u>6,692,278</u>	<u>12,981,796</u>

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

(In millions of won)

		2018		2017	
		Three-month period	Six-month period	Three-month period	Six-month period
DRAM	₩	8,321,201	15,201,717	5,079,453	9,734,032
NAND Flash		1,869,713	3,563,552	1,493,963	2,995,555
Other		179,593	324,928	118,862	252,209
	₩	<u>10,370,507</u>	<u>19,090,197</u>	<u>6,692,278</u>	<u>12,981,796</u>

(3) The Group's revenue information by region based on the location of selling entities for the three and six-month periods ended June 30, 2018 and 2017 are as follows:

(In millions of won)

		2018		2017	
		Three-month period	Six-month period	Three-month period	Six-month period
Korea	₩	218,088	526,129	257,666	635,181
China		4,113,386	7,372,141	2,216,747	4,417,241
Taiwan		825,063	1,584,131	674,089	1,266,538
Asia (other than China and Taiwan)		1,236,795	2,226,877	842,162	1,536,924
U.S.A.		3,511,043	6,506,129	2,321,911	4,413,798
Europe		466,132	874,790	379,703	712,114
	₩	<u>10,370,507</u>	<u>19,090,197</u>	<u>6,692,278</u>	<u>12,981,796</u>

SK HYNIX, INC. and Subsidiaries

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4. Geographic, Product and Customer Information, Continued

(4) The Group's non-current assets (excluding financial assets, equity-accounted investees and deferred tax assets) information by region based on the location of subsidiaries as of June 30, 2018 and December 31, 2017 are as follows:

(In millions of won)

	2018	2017
Korea	₩ 28,725,990	23,959,991
China	3,351,417	2,768,494
Taiwan	6,676	5,752
Asia (other than China and Taiwan)	1,049	1,100
U.S.A.	329,677	318,567
Europe	9,398	8,560
	<u>₩ 32,424,207</u>	<u>27,062,464</u>

(5) Revenues from customers "A," "B" and "C" that each constitutes more than 10% of the Group's consolidated revenue for the six-month period ended June 30, 2018 amount to ₩2,393,419 million (2017: ₩1,472,969 million), ₩2,264,477 million (2017: ₩1,262,901 million) and ₩1,411,905 million (2017: ₩1,503,427 million), respectively.

5. Categories of Financial Instruments

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

(In millions of won)

	2018		
	Financial assets at fair value through profit or loss	Financial assets at amortized cost	Total
Cash and cash equivalents	₩ -	1,187,928	1,187,928
Short-term financial instruments	-	606,789	606,789
Short-term investment assets	2,610,660	-	2,610,660
Trade receivables	-	7,351,385	7,351,385
Loans and other receivables	-	83,201	83,201
Other financial assets	-	197	197
Long-term investment assets	4,067,501	-	4,067,501
	<u>₩ 6,678,161</u>	<u>9,229,500</u>	<u>15,907,661</u>

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5. Categories of Financial Instruments, Continued

(In millions of won)

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

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

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

(In millions of won)

		2018
		Financial liabilities measured at amortized cost
Trade payables	₩	801,157
Other payables		2,237,384
Other non-trade payables ¹		948,707
Borrowings		5,415,070
	₩	<u>9,402,318</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 June 30, 2018 and December 31, 2017 are as follows:

(In millions of won)

	2018	2017
Current		
Accrued expenses	₩ 944,695	1,340,225
Non-current		
Rent deposit payables	4,012	3,412
	₩ <u>948,707</u>	<u>1,343,637</u>

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6. Financial Risk Management

(1) Financial risk management

The Group's activities are exposed to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The interim financial statements do not include all the financial risk management policies and disclosures that are required in the annual financial statements. There is no significant change in risk management policies for the six-month period ended June 30, 2018.

(a) Market risk

(i) Foreign exchange risk

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

Monetary foreign currency assets and liabilities as of June 30, 2018 are as follows:

(In millions of won and millions of foreign currencies)

	Assets		Liabilities	
	Foreign currencies	Korean won equivalent	Foreign currencies	Korean won equivalent
USD	10,898	₩ 12,224,223	5,640	₩ 6,325,838
EUR	20	25,529	33	43,297
JPY	1,087	11,034	235,994	2,394,847

As of June 30, 2018, the impacts from foreign exchange risks on each monetary foreign currency assets and liabilities assuming change in exchange rate by 10% are as follows:

(In millions of won)

		If increased by 10%	If decreased by 10%
USD	₩	589,839	(589,839)
EUR		(1,777)	1,777
JPY		(238,381)	238,381

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6. Financial Risk Management, Continued

(1) Financial risk management, Continued

(a) Market risk, Continued

(ii) Interest rate risk

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

As of June 30, 2018, the Group is partially exposed to the risk of fluctuation of net interest expenses arisen from change in interest rates. If interest rates on borrowings had been 100 basis points higher/lower with all other variables held constant, profit before income tax for the next six-month period would have been ₩15,776 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 June 30, 2018.

(b) Credit risk

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

(i) Trade and other receivables

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

The Group reviews at the end of each reporting period whether trade and other receivables are impaired and maintains credit insurance policies to manage credit risk exposure from oversea customers. The maximum exposure to credit risk as of June 30, 2018 is the carrying amount of trade and other receivables.

(ii) Other financial assets

Credit risk also arises from other financial assets such as cash and cash equivalents, short-term financial instruments, 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 June 30, 2018 is the carrying amount of those financial assets. The Group transacts only with banks and financial institutions with high credit ratings, and accordingly management does not expect any significant loss from non-performance by the counterparties.

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6. Financial Risk Management, Continued

(1) Financial risk management, Continued

(c) Liquidity risk

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

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

(2) Capital management

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

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

The debt-to-equity ratio and net borrowing ratio as of June 30, 2018 and December 31, 2017 are as follows:

(In millions of won)

	2018	2017
Total liabilities (A)	₩ 12,479,404	11,597,545
Total equity (B)	40,777,676	33,820,919
Cash and cash equivalents, short-term financial instruments assets and short-term financial investment assets (C)	4,405,377	8,554,654
Total borrowings (D)	5,415,070	4,171,270
Debt-to-equity ratio (A/B)	30.60%	34.29%
Net borrowing ratio (D-C)/B ¹	2.48%	-

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

SK HYNIX, INC. and Subsidiaries

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6. Financial Risk Management, Continued

(3) Fair value

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

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

(a) The following table presents the carrying amounts and fair values of financial instruments by categories, including their levels in the fair value hierarchy, as of June 30, 2018 and December 31, 2017:

(In millions of won)

	Carrying amounts	2018			Total
		Level 1	Level 2	Level 3	
Financial assets measured at fair value					
Short-term investment assets	₩ 2,610,660	-	2,610,660	-	2,610,660
Long-term investment assets	4,067,501	-	-	4,067,501	4,067,501
	<u>6,678,161</u>	<u>-</u>	<u>2,610,660</u>	<u>4,067,501</u>	<u>6,678,161</u>
Financial assets not measured at fair value					
Cash and cash equivalents ¹	1,187,928	-	-	-	-
Short-term financial instruments ¹	606,789	-	-	-	-
Trade receivables ¹	7,351,385	-	-	-	-
Loans and other receivables ¹	83,201	-	-	-	-
Other financial assets ¹	197	-	-	-	-
	<u>9,229,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Financial liabilities not measured at fair value					
Trade payables ¹	801,157	-	-	-	-
Other payables ¹	2,237,384	-	-	-	-
Other non-trade payables ¹	948,707	-	-	-	-
Borrowings	5,415,070	-	5,413,755	-	5,413,755
	₩ <u>9,402,318</u>	<u>-</u>	<u>5,413,755</u>	<u>-</u>	<u>5,413,755</u>

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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 and fair value level 3 are the same as those applied by the Group in its consolidated financial statements as of and for the year ended December 31, 2017.

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

(In millions of won)

	Beginning Balance ¹	Acquisition	Disposals	Foreign exchange difference	Ending Balance
Long-term investment assets	₩ 43,226	3,932,470	(810)	92,615	4,067,501

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

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

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

(In millions of won)

	2018	2017	Description
Short-term financial instruments	₩ 227,500	227,500	Restricted for supporting small businesses
	6,089	5,695	Pledged for consumption tax
	-	1,287	Others
	<u>233,589</u>	<u>234,482</u>	
Other financial assets	11	11	Bank overdraft guarantee deposit
	186	262	Others
	<u>197</u>	<u>273</u>	
	<u>₩ 233,786</u>	<u>234,755</u>	

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8. Trade Receivables and Loans and Other Receivables

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

(In millions of won)

	2018	2017
Current		
Other receivables	₩ 14,673	10,816
Accrued income	1,447	22,308
Short-term loans	4,075	2,886
Short-term guarantee and other deposits	1,206	1,603
	<u>21,401</u>	<u>37,613</u>
Non-current		
Long-term other receivables	55	56
Long-term loans	22,458	11,098
Guarantee deposits	39,066	31,109
Long-term deposits	221	147
	<u>61,800</u>	<u>42,410</u>
	<u>₩ 83,201</u>	<u>80,023</u>

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

(In millions of won)

	2018		
	Gross amount	Provision for impairment	Carrying amount
Trade receivables	₩ 7,351,432	(47)	7,351,385
Current loans and other receivables	22,728	(1,327)	21,401
Non-current loans and other receivables	61,902	(102)	61,800
	<u>₩ 7,436,062</u>	<u>(1,476)</u>	<u>7,434,586</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

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8. Trade Receivables and Loans and Other Receivables, Continued

(3) Details of provision for impairment

Movements in the provision for impairment of trade receivables for the six-month periods ended June 30, 2018 and 2017 are as follows:

(In millions of won)

	2018	2017
Beginning balance	₩ 46	1,837
Provision	-	263
Foreign exchange difference	1	-
Ending balance	₩ 47	2,100

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

(In millions of won)

	2018	2017
Beginning balance	₩ 1,327	1,371
Provision	-	154
Reversal	(2)	-
Foreign exchange difference	2	-
Ending balance	₩ 1,327	1,525

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

(In millions of won)

	2018	2017
Beginning balance	₩ 1,087	1,476
Provision	-	12
Write-off	(985)	-
Foreign exchange difference	-	(61)
Ending balance	₩ 102	1,427

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9. Inventories

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

(In millions of won)

		2018		
		Acquisition cost	Inventory valuation allowance	Carrying amount
Finished goods	₩	778,735	(68,135)	710,600
Work-in-process		1,931,464	(31,628)	1,899,836
Raw materials		386,707	(29,061)	357,646
Supplies		386,338	(17,369)	368,969
Goods in transit		30,737	-	30,737
	₩	<u>3,513,981</u>	<u>(146,193)</u>	<u>3,367,788</u>

(In millions of won)

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

10. Other Current and Non-current Assets

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

(In millions of won)

		2018	2017
Current			
Advance payments	₩	75,558	34,887
Prepaid expenses		257,687	222,411
Value added tax refundable		194,302	263,287
Contract assets		20,012	-
Others		1,243	3,053
		<u>548,802</u>	<u>523,638</u>
Non-current			
Long-term advance payments		139,361	183,489
Long-term prepaid expenses		562,843	553,231
		<u>702,204</u>	<u>736,720</u>
	₩	<u>1,251,006</u>	<u>1,260,358</u>

SK HYNIX, INC. and Subsidiaries

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11. Investments in Associates and Joint Ventures

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

(In millions of won)

Type	Investee	Ownership (%) in 2018	2018		2017
			Net asset Value	Carrying amount	Carrying amount
Associate	Stratio, Inc. ¹	9.12	₩ 100	2,100	2,105
	SK China Company Limited (SK China) ¹	11.87	203,356	255,707	244,912
	Gemini Partners Pte. Ltd.	20.00	2,313	4,008	4,003
	TCL Fund ¹	11.06	3,152	3,151	2,634
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.(HITECH)	45.00	104,570	104,570	106,210
			₩	369,536	359,864

¹ The Group is able to exercise significant influence through its right to appoint a director to the board of directors of each investee. Accordingly, the investments in these investees have been accounted for using the equity method.

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

(In millions of won)

		2018					Ending balance
		Beginning balance	Acquisition	Share of profit (loss)	Other equity movement	Dividend	
Stratio, Inc.	₩	2,105	-	(9)	4	-	2,100
SK China		244,912	-	1,750	9,045	-	255,707
Gemini Partners Pte. Ltd.		4,003	-	(49)	54	-	4,003
TCL Fund		2,634	430	(7)	94	-	3,151
HITECH		106,210	-	6,787	4,693	(13,120)	104,570
	₩	359,864	430	8,472	13,890	(13,120)	369,536

(In millions of won)

		2017					Ending balance
		Beginning balance	Acquisition	Share of profit (loss)	Other equity movement	Dividend	
Stratio, Inc.	₩	2,151	-	(5)	(9)	-	2,137
Gemini Partners Pte. Ltd.		5,199	-	(386)	(32)	-	4,781
TCL Fund		2,219	-	6	(71)	-	2,154
HITECH		121,447	-	4,888	(7,235)	(14,828)	104,272
	₩	131,016	-	4,503	(7,347)	(14,828)	113,344

SK HYNIX, INC. and Subsidiaries

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11. Investments in Associates and Joint Ventures, Continued

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

(In millions of won)

		2018			
		Current assets	Non-current assets	Current liabilities	Non-current liabilities
Stratio, Inc.	₩	651	591	146	-
SK China		734,852	1,134,123	72,021	83,197
Gemini Partners Pte. Ltd.		5,541	6,042	17	-
TCL Fund		4,351	24,143	-	-
HITECH		228,122	383,432	137,666	241,510

(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

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

(In millions of won)

		2018		2017	
		Revenue	Income (loss) for the period	Revenue	Income (loss) for the period
Stratio, Inc.	₩	31	(100)	30	(52)
SK China		22,831	14,744	-	-
Gemini Partners Pte. Ltd.		-	(245)	182	(1,932)
TCL Fund		-	(59)	-	56
HITECH		150,224	15,083	290,044	10,863

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12. Long-term Investment Assets

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

(In millions of won)

	2018	2017
Beginning balance	₩ 43,226	147,779
Acquisition ¹	3,932,470	9,080
Disposal	(810)	(672)
Foreign exchange difference	92,615	(109)
Ending balance	<u>₩ 4,067,501</u>	<u>156,078</u>

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

13. Property, Plant and Equipment

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

(In millions of won)

	2018	2017
Beginning balance	₩ 24,062,601	18,777,402
Acquisition	7,969,804	4,932,739
Disposal and retirement	(57,125)	(5,597)
Depreciation	(2,763,821)	(2,220,296)
Foreign exchange difference	99,838	(88,963)
Ending balance	<u>₩ 29,311,297</u>	<u>21,395,285</u>

(2) Certain property, plant and equipment are pledged as collaterals for borrowings of the Group as of June 30, 2018 (Note 31).

(3) Finance lease and operating lease

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

The book value of the machinery subject to finance lease agreement amounted to ₩76,115 million as of June 30, 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 June 30, 2018 is as follows:

(In millions of won)

	Minimum lease payments
No later than 1 year	₩ 158,242
Later than 1 year	141,245
	<u>₩ 299,487</u>

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14. Intangible Assets

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

(In millions of won)

	2018	2017
Beginning balance	₩ 2,247,290	1,915,591
Acquisition	414,471	429,713
Disposal and retirement	(5,112)	(4,181)
Amortization	(259,590)	(158,692)
Impairment	(3,463)	-
Foreign exchange difference	14,695	(19,700)
Ending balance	₩ 2,408,291	2,162,731

(2) Among costs associated with development activities, ₩261,894 million that met capitalization criteria were capitalized as development cost for the six-month period ended June 30, 2018 (2017: ₩295,605 million). In addition, costs associated with research activities and other development expenditures that did not meet the criteria and amounted to ₩1,031,360 million were recognized as expenses for the six-month period ended June 30, 2018 (2017: ₩866,977 million).

15. Investment Property

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

(In millions of won)

	2018	2017
Beginning balance	₩ 2,468	2,573
Depreciation	(53)	(52)
Ending balance	₩ 2,415	2,521

(2) The depreciation expense of ₩53 million was charged to cost of sales for the six-month period ended June 30, 2018 (2017: ₩52 million).

(3) Rental income from investment property during the six-month period ended June 30, 2018 was ₩189 million (2017: ₩248 million).

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16. Borrowings

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

(In millions of won)

	2018	2017
Current		
Short-term borrowings	₩ 871,015	192,686
Current installments of long-term borrowings	448,529	361,258
Current installments of debentures	519,589	219,836
	<u>1,839,133</u>	<u>773,780</u>
Non-current		
Long-term borrowings	2,409,025	2,080,333
Debentures	1,166,912	1,317,157
	<u>3,575,937</u>	<u>3,397,490</u>
	<u>₩ 5,415,070</u>	<u>4,171,270</u>

17. Other Current and Non-current Liabilities

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

(In millions of won)

	2018	2017
Current		
Advance receipts	₩ 5,334	3,040
Unearned income	50	81
Withholdings	39,081	39,862
Deposits received	1,035	989
Contract liabilities	71,283	-
Others	6,238	7,804
	<u>123,021</u>	<u>51,776</u>
Non-current		
Other long-term employee benefits	65,927	63,960
Long-term advance receipts	4,900	4,900
	<u>70,827</u>	<u>68,860</u>
	<u>₩ 193,848</u>	<u>120,636</u>

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18. Provisions

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

(In millions of won)

	2018				
	Beginning Balance	Increase	Utilization / Transfer	Reversal	Ending Balance
Warranty	₩ 3,807	1,712	(1,908)	-	3,611
Sales returns ¹	-	-	-	-	-
Legal claims	9,460	-	(9,460)	-	-
Emission allowances	37,412	-	-	(10,884)	26,528
	₩ 50,679	1,712	(11,368)	(10,884)	30,139

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

(In millions of won)

	2017				
	Beginning Balance	Increase	Utilization	Reversal	Ending Balance
Warranty	₩ 2,997	1,613	(553)	-	4,057
Sales returns	13,317	56,355	(46,173)	-	23,499
Legal claims	400	-	-	-	400
Emission allowances	26,108	-	(694)	(2,498)	22,916
	₩ 42,822	57,968	(47,420)	(2,498)	50,872

(2) Provisions for warranty

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

(3) Provisions for sales returns

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

(4) Provisions for legal claims

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

(5) Provision for emission allowances

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

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19. Defined Benefit Liabilities

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

(In millions of won)

	2018	2017
Present value of defined benefit obligations	₩ 1,428,216	1,330,559
Fair value of plan assets	(1,329,561)	(1,337,848)
Net defined benefit liabilities (assets)	₩ 98,655	(7,289)
Defined benefit liabilities	98,655	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 June 30, 2018 and December 31, 2017 are as follows:

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

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

(In millions of won)

	2018	2017
Beginning balance	₩ 1,330,559	1,195,047
Current service cost	84,915	76,844
Interest cost	28,232	23,502
Past service cost	-	(1,213)
Transferred from associates	1,113	220
Benefits paid	(16,643)	(22,714)
Others	40	1
Ending balance	₩ 1,428,216	1,271,687

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

(In millions of won)

	2018	2017
Beginning balance	₩ 1,337,848	888,559
Interest income	28,373	17,461
Contributions	91	-
Transferred from associates	1,099	226
Benefits paid	(23,755)	(16,210)
Remeasurements	(14,095)	(8,311)
Ending balance	₩ 1,329,561	881,725

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19. Defined Benefit Liabilities, Continued

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

(In millions of won)

	2018		2017	
	Three-month period	Six-month period	Three-month period	Six-month period
Current service cost	₩ 42,413	84,915	38,409	76,844
Net interest cost	(72)	(141)	3,020	6,041
Past service cost	-	-	(1,213)	(1,213)
	₩ 42,341	84,774	40,216	81,672

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

(In millions of won)

	2018	2017
Deposits	₩ 1,328,264	1,336,484
Other	1,297	1,364
	₩ 1,329,561	1,337,848

Actual return on plan assets for the six-month periods ended June 30, 2018 and 2017 amounted to ₩14,277 million and ₩9,149 million, respectively.

(7) Contributions to defined contribution plans amounting to ₩86 million (2017: ₩32 million) was recognized as cost of sales for the six-month period ended June 30, 2018.

20. Derivative Financial Instruments

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

(2) Details of gains and losses from derivative instruments for the three and six-month periods ended June 30, 2017 are follows (2018 : nil):

(In millions of won)

		2017			
		Gain on valuation		Loss on valuation	
		Three-month period	Six-month period	Three-month period	Six-month period
Interest rates swap	₩	89	188	-	-

(In millions of won)

		2017			
		Gain on transaction		Loss on transaction	
		Three-month period	Six-month period	Three-month period	Six-month period
Interest rates swap	₩	207	410	301	609

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21. Capital Stock, Capital Surplus and Other Equity

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

(In millions of won and thousands of shares)

	2018	2017
Authorized shares	9,000,000	9,000,000
Issued shares ¹	731,530	731,530
Capital stock:		
Common stock	₩ 3,657,652	3,657,652
Capital surplus:		
Additional paid-in capital	3,625,797	3,625,797
Others	517,939	517,939
	<u>4,143,736</u>	<u>4,143,736</u>
Other equity:		
Acquisition cost of treasury shares	(771,913)	(771,913)
Stock option	1,382	813
	<u>₩ (770,531)</u>	<u>(771,100)</u>
Number of treasury shares	22,001	22,001

¹ As of June 30, 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 June 30, 2018 and December 31, 2017.

22. Accumulated Other Comprehensive Loss

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

(In millions of won)

	2018	2017
Equity-accounted investees – share of other comprehensive loss	₩ (6,552)	(20,442)
Loss on valuation of long-term investment assets ¹	-	(10,735)
Foreign operations – foreign currency translation differences	(259,229)	(471,087)
	<u>₩ (265,781)</u>	<u>(502,264)</u>

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

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22. Accumulated Other Comprehensive Loss, Continued

(2) Changes in accumulated other comprehensive income (loss) for the six-month periods ended June 30, 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)	13,890	-	(6,552)
Loss on valuation of long-term investment assets	(10,735)	-	10,735	-
Foreign operations – foreign currency translation differences	(471,087)	211,858	-	(259,229)
	₩ <u>(502,264)</u>	<u>225,748</u>	<u>10,735</u>	<u>(265,781)</u>

(In millions of won)

	2017		
	Beginning	Change	Ending
Equity-accounted investees – share of other comprehensive income (loss)	₩ 5,944	(7,347)	(1,403)
Foreign operations – foreign currency translation differences	(85,047)	(187,360)	(272,407)
	₩ <u>(79,103)</u>	<u>(194,707)</u>	<u>(273,810)</u>

23. Retained Earnings

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

(In millions of won)

	2018	2017
Legal reserve ¹	₩ 178,955	108,354
Discretionary reserve ²	235,506	235,506
Unappropriated retained earnings ³	33,592,163	26,943,396
	₩ <u>34,006,624</u>	<u>27,287,256</u>

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

² Discretionary reserve is the reserve for technology development.

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

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24. Selling and Administrative Expenses

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

(In millions of won)

	2018		2017	
	Three-month period	Six-month period	Three-month period	Six-month period
Salaries	₩ 121,178	256,711	94,999	221,020
Defined benefit plan	7,908	15,510	6,547	13,287
Employee benefits	27,381	52,693	21,481	40,884
Commission	121,619	178,918	54,112	113,282
Depreciation	29,138	57,887	23,447	45,945
Amortization	109,960	220,922	66,844	132,949
Freight and custody charge	6,655	12,576	8,529	18,331
Legal cost	7,049	10,424	10,303	16,742
Rental	3,373	6,607	3,695	7,212
Taxes and dues	4,421	9,653	3,459	7,428
Training	6,307	13,371	5,488	10,261
Advertising	19,456	29,498	13,543	21,379
Supplies	18,824	31,316	17,200	32,036
Repair	7,156	13,036	4,633	6,616
Travel and transportation	3,485	6,991	2,499	5,199
Sales promotion	16,587	33,462	16,715	29,823
Other	4,878	22,550	13,534	30,500
	<u>515,375</u>	<u>972,125</u>	<u>367,028</u>	<u>752,894</u>
Research and development:				
Expenditure on research and development	648,320	1,293,254	570,727	1,162,582
Development cost capitalized	(129,349)	(261,894)	(154,981)	(295,605)
	<u>518,971</u>	<u>1,031,360</u>	<u>415,746</u>	<u>866,977</u>
₩	<u><u>1,034,346</u></u>	<u><u>2,003,485</u></u>	<u><u>782,774</u></u>	<u><u>1,619,871</u></u>

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25. Expenses by Nature

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

(In millions of won)

		2018		2017 ²	
		Three-month period	Six-month period	Three-month period	Six-month period
Changes in finished goods and work-in-process	₩	(179,338)	(560,142)	(345,315)	(374,666)
Raw materials and consumables		1,354,606	2,558,826	1,038,123	1,958,690
Labor costs		781,170	1,624,341	616,800	1,430,331
Depreciation and amortization		1,544,550	2,962,076	1,181,887	2,317,102
Royalty		37,490	93,034	51,575	107,745
Commission		426,867	781,664	299,252	555,841
Utilities		257,543	521,722	222,803	444,877
Repair		230,942	456,229	251,704	411,209
Outsourcing		260,149	500,455	219,110	434,495
Others		82,610	210,737	105,639	177,873
Total ¹	₩	<u>4,796,589</u>	<u>9,148,942</u>	<u>3,641,578</u>	<u>7,463,497</u>

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

² Expenses for the three and six-month periods ended June 30, 2017 were reclassified to conform with the classification for the three and six-month periods ended June 30, 2018.

26. Finance Income and Expense

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

(In millions of won)

		2018		2017	
		Three-month period	Six-month period	Three-month period	Six-month period
Finance income					
Interest income	₩	15,911	43,193	9,839	19,352
Dividend income		1,633	1,979	13	13
Foreign exchange differences ¹		738,246	945,807	191,644	470,406
Gain from derivative instruments		-	-	296	598
Gain on valuation of short-term investment assets ²		3,724	4,828	1,301	1,735
Gain on disposal of short-term investment assets ²		3,706	7,300	2,530	5,261
Gain on disposal of long-term investment assets		-	248	-	-
		<u>763,220</u>	<u>1,003,355</u>	<u>205,623</u>	<u>497,365</u>
Finance expense					
Interest expenses		17,486	42,377	34,451	64,026
Foreign exchange differences		346,854	635,241	164,255	515,514
Loss from derivative instruments		-	-	301	609
		<u>364,340</u>	<u>677,618</u>	<u>199,007</u>	<u>580,149</u>
Net finance income (expense)	₩	<u>398,880</u>	<u>325,737</u>	<u>6,616</u>	<u>(82,784)</u>

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26. Finance Income and Expense, Continued

¹ The foreign exchange differences of long-term investment assets amounting to ₩92,430 million are included.

² Gain related to investment assets for the three and six-month period ended June 30, 2017 were reclassified to conform with the classification for the three and six-month period ended June 30, 2018.

27. Other Income and Expenses

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

(In millions of won)

	2018		2017	
	Three-month period	Six-month period	Three-month period	Six-month period
Gain on disposal of property, plant and equipment	₩ 7,476	13,244	7,489	9,489
Others	2,692	3,990	25,255	28,847
	₩ <u>10,168</u>	<u>17,234</u>	<u>32,744</u>	<u>38,336</u>

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

(In millions of won)

	2018		2017	
	Three-month period	Six-month period	Three-month period	Six-month period
Loss on disposal of property, plant and equipment	₩ 50,634	53,517	639	5,329
Loss on disposal of intangible assets	921	2,580	1,404	3,196
Loss on disposal of trade receivables	1,414	3,649	1,531	3,625
Donation	26,946	27,993	19,425	21,336
Impairment of intangible assets	-	3,463	-	-
Others	3,522	7,212	2,473	5,406
	₩ <u>83,437</u>	<u>98,414</u>	<u>25,473</u>	<u>38,892</u>

28. Income Tax Expense

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

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29. Earnings per Share

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

(1) Basic earnings per share for the three and six-month periods ended June 30, 2018 and 2017 are as follows:

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

	2018		2017	
	Three-month period	Six-month period	Three-month period	Six-month period
Profit attributable to ordinary shareholders of the Parent company	₩ 4,329,947	7,450,200	2,468,544	4,366,515
Weighted average number of outstanding ordinary shares ¹	706,001,795	706,001,795	706,001,795	706,001,795
Basic earnings per share (in won)	₩ 6,133	10,553	3,497	6,185

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

(In shares)

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

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

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

	2018	
	Three-month period	Six-month period
Profit attributable to ordinary shareholders of the Parent Company	₩ 4,329,947	7,450,200
Weighted average number of diluted outstanding ordinary shares ¹	706,101,731	706,091,750
Diluted earnings per share (in won)	₩ 6,132	10,551

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

(In shares)

	2018	
	Three-month period	Six-month period
Weighted average number of outstanding ordinary shares	706,001,795	706,001,795
Stock options	99,936	89,955
Weighted average number of diluted outstanding ordinary shares	706,101,731	706,091,750

(3) There is no potential ordinary shares with dilutive effect during the three and six-month periods ended June 30, 2017. Accordingly, diluted earnings per share for the three and six-month periods ended June 30, 2017 are the same as basic earnings per share.

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30. Transactions with Related Parties and Others

(1) Details of related parties as of June 30, 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 and six-month periods ended June 30, 2018 and 2017 are as follows:

(In millions of won)

For the three-month period ended June 30, 2018					
	Company	Operating revenue and others	Operating expense and others	Asset acquisition	Dividend income
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	₩ 684	152,184	-	-
Other related parties	SK Telecom Co., Ltd. ¹	178	3,340	705	-
	SK Holdings Co., Ltd. ²	318	70,275	73,877	-
	ESSENCORE Limited	240,887	-	-	-
	SK Engineering & Construction Co., Ltd.	2,655	150	474,696	-
	SK Energy Co., Ltd.	1,253	3,403	-	-
	SK Networks Co., Ltd.	-	1,167	-	-
	SKC solmics Co., Ltd.	-	4,456	367	-
	Chungcheong energy service Co., Ltd.	-	539	203	-
	Happynarae Co., Ltd.	10	130,499	12,414	-
	SK Materials Co., Ltd.	-	16,812	-	-
SK Siltron Co., Ltd.	1,301	80,223	-	-	
Others	81	75,942	9,975	-	
		₩ 247,367	538,990	572,237	-

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30. Related Party Transactions, Continued

(In millions of won)

		For the six-month period ended June 30, 2018			
	Company	Operating revenue and others	Operating expense and others	Asset acquisition	Dividend income
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	₩ 686	300,924	-	13,120
Other related parties	SK Telecom Co., Ltd. ¹	206	154,912	3,523	-
	SK Holdings Co., Ltd. ²	592	113,611	119,973	-
	ESSENCE Limited	494,524	-	-	-
	SK Engineering & Construction Co., Ltd.	3,002	292	1,031,237	-
	SK Energy Co., Ltd.	2,636	37,748	-	-
	SK Networks Co., Ltd.	-	2,370	10,600	-
	SKC solmics Co., Ltd.	-	9,684	463	-
	Chungcheong energy service Co., Ltd.	-	9,178	203	-
	Happynarae Co., Ltd.	20	250,113	24,712	-
	SK Materials Co., Ltd.	-	31,640	-	-
	SK Siltron Co., Ltd.	2,109	148,284	-	-
	Others	163	131,433	16,065	-
			<u>₩ 503,938</u>	<u>1,190,189</u>	<u>1,206,776</u>

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

² For the six-month period ended June 30, 2018, royalty paid for the use of the SK brand amounted to ₩30,977 million.

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30. Related Party Transactions, Continued

(In millions of won)

		For the three-month period ended June 30, 2017				
	Company	Operating revenue and others	Operating expense and others	Asset acquisition	Dividend income	
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	₩ 4,454	147,767	-	-	
Other related parties	SK Telecom Co., Ltd. ¹	114	1,787	4,012	-	
	SK Holdings Co., Ltd. ²	264	38,189	50,726	-	
	ESSEN CORE Limited	160,317	-	-	-	
	SK Engineering & Construction Co., Ltd.	2,740	103	211,608	-	
	SK Energy Co., Ltd.	1,226	12,612	-	-	
	SK Networks Co., Ltd.	-	1,076	-	-	
	SKC solmics Co., Ltd.	-	9,189	313	-	
	Chungcheong energy service Co., Ltd.	-	2,516	10	-	
	Happynarae Co., Ltd.	8	119,425	8,299	-	
	SK Materials Co., Ltd.	-	12,042	-	-	
	Others	157	41,081	5,249	-	
			₩ 169,280	385,787	280,217	-

(In millions of won)

		For the six-month period ended June 30, 2017				
	Company	Operating revenue and others	Operating expense and others	Asset acquisition	Dividend income	
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	₩ 5,496	288,476	-	14,828	
Other related parties	SK Telecom Co., Ltd. ¹	213	91,822	5,546	-	
	SK Holdings Co., Ltd. ²	452	80,196	78,522	-	
	ESSEN CORE Limited	347,815	-	-	-	
	SK Engineering & Construction Co., Ltd.	8,689	226	334,303	-	
	SK Energy Co., Ltd.	2,488	33,319	-	-	
	SK Networks Co., Ltd.	-	1,987	-	-	
	SKC solmics Co., Ltd.	-	20,395	577	-	
	Chungcheong energy service Co., Ltd.	-	10,321	10	-	
	Happynarae Co., Ltd.	17	186,153	12,902	-	
	SK Materials Co., Ltd.	-	22,948	-	-	
	Others	427	77,020	14,802	-	
			₩ 365,597	812,863	446,662	14,828

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

² For the six-month period ended June 30, 2017, royalty paid for the use of the SK brand amounted to ₩17,441 million.

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30. Related Party Transactions, Continued

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

(In millions of won)

		2018		
Company		Trade receivables and others	Other payables and others	
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	₩ 98	106,058	
Other related parties	SK Telecom Co., Ltd.	181	2,329	
	SK Holdings Co., Ltd.	5,544	161,294	
	ESSEN CORE Limited	77,471	-	
	SK Engineering & Construction Co., Ltd.	10,286	655,684	
	SK Energy Co., Ltd.	422	3,544	
	SK Networks Co., Ltd.	-	417	
	SKC solmics Co., Ltd.	-	3,192	
	Chungcheong energy service Co., Ltd.	-	652	
	Happynarae Co., Ltd.	4	31,144	
	SK Materials Co., Ltd.	-	16,588	
	SK Siltron Co., Ltd. ¹	150,877	30,825	
	Others	5	59,975	
		₩	<u>244,888</u>	<u>1,071,702</u>

(In millions of won)

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

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

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30. Related Party Transactions, Continued

(4) Key management compensation

Key management includes the Parent company's directors, members of the board of directors, chief financial officer and internal auditors. The compensation paid to key management for employee services for the three and six-month periods ended June 30, 2018 and 2017 are as follows:

(In millions of won)

	2018		2017	
	Three-month period	Six-month period	Three-month period	Six-month period
Salaries	₩ 28,371	50,619	29,229	46,583
Defined benefit plan	2,481	5,190	2,227	4,454
Share-based payment	294	569	261	284
Others	4	8	4	7
	₩ <u>31,150</u>	<u>56,386</u>	<u>31,721</u>	<u>51,328</u>

(5) The significant transactions between the Group and the companies that are in the same conglomerate group according to 'Fair Trade Law' for the three and six-month periods ended June 30, 2018 and 2017 are as follows. These entities are not related parties according to K-IFRS No. 1024, 'Related Party Disclosures'.

(In millions of won)

	Company	2018			
		Operating revenue		Operating expense	
		Three-month period	Six-month period	Three-month period	Six-month period
Companies in the Conglomerate	SK Chemicals Co., Ltd.	₩ -	-	291	590

(In millions of won)

	Company	2017			
		Operating revenue		Operating expense	
		Three-month period	Six-month period	Three-month period	Six-month period
Companies in the Conglomerate	SK Chemicals Co., Ltd.	₩ -	-	311	560

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30. Related Party Transactions, Continued

(6) The balances of significant transactions between the Group and the companies that are in the same conglomerate group designated by 'Fair Trade Law'. The details of the balances as of June 30, 2018 and December 31, 2017 are as follows. These entities are not related parties according to K-IFRS No. 1024, 'Related Party Disclosures'.

(In millions of won)

		2018	
Company		Trade receivables and others	Other payables and others
Companies in the Conglomerate	SK Chemicals Co., Ltd.	₩ -	298

(In millions of won)

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

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31. Commitments and Contingencies

(1) Significant pending litigations and claims of the Group as of June 30, 2018 are as follows:

(a) Lawsuit from Netlist, Inc.

Netlist, Inc. filed a lawsuit against the Parent Company and its subsidiaries including SK hynix America Inc. alleging infringement of multiple patents to U.S. District Court for the Central District of California, USA, on August 31, 2016 and June 14, 2017, to US International Trade Commission on September 1, 2016 and on October 31, 2017, to the German District court of Munich and the Beijing Intellectual Property Court, respectively on July 11, 2017. As of June 30, 2018, the patent infringement lawsuits filed by Netlist, Inc. in the U.S. and Germany have not been finalized and the final result cannot be predicted.

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

In addition, regarding the lawsuit filed to the Beijing Intellectual Property Court on July 11, 2017, the Court determined that the patent litigation was invalid on May 30, 2018. Accordingly, the patent infringement lawsuit was dismissed on June 26, 2018.

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

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

(c) The antitrust investigation in China

The State Administration for Market Regulation of China initiated to investigate the violation of the antitrust law regarding on primary DRAM businesses' sales in China in May 2018. As of the year ended June 30, 2018 the final result of the investigation cannot be predicted.

(d) Other patent infringement claims and litigation

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

(2) Technology and patent license agreements

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

(3) Contract for supply of industrial water

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

(4) Post-process service contract with HITECH

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

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31. Commitments and Contingencies, Continued

(5) Assets provided as collateral

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

(In millions of won)

	Book value	Pledged amount	Remark
Land	₩ 18,487		
Buildings	53,005	1,164,469	Borrowings for equipment and others
Machinery	782,989		
	₩ 854,481	1,164,469	

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 June 30, 2018 are as follows:

(In millions of won and millions of foreign currencies)

	Financial Institution	Commitment	Currency	Amount
The Parent Company	KEB Hana Bank and others	Import finance including usance	USD	225
		Export finance including bills bought	USD	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.	Agricultural Bank of China and others	Import finance including usance	RMB	1,300
			USD	232
SK Hynix America Inc. 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	12,500

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

(In millions of won)

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

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31. Commitments and Contingencies, Continued

(8) Capital commitments

The Group's commitments in relation to the capital expenditures on property, plant and equipment as of June 30, 2018 are ₩2,200,967 million (as of December 31, 2017: ₩661,588 million).

(9) Long-term purchase agreement for raw materials

The Group has entered into a procurement agreement with SK Siltron Co., Ltd. from 2019 to 2023 for stable supply of wafer with an advanced payment of ₩ 150,000 million during the year ended December 31, 2017. In addition, SK Siltron Co., Ltd. has committed to provide certain portion of its investment assets as collateral to secure the advanced payment of ₩ 150,000 million prepaid by the Group.

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

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

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32. Cash Generated from Operating Activities

(1) Reconciliations between profit and net cash inflow from operating activities for the six-month periods ended June 30, 2018 and 2017 are as follows:

(In millions of won)

	2018	2017
Profit for the period	₩ 7,449,871	4,367,189
Adjustment		
Income tax expense	2,744,413	1,072,273
Defined benefit plan	84,774	81,672
Depreciation of property, plant and equipment	2,763,821	2,220,296
Depreciation of investment property	53	52
Amortization	259,590	158,692
Compensation expense associated with stock option	569	284
Loss on disposal of property, plant and equipment	53,517	5,329
Loss on disposal of intangible assets	2,580	3,196
Impairment of intangible assets	3,463	-
Interest expense	42,377	64,026
Loss on foreign currency translation	276,398	55,474
Gain on equity method investments, net	(8,472)	(4,503)
Gain on disposal of property, plant and equipment	(13,244)	(9,489)
Gain on valuation of short-term investment assets	(4,828)	(1,735)
Gain on disposal of short-term investment assets	(7,300)	(5,261)
Gain on disposal of long-term investment assets	(248)	-
Loss on derivative instruments, net	-	11
Interest income	(43,193)	(19,352)
Gain on foreign currency translation	(442,996)	(203,227)
Others, net	1,787	4,038
Changes in operating assets and liabilities		
Increase in trade receivables	(1,234,808)	(1,185,746)
Decrease (increase) in loans and other receivables	30,615	(12,153)
Increase in inventories	(714,232)	(408,380)
Decrease (Increase) in other assets	16,691	(43,051)
Increase (decrease) in trade payables	(289,296)	323,309
Decrease in other payables	(40,573)	(30,973)
Increase (decrease) in other non-trade payables	(389,688)	108,008
Increase (decrease) in provisions	(51,758)	8,097
Increase (decrease) in other liabilities	69,428	(8,806)
Contributions to plan assets	(91)	-
Payment of defined benefit liabilities	(8,191)	(10,994)
Cash generated from operating activities	₩ 10,551,029	6,528,276

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

(In millions of won)

	2018	2017
Increase in other payables related to acquisition of property, plant and equipment	₩ -	246,479

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32. Cash Generated from Operating Activities, Continued

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

(In millions of won)

	2018	2017
Beginning balance	₩ 4,171,270	4,335,978
Cash flows from financing activities		
Proceeds from borrowings	2,063,692	697,115
Repayments of borrowings	(947,475)	(296,171)
Foreign currency differences	126,774	(115,743)
Present value discount (interest expense)	809	885
Ending balance	₩ 5,415,070	4,622,064

33. Share-based Payment

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

(In shares)

	Total numbers of share option granted	Exercised	Forfeited or Cancelled	Outstanding at June 30, 2018
1 st	99,600	-	-	99,600
2 nd	99,600	-	-	99,600
3 rd	99,600	-	-	99,600
4 th	7,747	-	-	7,747
5 th	7,223	-	-	7,223
	<u>313,770</u>	<u>-</u>	<u>-</u>	<u>313,770</u>

	Grant date	Service Period for Vesting	Exercisable Period	Exercise price (in won)
1 st	March 24, 2017	March 24, 2017 - March 24, 2019	March 25, 2019 - March 24, 2022	48,400
2 nd	March 24, 2017	March 24, 2017 - March 24, 2020	March 25, 2020 - March 24, 2023	52,280
3 rd	March 24, 2017	March 24, 2017 - March 24, 2021	March 25, 2021 - March 24, 2024	56,460
4 th	January 1, 2018	January 1, 2018 - December 31, 2019	January 1, 2020 - December 31, 2022	77,440
5 th	March 28, 2018	March 28, 2018 - March 28, 2020	March 29, 2020 - March 28, 2023	83,060

(2) Measurement of fair value

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

	1st	2nd	3rd	4th	5th
Expected volatility	23.23%	23.23%	23.23%	22.50%	25.30%
Estimated fair value of share option (in won)	10,026	9,613	9,296	16,687	18,362
Dividend yield ratio	1.20%	1.20%	1.20%	0.78%	1.23%
Risk free ratio	1.86%	1.95%	2.07%	2.38%	2.46%

(3) The compensation expense for the six-month period ended June 30, 2018 was ₩569 million (2017: ₩284 million).

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34. Subsequent Event

(1) Decision to acquire treasury shares

The Parent Company decided to acquire 22,000,000 shares of common stock pursuant to the board of directors resolution on July 27, 2018, for the purpose of providing value for shareholders by maintaining stock price.

(2) SK hynix Semiconductor (Wuxi) Ltd.'s investment

SK hynix Semiconductor (China) Ltd., a consolidated subsidiary of the parent company, plans to invest RMB 330 million to an investment corporation in China in August 2018.