

SK HYNIX, INC.

Separate Financial Statements

December 31, 2016 and 2015

(With Independent Auditors' Report Thereon)

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Independent Auditors' Report

Based on a report originally issued in Korean

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

We have audited the accompanying separate financial statements of SK hynix, Inc. (the Company) comprise the separate statements of financial position as of December 31, 2016 and 2015, the statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Separate Financial Statements

Management is responsible for the preparation and fair presentation of these separate financial statements in accordance with Korean International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these separate financial statements based on our audit conducted our audits in accordance with Korean Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the separate financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the separate financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the separate financial statements present fairly, in all material respects, the separate position of the Company as of December 31, 2016 and 2015 and its separate financial performance and its separate cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

Other Matter

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



KPMG Samjony Accounting Corp.

Seoul, Korea
February 17, 2017

This report is effective as of February 17, 2017, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying separate financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

SK HYNIX, INC.
Separate Statements of Financial Position
As of December 31, 2016 and 2015

(In millions of won)

	Note	2016	2015
Assets			
Current assets			
Cash and cash equivalents	4,5 ₩	476,917	1,014,939
Short-term financial instruments	4,5,6	2,487,942	2,808,102
Trade receivables, net	4,5,7,30	2,896,443	2,800,904
Loans and other receivables, net	4,5,7,30	32,131	87,757
Inventories, net	8	1,698,723	1,407,614
Other current assets	9	341,145	302,668
		<u>7,933,301</u>	<u>8,421,984</u>
Non-current assets			
Investments in subsidiaries, associates, and joint ventures	10	4,588,062	4,229,002
Available-for-sale financial assets	4,5,11	143,590	130,645
Loans and other receivables, net	4,5,7,30	30,858	52,662
Other financial assets	4,5,6	319	319
Property, plant and equipment, net	12,31	16,071,281	13,853,549
Intangible assets, net	13	1,546,733	1,299,257
Investment property, net	14	2,573	2,679
Deferred tax assets	19,28	513,359	187,991
Other non-current assets	9	569,017	564,110
		<u>23,465,792</u>	<u>20,320,214</u>
Total assets	₩	<u>31,399,093</u>	<u>28,742,198</u>

See accompanying notes to the separate financial statements.

SK HYNIX, INC.

Separate Statements of Financial Position, Continued

As of December 31, 2016 and 2015

(In millions of won)

	Note	2016	2015
Liabilities			
Current liabilities			
Trade payables	4,5,30 ₩	1,144,476	1,014,961
Other payables	4,5,30	1,554,621	1,441,232
Other non-trade payables	4,5,30	583,984	875,588
Borrowings	4,5,15	644,765	743,293
Other financial liabilities	4,5,20	288	-
Provisions	17	46,005	31,953
Current tax liabilities		342,787	615,844
Other current liabilities	16	34,735	28,021
		<u>4,351,661</u>	<u>4,750,892</u>
Non-current liabilities			
Other non-trade payables	4,5	27,640	87,826
Borrowings	4,5,15	3,571,022	2,689,326
Other financial liabilities	4,5	-	683
Defined benefit liabilities, net	18	297,953	472,490
Other non-current liabilities	16	59,304	58,516
		<u>3,955,919</u>	<u>3,308,841</u>
Total liabilities		<u>8,307,580</u>	<u>8,059,733</u>
Equity			
Capital stock	1,21	3,657,652	3,657,652
Capital surplus	21	4,183,564	4,182,016
Other equity	21	(771,913)	(771,913)
Retained earnings	22,23	16,022,210	13,614,710
Total equity		<u>23,091,513</u>	<u>20,682,465</u>
Total liabilities and equity	₩	<u><u>31,399,093</u></u>	<u><u>28,742,198</u></u>

See accompanying notes to the separate financial statements.

SK HYNIX, INC.
Separate Statements of Comprehensive Income
For the years ended December 31, 2016 and 2015

(In millions of won, except per share information)

	Note	2016	2015
Revenue	30 ₩	16,733,111	18,780,792
Cost of sales	25,30	10,847,469	11,002,083
Gross profit		5,885,642	7,778,709
Selling and administrative expense	24,25,30	2,873,223	2,702,202
Operating profit		3,012,419	5,076,507
Finance income	4,26	723,215	689,855
Finance expenses	4,26	726,476	653,425
Other income	27	46,329	59,081
Other expenses	27	93,745	169,539
Profit before income tax		2,961,742	5,002,479
Income tax expense	19,28	306,720	983,399
Profit for the year		2,655,022	4,019,080
Other comprehensive income (loss)			
Item that will never be reclassified to profit or loss:			
Remeasurements of defined benefit liability, net of tax	18	105,479	(20,989)
Other comprehensive income (loss) for the year, net of tax		105,479	(20,989)
Total comprehensive income for the year	₩	2,760,501	3,998,091
Earnings per share			
Basic and diluted earnings per share (in won)	29	3,761	5,581

See accompanying notes to the separate financial statements.

SK HYNIX, INC.
Separate Statements of Changes in Equity
For the years ended December 31, 2016 and 2015

(In millions of won)

	Note	Capital stock	Capital surplus	Other equity	Retained earnings	Total equity
Balance at January 1, 2015	₩	3,657,652	4,182,016	(24)	9,835,020	17,674,664
Total comprehensive income						
Profit for the year		-	-	-	4,019,080	4,019,080
Remeasurements of defined benefit liability, net of tax	18	-	-	-	(20,989)	(20,989)
Total comprehensive income		-	-	-	3,998,091	3,998,091
Transactions with owners of the Company						
Dividends paid		-	-	-	(218,401)	(218,401)
Acquisition of treasury shares	21	-	-	(771,889)	-	(771,889)
Total transactions with owners of the Company		-	-	(771,889)	(218,401)	(990,290)
Balance at December 31, 2015		<u>3,657,652</u>	<u>4,182,016</u>	<u>(771,913)</u>	<u>13,614,710</u>	<u>20,682,465</u>
Balance at January 1, 2016		3,657,652	4,182,016	(771,913)	13,614,710	20,682,465
Total comprehensive income						
Profit for the year		-	-	-	2,655,022	2,655,022
Remeasurements of defined benefit liability, net of tax	18	-	-	-	105,479	105,479
Total comprehensive income		-	-	-	2,760,501	2,760,501
Transactions with owners of the Company						
Dividends paid	22,23	-	-	-	(353,001)	(353,001)
Capital change due to business combination	33	-	1,548	-	-	1,548
Total transactions with owners of the Company		-	1,548	-	(353,001)	(351,453)
Balance at December 31, 2016	₩	<u>3,657,652</u>	<u>4,183,564</u>	<u>(771,913)</u>	<u>16,022,210</u>	<u>23,091,513</u>

See accompanying notes to the separate financial statements.

SK HYNIX, INC.
Separate Statements of Cash Flows, Continued
For the years ended December 31, 2016 and 2015

(In millions of won)

	Note	2016	2015
Cash flows from operating activities			
Cash generated from operating activities	32 ₩	5,670,892	8,660,737
Interest received		40,578	48,992
Interest paid		(118,272)	(108,852)
Dividends received		37,862	24,091
Income tax paid		(843,561)	(877,199)
Net cash provided by operating activities		4,787,499	7,747,769
Cash flows from investing activities			
Decrease in short-term financial instruments, net		326,394	392,106
Collection of loans and other receivables		62,170	19,086
Increase in loans and other receivables		(10,418)	(13,472)
Proceeds from disposal of available-for-sale financial assets		2,651	1,319
Acquisition of available-for-sale financial assets		(15,597)	(5,359)
Cash inflows from derivative transactions		1,077	1,672
Cash outflows from derivative transactions		(1,525)	(2,088)
Proceeds from disposal of property, plant and equipment		165,545	234,798
Acquisition of property, plant and equipment		(5,343,010)	(5,980,619)
Proceeds from disposal of intangible assets		1,585	4,552
Acquisition of intangible assets		(515,365)	(576,334)
Receipt of government grants		133	378
Increase in investments in subsidiaries (MMT), net		(373,772)	(237,870)
Investments in subsidiaries		(5,512)	(7,919)
Investments in associates		-	(2,194)
Cash flows from business combination	33	(4,133)	-
Net cash used in investing activities	₩	(5,709,777)	(6,171,944)
Cash flows from financing activities			
Proceeds from borrowings	₩	2,080,343	3,638,136
Repayments of borrowings		(1,347,311)	(3,460,720)
Acquisition of treasury shares		-	(771,889)
Dividends paid		(353,001)	(218,401)
Net cash provided by (used in) financing activities		380,031	(812,874)
Effect of movements in exchange rates on cash and cash equivalents		4,225	(90)
Net increase (decrease) in cash and cash equivalents		(538,022)	762,861
Cash and cash equivalents at beginning of the year		1,014,939	252,078
Cash and cash equivalents at end of the year	₩	476,917	1,014,939

See accompanying notes to the separate financial statements.

SK HYNIX, INC.
Notes to the Separate Financial Statements
December 31, 2016 and 2015

1. Reporting Entity

General information about SK hynix, Inc. ("the Company") is as follows:

The Company is engaged in the manufacture, distribution and sales of semiconductor products and its shares have been listed on the Korea Exchange since 1996. The Company's headquarters is located at 2091 Gyeongchung-daero, Bubal-eup, Icheon-si, Gyeonggi-do, South Korea, and the Company has manufacturing facilities in Icheon-si and Cheongju-si, South Korea.

As of December 31, 2016, the shareholders of the Company are as follows:

Shareholder	Number of shares	Percentage of ownership (%)
SK Telecom Co., Ltd.	146,100,000	20.07
National Pension Service	72,338,677	9.94
Share Management Council ¹	5,097,667	0.70
Other investors	482,465,451	66.27
Treasury shares	22,000,570	3.02
	728,002,365	100.00

¹ As of December 31, 2016, the number of shares held by each member of Share Management Council is as follows:

Shareholder	Number of shares	Percentage of ownership (%)
KEB Hana Bank	5,092,500	0.70
Other financial institutions	5,167	0.00
	5,097,667	0.70

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

SK HYNIX, INC.
Notes to the Separate Financial Statements
December 31, 2016 and 2015

2. Basis of Preparation

These separate financial statements were prepared in accordance with Korean International Financial Reporting Standards ("K-IFRS"), as prescribed in the *Act on External Audits of Corporations in the Republic of Korea*.

These financial statements are separate financial statements prepared in accordance with K-IFRS No.1027, '*Separate Financial Statements*' presented by a parent, an investor in an associate or a venturer in a jointly controlled entity, in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees.

The separate financial statements were authorized for issuance by the board of directors on January 25, 2017, which will be submitted for approval at the shareholders' meeting to be held on March 24, 2017.

(1) Basis of measurement

The separate financial statements have been prepared on the historical cost basis, except for the following material items in the separate statement of financial position:

- derivative financial instruments are measured at fair value
- financial instruments at fair value through profit or loss are measured at fair value
- liabilities for defined benefit plans are recognized at the net of the total present value of defined benefit obligations less the fair value of plan assets

(2) Functional and presentation currency

These separate financial statements are presented in Korean won, which is the Company's functional currency and the currency of the primary economic environment in which the Company operates.

(3) Use of estimates and judgments

The preparation of the separate 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.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

(a) Critical judgments

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the separate financial statements is included in the following notes for financial instruments, classification of leases and others.

SK HYNIX, INC.
Notes to the Separate Financial Statements
December 31, 2016 and 2015

2. Basis of Preparation, Continued

(b) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next fiscal year are included in the following notes for reserves in accounts receivable, net realizable value of inventories, goodwill impairment, recognition and measurement of provisions, measurement of defined benefit obligations, recognition of deferred tax assets and others.

(c) Fair value measurement

The Company 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 value 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 division reviews whether the valuation based on third party information includes classification by levels within the fair value hierarchy and meets the requirements for the relevant standards.

The Company 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 method 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 Company 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 Company recognizes transfers between levels at the end of the reporting period of which such transfers occurred.

Information about assumptions used for fair value measurements are included in note 5.

SK HYNIX, INC.
Notes to the Separate Financial Statements
December 31, 2016 and 2015

3. Significant Accounting Policies

The significant accounting policies applied by the Company in preparation of its separate financial statements are explained below. The accounting policies set out below have been applied consistently to all periods presented in these separate financial statements.

(1) Operating segments

The Company presents disclosures relating to operating segments on its consolidated financial statements in accordance with K-IFRS No. 1108, '*Operating Segments*' and such disclosures are not separately disclosed on these separate financial statements.

(2) Investments in subsidiaries and associates

These separate financial statements are prepared and presented in accordance with K-IFRS No. 1027, '*Separate Financial Statements*'. The Company applied the cost method to investments in subsidiaries and associates in accordance with K-IFRS No. 1027. Dividends from a subsidiary or associate are recognized in profit or loss when the right to receive the dividend is established.

(3) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments.

(4) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted average method (except for goods in-transit that is based on the specific identification method), and includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing inventories to their existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses. In the case of manufactured inventories and work-in-process, cost includes an appropriate share of production overheads based on the actual capacity of production facilities. However, the normal capacity is used for the allocation of fixed production overheads if the actual level of production is lower than the normal capacity.

3. Significant Accounting Policies, Continued

(5) Non-derivative financial assets

The Company recognizes and measures non-derivative financial assets by the following four categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The Company recognizes financial assets in the separate statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

Upon initial recognition, non-derivative financial assets not at fair value through profit or loss are measured at their fair value plus transaction costs that are directly attributable to the asset's acquisition.

(a) Financial assets at fair value through profit or loss

A financial asset is classified as financial assets at fair value through profit or loss if it is held for trading or designated as such upon initial recognition. Upon initial recognition, transaction costs are recognized in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

(b) Held-to-maturity investments

A non-derivative financial asset with a fixed or determinable payment and fixed maturity, for which the Company has the positive intention and ability to hold to maturity, is classified as held-to-maturity investments. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest rate method.

(c) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest rate method.

(d) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. Subsequent to initial recognition, they are measured at fair value, and changes in their fair value, net of any tax effect, are recorded in other comprehensive income. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

(e) De-recognition of financial assets

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. If the Company neither transfers nor retains substantially all of the risks and rewards of ownership of the financial assets, it derecognizes the financial assets when it does not retain control over the transferred financial assets. If the Company has retained control over the transferred financial assets, it continues to recognize the assets to the extent of its continuing involvement. If the Company retains substantially all the risks and rewards of ownership of the transferred financial assets, the Company continues to recognize the transferred financial assets and recognizes financial liabilities for the consideration received.

SK HYNIX, INC.
Notes to the Separate Financial Statements
December 31, 2016 and 2015

3. Significant Accounting Policies, Continued

(5) Non-derivative financial assets, Continued

(f) Offsetting between financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is presented in the statement of financial position only when the Company currently has a legally enforceable right to offset the recognized amounts, and there is the intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

(6) Derivative financial instruments

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

(a) Embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately only if the following criteria have been met:

- the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid instrument is not measured at fair value with changes in fair value recognized in profit or loss.

Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

(b) Other derivative financial instruments

Changes in the fair value of other derivative financial instrument not designated as a hedging instrument are recognized immediately in profit or loss.

(7) Impairment of financial assets

A financial asset not carried at fair value through profit or loss is assessed at the end of each reporting period to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. However, losses expected as a result of future events, regardless of likelihood, are not recognized.

Objective evidence that a financial asset is impaired includes:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot be identified with the individual financial assets in the group

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

3. Significant Accounting Policies, Continued

(7) Impairment of financial assets, Continued

If there is objective evidence that financial assets are impaired, impairment losses are measured and recognized.

(a) Financial assets measured at amortized cost

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective interest rate. If it is not practicable to obtain the financial asset's estimated future cash flows, impairment losses would be measured based on prices from any observable current market transactions. Impairment losses are deducted through an allowance account or directly from the carrying amount. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss either directly or by adjusting an allowance account.

(b) Financial assets carried at cost

The amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not be reversed.

(c) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

(8) Property, plant and equipment

Property, plant and equipment are initially measured at cost. The cost of property, plant and equipment includes expenditures arising directly from the construction or acquisition of the asset, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent to initial recognition, an item of property, plant and equipment is carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Subsequent costs are recognized in the carrying amount of property, plant and equipment at cost or, if appropriate, as separate items if it is probable that future economic benefits associated with the cost will flow to the Company and it can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day repair and maintenance are recognized in profit or loss as incurred.

Property, plant and equipment, except for land, are depreciated on a straight-line basis over estimated useful lives that appropriately reflect the pattern in which the asset's future economic benefits are expected to be consumed.

SK HYNIX, INC.
Notes to the Separate Financial Statements
December 31, 2016 and 2015

3. Significant Accounting Policies, Continued

(8) Property, plant and equipment, Continued

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized as other income or expenses.

The estimated useful lives of the Company's property, plant and equipment are as follows:

	Useful lives (years)
Buildings	10 ~ 50
Structures	10 ~ 20
Machinery	5 ~ 15
Vehicles	5
Other	5 ~ 10

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting period and, if appropriate, accounted for as changes in accounting estimates.

(9) Borrowing costs

The Company capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognized in expense as incurred. A qualifying asset is an asset that requires a substantial period of time to get ready for its intended use or sale. Financial assets and inventories that are manufactured or otherwise produced over a short period of time are not qualifying assets. Assets that are ready for their intended use or sale when acquired are not qualifying assets.

To the extent that the Company borrows funds specifically for the purpose of obtaining a qualifying asset, the Company determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. To the extent that the Company borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Company determines the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the Company that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Company capitalizes during a period does not exceed the amount of borrowing costs incurred during that period.

SK HYNIX, INC.
Notes to the Separate Financial Statements
December 31, 2016 and 2015

3. Significant Accounting Policies, Continued

(10) Intangible assets

Intangible assets are measured initially at cost and, subsequently, are carried at cost less accumulated amortization and accumulated impairment losses.

Goodwill arising from business combinations is recognized as the excess of the consideration transferred in the acquisition over the net fair value of the identifiable assets acquired and liabilities assumed. Any deficit is a bargain purchase that is recognized in profit or loss. Goodwill is measured at cost less accumulated impairment losses.

Amortization of intangible assets is calculated on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The residual value of intangible assets is zero. However, certain intangible assets are determined as having indefinite useful lives and not amortized as there is no foreseeable limit to the period over which the assets are expected to be available for use.

The estimated useful lives of the Company's intangible assets are as follows:

	Useful lives (years)
Industrial rights	5 ~10
Development costs	2
Software	5

Useful lives and the amortization methods for intangible assets with finite useful lives are reviewed at the end of each reporting period. The useful lives of intangible assets that are not being amortized are reviewed at the end of each reporting period to determine whether events and circumstances continue to support indefinite useful life assessments for those assets. Changes are accounted for as changes in accounting estimates.

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. Other development expenditures are recognized in profit or loss as incurred.

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditures on internally generated goodwill and others, are recognized in profit or loss as incurred.

(11) Government grants

Government grants are not recognized unless there is reasonable assurance that the Company will comply with the grant's conditions and that the grant will be received.

(a) Grants related to assets

Government grants whose primary condition is that the Company purchases, constructs or otherwise acquires non-current assets are deducted in calculating the carrying amount of the asset. The grant is recognized in profit or loss over the useful lives of depreciable assets.

3. Significant Accounting Policies, Continued

(11) Government grants, Continued

(b) Grants related to income

Government grants which are intended to compensate the Company for expenses incurred are recognized in profit or loss by as deduction of the related expenses.

(12) Investment property

Property held for the purpose of earning rental income or benefiting from capital appreciation is classified as investment property. Investment property is initially measured at its cost. Transaction costs are included in the initial measurement. Subsequently, investment property is carried at cost less accumulated depreciation and impairment losses.

Subsequent costs are recognized in the carrying amount of investment property at cost or, if appropriate, as separate items if it is probable that future economic benefits associated with the cost will flow to the Company and it can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day repair and maintenance are recognized in profit or loss as incurred.

Investment property except for land, are depreciated on a straight-line basis over estimated useful lives.

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting period and, if appropriate, accounted for as changes in accounting estimates.

(13) Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, other than assets arising from employee benefits, inventories, deferred tax assets and non-current assets held for sale, are reviewed at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, irrespective of whether there is any indication of impairment, are tested for impairment annually by comparing their recoverable amount to their carrying amount.

The Company estimates the recoverable amount of an individual asset; however if it is impossible to measure the individual recoverable amount of an asset, the Company estimates the recoverable amount of cash-generating unit ("CGU"). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. The value in use is estimated by applying a pre-tax discount rate that reflect current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted, to the estimated future cash flows expected to be generated by the asset or CGU.

An impairment loss is recognized in profit or loss if the carrying amount of an asset or a CGU exceeds its recoverable amount.

Goodwill acquired in a business combination is allocated to each CGU that is expected to benefit from the synergies arising from business combination. Any impairment identified at the CGU level will first reduce the carrying value of goodwill and then be used to reduce the carrying amount of the other assets in the CGU on a pro rata basis.

Except for impairment losses in respect of goodwill which are never reversed, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

3. Significant Accounting Policies, Continued

(14) Leases

The Company classifies and accounts for leases as either a finance or operating lease, depending on the terms. Leases where the Company assumes substantially all of the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases.

(a) Finance leases

At the commencement of the lease term, the Company recognizes as finance lease assets and finance lease liabilities in its separate statements of financial position, the lower amount of the fair value of the leased property and the present value of the minimum lease payments, each determined at the inception of the lease. Any initial direct costs are added to the amount recognized as an asset.

Minimum lease payments are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life. The Company reviews whether the leased asset is impaired.

(b) Operating leases

Leases where the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the period of the lease.

(c) Determining whether an arrangement contains a lease

Determining whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset) and the arrangement conveys a right to use the asset.

At inception or reassessment of the arrangement, the Company separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Company concludes for a financial lease that it is impracticable to separate the payments reliably, the Company recognizes an asset and a liability at an amount equal to the fair value of the underlying asset that was identified as the subject of the lease. Subsequently, the liability is reduced as payments are made and an imputed finance expense on the liability recognized using the purchaser's incremental borrowing rate of interest.

SK HYNIX, INC.
Notes to the Separate Financial Statements
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3. Significant Accounting Policies, Continued

(15) Non-current assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. In order to be classified as held for sale, the asset (or disposal group) must be available for immediate sale in its present condition and its sale must be highly probable. The assets or disposal group that are classified as non-current assets held for sale are measured at the lower of their carrying amount and fair value less cost to sell. The Company recognizes an impairment loss for any initial or subsequent write-down of an asset (or disposal group) to fair value less costs to sell, and a gain for any subsequent increase in fair value less costs to sell, up to the cumulative impairment loss previously recognized.

A non-current asset that is classified as held for sale or part of a disposal group classified as held for sale is not depreciated (or amortized).

(16) Non-derivative financial liabilities

The Company classifies non-derivative financial liabilities into financial liabilities at fair value through profit or loss or other financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities. The Company recognizes financial liabilities in the separate statement of financial position when the Company becomes a party to the contractual provisions of the financial liability.

(a) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading or designated as such upon initial recognition. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Upon initial recognition, any directly attributable transaction costs are recognized in profit or loss as incurred.

(b) Other financial liabilities

Non-derivative financial liabilities other than financial liabilities at fair value through profit or loss are classified as other financial liabilities. At the date of initial recognition, other financial liabilities are measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest rate method. The Company derecognizes a financial liability from the separate statements of financial position when it is extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

(17) Employee benefits

(a) Short-term employee benefits

Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the reporting period in which the employees render the related service. When an employee has rendered service to the Company during an accounting period, the Company recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

(b) Other long-term employee benefits

Other long-term employee benefits include employee benefits that are settled beyond 12 months after the end of the reporting period in which the employees render the related service, and are calculated at the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods. Any changes from remeasurements are recognized through profit or loss in the period in which they arise.

3. Significant Accounting Policies, Continued

(17) Employee benefits, Continued

(c) Retirement benefits: defined benefit plans

As of the end of reporting period, defined benefits liabilities relating to defined benefit plans are recognized as present value of defined benefit obligations, net of fair value of plan assets.

The calculation is performed annually by an independent actuary using the projected unit credit method. When the fair value of plan assets exceeds the present value of the defined benefit obligation, the Company recognizes an asset, to the extent of the present value of any economic benefits available in the form of refunds from the plan or reduction in the future contributions to the plan.

Remeasurements of the net defined benefit liability comprise of actuarial gains and losses, the return on plan assets excluding amounts included in net interest on the net defined benefit liability, and any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability, and are recognized in other comprehensive income. The Company determines net interests on net defined benefit liability (asset) by multiplying discount rate determined at the beginning of the annual reporting period and considers changes in net defined benefit liability (asset) from contributions and benefit payments. Net interest costs and other costs relating to the defined benefit plan are recognized through profit or loss.

When the plan amendment or curtailment occurs, gains or losses on amendment or curtailment in benefits for the past service provided are recognized through profit or loss. The Company recognizes gain or loss on a settlement when the settlement of defined benefit plan occurs.

(d) Retirement benefits: defined contribution plans

When an employee has provided service for a certain period of time in relation to the defined contribution plan, the contribution to the defined contribution plan is recognized in profit or loss except to be included in the cost of the asset. The contributions to be paid are recognized as liabilities (accrued expenses) less the contributions that have been already paid.

(e) Termination benefits

The Company recognizes a liability and expense for termination benefits at the earlier of the period when the Company can no longer withdraw the offer of those benefits and the period when the Company recognizes costs for a restructuring. If benefits are not payable within 12 months after the end of the reporting period, then they are discounted to their present value.

SK HYNIX, INC.
Notes to the Separate Financial Statements
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3. Significant Accounting Policies, Continued

(18) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows.

Where some or all of the expenditures required to settle a provision are expected to be reimbursed by another party, the reimbursement is recognized when, and only when, it is virtually certain that reimbursement will be received if the Company settles the obligation. The reimbursement is treated as a separate asset.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimates. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

A provision is used only for expenditures for which the provision was originally recognized.

(19) Foreign currencies

Transactions in foreign currencies are translated to the functional currencies of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency using the reporting date's exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on the settlement or retranslation of monetary items are recognized in profit or loss. When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

(20) Equity capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares is recognized as a deduction from equity, net of any tax effects.

When the Company repurchases its share capital, the amount of the consideration paid is recognized as a deduction from equity and classified as treasury shares. The profits or losses from the purchase, disposal, reissue, or retirement of treasury shares are not recognized as current profit or loss. If the Company acquires and retains treasury shares, the consideration paid or received is directly recognized in equity.

SK HYNIX, INC.
Notes to the Separate Financial Statements
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3. Significant Accounting Policies, Continued

(21) Revenue

Revenue from the sale of goods, rendering of services or use of assets is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates.

(a) Sale of goods

Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

(b) Sale of services

Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(22) Finance income and finance expenses

Finance income comprises interest income and dividend on funds invested (including available-for-sale financial assets), gains on the disposal of available-for-sale financial assets, and changes in the fair value of financial instruments at fair value through profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest rate method. Dividend income is recognized in profit or loss on the date that the Company's right to receive dividend is established.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, and changes in the fair value of financial instruments at fair value through profit or loss. Interest expense on borrowings and debentures are recognized in profit or loss using the effective interest rate method.

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

(23) Income taxes

Income tax expense comprises current and deferred tax. Current and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

(a) Current tax

Current tax is the expected tax payable or refundable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years. The taxable profit is different from the accounting profit for the period since the taxable profit is calculated excluding the temporary differences, which will be taxable or deductible in determining taxable profit (tax loss) of future periods, and non-taxable or non-deductible items from the accounting profit. The tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period.

(b) Deferred tax

Deferred tax is recognized, using the asset-liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The Company recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures except to the extent that the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The Company recognizes deferred tax assets for all deductible temporary differences including unused tax loss and tax credit to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of reporting period to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset the related current tax liabilities and assets, and they relate to income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis. If there are any additional income tax expense incurred in accordance with dividend payments, such income tax expense is recognized when liabilities relating to the dividend payments are recognized.

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

(24) Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of outstanding ordinary shares, adjusted for own shares held, for the effects of all dilutive potential ordinary shares including convertible notes.

(25) Standards issued but not yet effective

The following new standards, amendments to standards and interpretations are effective for annual periods beginning on or after January 1, 2016 and earlier application is permitted; however, the Company has not early adopted them in preparing these consolidated financial statements.

K-IFRS 1109, '*Financial Instruments*' published on September 25, 2015, is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. It replaces existing guidance in K-IFRS 1039, '*Financial Instruments: Recognition and Measurement*'. The Company plans to adopt K-IFRS 1109 for the year beginning on January 1, 2018.

K-IFRS 1109 will generally be applied retrospectively; however the Company plans to take advantage of the exemption allowing it not to restate the comparative information for prior periods with respect to classification and measurement including impairment changes. New hedge accounting requirements will generally be applied prospectively except for certain exemptions including the accounting for the time value of options.

Key features of the new standard, K-IFRS 1109, are 1) classification and measurement of financial assets that reflects the business model in which the assets are managed and their cash flow characteristics, 2) impairment methodology that reflects 'expected credit loss' (ECL) model for financial assets, and 3) expanded scope of hedged items and hedging instruments which qualify for hedge accounting and changes in assessment method for effect of hedging relationships.

K-IFRS 1109 will require the Company to assess the financial impact from application of K-IFRS 1109 and revise its accounting processes and internal controls related to financial instruments. Actual impact of adopting K-IFRS 1109 will be dependent on the financial instruments the Company holds and economic conditions at that time as well as accounting policy elections and judgment that it will make in the future.

The Company is preparing for changes in internal controls processes or accounting processing systems, and analyzing an assessment of the financial impact resulting from the application of K-IFRS 1109. The Company expects to disclose additional quantitative information in the notes to the financial statements for the year ending December 31, 2017 after completion of its assessment by September 30, 2017. Expected impacts on the financial statements are generally categorized as follows:

(i) Classification and measurement of financial assets

Under K-IFRS 1109, financial assets are classified into three principal categories; measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL) based on the business model in which assets are managed and their cash flow characteristics, as detailed in the below table.

Under K-IFRS 1109, derivatives embedded in hybrid contracts where the host is a financial asset are not bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

SK HYNIX, INC.
Notes to the Separate Financial Statements
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3. Significant Accounting Policies, Continued

(25) Standards issued but not yet effective, Continued

Business model	Contractual cash flows are solely payments of principal and interests	All other cases
To collect contractual cash flows	At amortized cost ¹	
Both to collect contractual cash flows and sell financial assets	At FVOCI	FVTPL ²
For trading, and others	At FVOCI	

¹ The Company may irrevocably designate as at FVTPL to eliminate or significantly reduce an accounting mismatch.

² The Company may irrevocably designate equity investments that is not held for trading as at FVOCI.

As there are additional requirements for a financial asset to be classified as measured at amortized costs or FVOCI under K-IFRS 1109 compared to the existing guidance in K-IFRS 1039, the adoption of K-IFRS 1109 would potentially increase the proportion of financial assets that are measured at FVTPL, increasing volatility in the Company's profit or loss.

As of December 31, 2016, the Company has loans and receivables amounting to ₩5,354,168 million, available-for-sale financial assets amounting to ₩143,590 million, and financial assets at fair value through profit or loss amounting to ₩570,442 million.

Under K-IFRS 1109, a financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL: 1) the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and 2) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. As of December 31, 2016, the Company has loans and receivables which amount to ₩5,354,138 million, and measured them at amortized costs.

Under K-IFRS 1109, a financial asset is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL: 1) the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and 2) the contractual terms of the financial asset give rise on specified dates to cash flow that are solely payments of principal and interest on the principal amount outstanding. As of December 31, 2016, the Company has debt instruments of ₩716 million classified as available-for-sale, where the host is a financial asset.

Under K-IFRS 1109, on initial recognition of equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in OCI, and will not reclassify(recycle) the those items in OCI to profit or loss subsequently. As of December 31, 2016, the Company has equity investment that is classified as available-for-sale which amounts to ₩142,874 million, and these were no accumulated fair value reserve related to available-to-sale financial assets.

Under K-IFRS 1109, a financial asset is measured at FVTPL if the contractual terms of the financial asset give rise to specified dates to cash flows that are not solely payments of principal and interest on the principal amount outstanding, the debt instrument is held within a business model whose objective is to sell the asset, or the equity instruments that are not elected to be designated as measured at FVOCI. As of December 31, 2016, the Company has debt instruments measured at FVTPL which amount to ₩570,442 million.

SK HYNIX, INC.
Notes to the Separate Financial Statements
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3. Significant Accounting Policies, Continued

(25) Standards issued but not yet effective, Continued

(ii) Classification and measurement of financial liabilities

Under K-IFRS 1109, the amount of change in the fair value attributable to the changes in the credit risk of the financial liabilities is presented in OCI, not recognized in profit or loss, and the OCI amount will not be reclassified (recycled) to profit or loss. However, if doing so creates or increase an accounting mismatch, the amount of change in the fair value is recognized in profit or loss.

As a portion of fair value change which was recognized in profit or loss under the existing standard, K-IFRS 1039, will be presented in OCI under K-IFRS 1109, profit or loss related to valuation of financial liabilities is likely to decrease. As of December 31, 2016, there was no financial liabilities measured at FVTPL.

(iii) Impairment: Financial assets and contract assets

K-IFRS 1109 replaces the 'incurred loss' model in the existing standard with a forward-looking 'expected credit loss' (ECL) model for debt instruments, lease receivables, contractual assets, loan commitments, financial guarantee contracts.

Under K-IFRS 1109, impairment losses are likely to be recognized earlier than using the incurred loss model under the existing guidance in K-IFRS 1039 as loss allowances will be measured on either of the 12-month or lifetime ECL based on the extent of increase in credit risk since inception as shown in the below table.

	Classification¹	Loss allowances
Stage 1	Credit risk has not increased significantly since the initial recognition ²	12-month ECL: ECLs that resulted from possible default events within the 12 months after the reporting date
Stage 2	Credit risk has increase significantly since the initial recognition	Lifetime ECL: ECL that resulted from all possible default events over the expected life of a financial instrument
Stage 3	Credit-impaired	

¹ Under K-IFRS No. 1115, for trade receivables and contract assets arising with no significant credit risk, loss allowances are recognized at an amount equal to lifetime expected credit losses. However, for trade receivables and contract assets with a significant financing component arising under K-IFRS No. 1115, the Company may choose as its accounting policy to recognize loss allowances at an amount equal to lifetime expected credit losses. In addition, for receivables under lease arrangement, the Company may choose to recognize loss allowances at an amount equal to lifetime expected credit losses.

² The Company may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the end of reporting period.

Under K-IFRS 1109, financial assets of which the credit was impaired at the initial recognition, cumulative changes in lifetime ECL since the initial recognition are recognized as loss allowances.

As of December 31, 2016, the Company has debt instruments (loans and receivables) measured at amortized cost amounting to ₩5,357,007 million, debt instruments measured at FVOCI as they are classified as available for sale amounting to ₩716 million, and has recognized loss allowances for ₩2,839 million.

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

(25) Standards issued but not yet effective, Continued

K-IFRS 1115 'Revenue from Contracts from Customers', published on November 6, 2015, is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. It replaces existing revenue recognition guidance, including K-IFRS 1018 Revenue, K-IFRS 1011 Construction Contracts K-IFRS 2031 Revenue- Barter transactions involving advertising services, K-IFRS 2113 Customer Loyalty Programs, K-IFRS 2115 Agreements for the construction of real estate, K-IFRS 2118 Transfers of assets from customers. The Company plans to adopt K-IFRS 1115 in its consolidated financial statements for the year ending December 31, 2018, and retrospectively adjust the comparative period presented in the set of financial statements, in accordance with K-IFRS 1008 Accounting Policies, changes in accounting estimates and errors. The Company plans to use the practical expedients for completed contracts- i.e. completed contracts as of January 1, 2017 are not restated.

Existing K-IFRS standards and interpretations including K-IFRS 1018 provide revenue recognition guidance by transaction types such as sales of goods, rendering of services, interest income, royalty income, dividend income and construction revenue; however, under the new standard, K-IFRS 1115, the five-step approach (Step 1: Identify the contract(s) with a customer, Step 2: Identify the performance obligations in the contract, Step 3: Determine the transaction price, Step 4: Allocate the transaction price to the performance obligations in the contract, Step 5: Recognize revenue when the entity satisfied a performance obligation) is applied for all types of contracts or agreements.

The new standard will require the Company to revise its internal controls and accounting processing systems related to reporting revenue. The Company is preparing for changes and analyzing an assessment of the impact resulting from the application of K-IFRS 1115, and the Company expects to disclose additional quantitative information in the notes to the financial statements for the period ending December 31, 2017 after completion of its assessment by September 30, 2017. Expected impacts on the consolidated financial statements are generally categorized as follows:

(i) Identifying the performance obligations in the contract

The Company is engaged in the research and development, manufacture, distribution and sales of semiconductor products (DRAM and Nand flash and others), and the most of revenue generated from these operation.

Under K-IFRS 1115, the Company determines whether the goods and services per the contracts are distinct and identify separate performance obligations in the contracts such as (a) the software license; (b) an installation service; (c) software updates; and (d) technical support. Timing of revenue recognition would change depending on whether the each of the performance obligations are satisfied at a point of time or over time.

(ii) Variable consideration

As the contract allows a customer to return the products, the consideration received from the customer is variable. Under K-IFRS 1115, the Company estimates an amount of variable consideration by using the method the Company expects to better predict the amount of consideration to which it will be entitled. The Company 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 Company recognize the amounts received or receivable for which the Company does not expect to be entitled as a refund liability.

(iii) Allocating the transaction price to performance obligations

In applying the K-IFRS 1115, the Company allocates the transaction price to each performance obligation on a relative stand-alone selling price basis. To estimate the stand-alone selling price, 'adjusted market assessment approach' will be used; however, for certain transactions, 'expected cost plus a margin approach' will be used exceptionally.

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4. Categories of Financial Instruments

(1) Categories of financial assets as of December 31, 2016 and 2015 are as follows:

(In millions of won)

2016				
	Financial assets at fair value through profit or loss	Available-for- sale financial assets	Loans and receivables	Total
Cash and cash equivalents	₩ -	-	476,917	476,917
Short-term financial instruments	570,442	-	1,917,500	2,487,942
Trade receivables	-	-	2,896,443	2,896,443
Loans and other receivables	-	-	62,989	62,989
Other financial assets	-	-	319	319
Available-for-sale financial assets	-	143,590	-	143,590
	₩ 570,442	143,590	5,354,168	6,068,200

(In millions of won)

2015				
	Financial assets at fair value through profit or loss	Available-for- sale financial assets	Loans and receivables	Total
Cash and cash equivalents	₩ -	-	1,014,939	1,014,939
Short-term financial instruments	440,602	-	2,367,500	2,808,102
Trade receivables	-	-	2,800,904	2,800,904
Loans and other receivables	-	-	140,419	140,419
Other financial assets	-	-	319	319
Available-for-sale financial assets	-	130,645	-	130,645
	₩ 440,602	130,645	6,324,081	6,895,328

SK HYNIX, INC.
Notes to the Separate Financial Statements
December 31, 2016 and 2015

4. Categories of Financial Instruments, Continued

(2) Categories of financial liabilities as of December 31, 2016 and 2015 are as follows:

(In millions of won)

	2016		
	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Total
Trade payables	₩ -	1,144,476	1,144,476
Other payables	-	1,554,621	1,554,621
Other non-trade payables ¹	-	611,624	611,624
Borrowings	-	4,215,787	4,215,787
Other financial liabilities	288	-	288
	₩ 288	7,526,508	7,526,796

(In millions of won)

	2015		
	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Total
Trade payables	₩ -	1,014,961	1,014,961
Other payables	-	1,441,232	1,441,232
Other non-trade payables ¹	-	963,414	963,414
Borrowings	-	3,432,619	3,432,619
Other financial liabilities	683	-	683
	₩ 683	6,852,226	6,852,909

¹ Details of other non-trade payables as of December 31, 2016 and 2015 are as follows:

(In millions of won)

	2016	2015
Current		
Accrued expenses	₩ 583,984	875,588
Non-current		
Rent deposits payable	2,928	3,228
Long-term other payables	24,712	84,598
	27,640	87,826
	₩ 611,624	963,414

SK HYNIX, INC.
Notes to the Separate Financial Statements
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4. Categories of Financial Instruments, Continued

(3) Details of gain and loss on financial assets and liabilities by category for the years ended December 31, 2016 and 2015 are as follows:

(In millions of won)

	2016	2015
Loans and receivables		
Interest income	₩ 32,264	38,885
Foreign exchange differences	144,083	232,688
Impairment loss	6,129	(35,345)
	<u>182,476</u>	<u>236,228</u>
Available-for-sale financial assets		
Dividend income	18	1,265
	<u>18</u>	<u>1,265</u>
Financial assets at fair value through profit or loss		
Gain on valuation	442	602
Gain on disposal	5,789	27,434
	<u>6,231</u>	<u>28,036</u>
Financial liabilities measured at amortized cost		
Interest expenses	(113,268)	(103,975)
Foreign exchange differences	(110,380)	(182,934)
	<u>(223,648)</u>	<u>(286,909)</u>
Financial liabilities at fair value through profit or loss		
Gain on valuation from derivative instruments	395	25
Loss on transaction from derivative instruments	(448)	(386)
	<u>(53)</u>	<u>(361)</u>
	<u>₩ (34,976)</u>	<u>(21,741)</u>

SK HYNIX, INC.
Notes to the Separate Financial Statements
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5. Financial Risk Management

(1) Financial risk management

The Company's activities are exposed to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by the corporate finance division in accordance with policies approved by the board of directors. The Company's corporate finance division identifies, evaluates and hedges financial risks in close cooperation with the Company's operating units. The board of directors provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk; use of derivative financial instruments and non-derivative financial instruments; and the investment of excess liquidity.

(a) Market risk

(i) Foreign exchange risk

The Company 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.

Monetary foreign currency assets and liabilities as of December 31, 2016 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	2,745	3,317,690	2,717	3,283,357
EUR	-	-	79	99,649
JPY	1,837	19,043	29,858	309,569

As of December 31, 2016, effects on profit before income tax as a result of change in exchange rate by 10% are as follows:

(In millions of won)

	If increased by 10%	If decreased by 10%
USD	₩ 3,433	(3,433)
EUR	(9,965)	9,965
JPY	(29,053)	29,053

SK HYNIX, INC.
Notes to the Separate Financial Statements
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5. Financial Risk Management, Continued

(ii) Interest rate risk

Interest rate risk of the Company 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.

The Company manages its interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Company raises long-term borrowings at floating rates and swaps them into fixed rates. Under the interest rate swaps, the Company agrees with other parties to exchange, at specified intervals (primarily quarterly), the difference between interests of fixed rates and floating rates, which are calculated based on the agreed notional amounts.

As of December 31, 2016, the Company is partially exposed to a risk of increase in interest rates. If interest rates on borrowings were 100 basis points higher/lower with all other variables held constant, profit before income tax for the following year would be ₩21,068 million (2015: ₩14,835 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings and interest income on floating rate financial assets.

(iii) Price risk

As of December 31, 2016, there are no available-for-sale equity securities measured at fair value held by the Company. Accordingly, the Company is not exposed to any equity securities price risk.

(b) Credit risk

Credit risk is the risk of financial loss to the Company 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 Company periodically evaluates the credit worthiness of each customer or counterparty through the analysis of financial information, historical transaction records and other factors, based on which the Company establishes credit limits for each customer or counterparty.

(i) Trade and other receivables

For each new customer, the Company individually analyzes its credit worthiness before standard payment and delivery terms and conditions are offered. In addition, the Company 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 Company 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 December 31, 2016 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 Company transacts only with banks and financial institutions with high credit ratings including Shinhan Bank, and accordingly management does not expect any losses from non-performance by these counterparties.

5. Financial Risk Management, Continued

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

Contractual maturities of financial liabilities as of December 31, 2016 and 2015 are as follows:

(In millions of won)

	2016				
	Less than 1 year	1 - 2 years	2 - 5 years	More than 5 years	Total
Borrowings (other than finance lease liabilities) ₩	722,187	645,640	2,853,218	235,562	4,456,607
Finance lease liabilities	27,043	5,350	16,050	18,725	67,168
Trade payables	1,144,476	-	-	-	1,144,476
Other payables	1,558,961	-	-	-	1,558,961
Other non-trade payables	566,815	25,064	2,928	-	594,807
Derivatives	288	-	-	-	288
Financial guarantee contract	8	-	-	-	8
₩	4,019,778	676,054	2,872,196	254,287	7,822,315

(In millions of won)

		2015				
		Less than 1 year	1 - 2 years	2 - 5 years	More than 5 years	Total
Borrowings (other than finance lease liabilities)	₩	742,165	675,769	1,967,573	156,995	3,542,502
Finance lease liabilities		98,927	26,654	16,050	24,075	165,706
Trade payables		1,014,961	-	-	-	1,014,961
Other payables		1,449,898	-	-	-	1,449,898
Other non-trade payables		857,923	81,098	11,249	-	950,270
Derivatives		683	-	-	-	683
Financial guarantee contract		8	-	-	-	8
	₩	4,164,565	783,521	1,994,872	181,070	7,124,028

SK HYNIX, INC.
Notes to the Separate Financial Statements
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5. Financial Risk Management, Continued

The table above analyzes the Company's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groups based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows and includes estimated interest payments. The Company's derivative instruments have been included at their fair value of ₩288 million (2015: ₩683 million) within the less than one-year time bucket as of December 31, 2016. These contracts are managed on a net-fair value basis rather than by maturity date. Net settled derivatives comprise interest rate swaps used by the Company to manage the Company's interest rate risk.

(2) Capital management

The Company's objectives when managing capital are to safeguard the Company'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 Company may adjust the amount of dividends to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The debt-to-equity ratio and net borrowing ratio as of December 31, 2016 and 2015 are as follows:

(In millions of won)

	2016	2015
Total liabilities (A)	₩ 8,307,580	8,059,733
Total equity (B)	23,091,513	20,682,465
Cash and cash equivalents and short-term financial instruments (C)	2,964,859	3,823,041
Total borrowings (D)	4,215,787	3,432,619
Debt-to-equity ratio (A/B)	36%	39%
Net borrowing ratio (D-C)/B	5%	-2%

SK HYNIX, INC.
Notes to the Separate Financial Statements
December 31, 2016 and 2015

5. Financial Risk Management, Continued

(3) Fair value

(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 December 31, 2016 and 2015:

(In millions of won)

	Carrying amounts	2016			
		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Short-term financial instruments	₩ 570,442	-	570,442	-	570,442
	<u>570,442</u>	<u>-</u>	<u>570,442</u>	<u>-</u>	<u>570,442</u>
Financial assets not measured at fair value					
Cash and cash equivalents ¹	476,917	-	-	-	-
Short-term financial instruments ¹	1,917,500	-	-	-	-
Trade receivables ¹	2,896,443	-	-	-	-
Loans and other receivables ¹	62,989	-	-	-	-
Other financial assets ¹	319	-	-	-	-
Available-for-sale financial assets ^{1,2}	143,590	-	-	-	-
	<u>5,497,758</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Financial liabilities measured at fair value					
Other financial liabilities	288	-	288	-	288
	<u>288</u>	<u>-</u>	<u>288</u>	<u>-</u>	<u>288</u>
Financial liabilities not measured at fair value					
Trade payables ¹	1,144,476	-	-	-	-
Other payables ¹	1,554,621	-	-	-	-
Other non-trade payables ¹	611,624	-	-	-	-
Borrowings	4,215,787	-	4,246,042	-	4,246,042
	<u>₩ 7,526,508</u>	<u>-</u>	<u>4,246,042</u>	<u>-</u>	<u>4,246,042</u>

SK HYNIX, INC.
Notes to the Separate Financial Statements
December 31, 2016 and 2015

5. Financial Risk Management, Continued

(In millions of won)

in millions of won

		2015			
	Carrying amounts	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Short-term financial instruments	₩ 440,602	-	440,602	-	440,602
	440,602	-	440,602	-	440,602
Financial assets not measured at fair value					
Cash and cash equivalents ¹	1,014,939	-	-	-	-
Short-term financial instruments ¹	2,367,500	-	-	-	-
Trade receivables ¹	2,800,904	-	-	-	-
Loans and other receivables ¹	140,419	-	-	-	-
Other financial assets ¹	319	-	-	-	-
Available-for-sale financial assets ^{1,2}	130,645	-	-	-	-
	6,454,726	-	-	-	-
Financial liabilities measured at fair value					
Other financial liabilities	683	-	683	-	683
	683	-	683	-	683
Financial liabilities not measured at fair value					
Trade payables ¹	1,014,961	-	-	-	-
Other payables ¹	1,441,232	-	-	-	-
Other non-trade payables ¹	963,414	-	-	-	-
Borrowings	3,432,619	-	3,483,559	-	3,483,559
₩	6,852,226	-	3,483,559	-	3,483,559

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

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

SK HYNIX, INC.
Notes to the Separate Financial Statements
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5. Financial Risk Management, Continued

(b) Valuation Techniques

The valuation techniques of recurring and non-recurring fair value measurements and quoted prices classified as level 2 are as follow:

(In millions of won)

	<u>Fair value</u>	<u>Level</u>	<u>Valuation Techniques</u>
Short-term financial instruments:			
Financial assets at fair value through profit or loss	₩ 570,442	2	The present value method
Derivative financial liabilities:			
Interest swap	288	2	The present value method

(c) There was no transfer between fair value hierarchy levels for the year ended December 31, 2016.

6. Restricted Financial Instruments

Details of restricted financial instruments as of December 31, 2016 and 2015 are as follows:

(In millions of won)

	<u>2016</u>	<u>2015</u>	<u>Description</u>
Short-term financial instruments	₩ 77,500	77,500	Restricted for supporting small businesses
	77,500	77,500	
Other financial assets	308	308	Pledged for borrowings
	11	11	Bank overdraft guarantee deposit
	319	319	
	₩ 77,819	77,819	

SK HYNIX, INC.
Notes to the Separate Financial Statements
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7. Trade Receivables and Loans and Other Receivables

(1) Details of loans and other receivables as of December 31, 2016 and 2015 are as follows:

(In millions of won)

		2016	2015
Current			
Other receivables	₩	22,402	16,831
Accrued income		9,494	17,807
Short-term loans		235	53,119
		<u>32,131</u>	<u>87,757</u>
Non-current			
Long-term other receivables		-	22,921
Long-term loans		1,915	1,198
Guarantee deposits		28,943	28,543
		<u>30,858</u>	<u>52,662</u>
	₩	<u>62,989</u>	<u>140,419</u>

(2) Trade receivables and loans and other receivables, net of provision for impairment, as of December 31, 2016 and 2015 are as follows:

(In millions of won)

		2016		
		Gross Amount	Provision for impairment	Carrying amount
Trade receivables	₩	2,897,512	(1,069)	2,896,443
Current loans and other receivables		33,502	(1,371)	32,131
Non-current loans and other receivables		31,257	(399)	30,858
	₩	<u>2,962,271</u>	<u>(2,839)</u>	<u>2,959,432</u>

		2015		
		Gross amount	Provision for impairment	Carrying Amount
Trade receivables	₩	2,803,302	(2,398)	2,800,904
Current loans and other receivables		124,051	(36,294)	87,757
Non-current loans and other receivables		57,800	(5,138)	52,662
	₩	<u>2,985,153</u>	<u>(43,830)</u>	<u>2,941,323</u>

SK HYNIX, INC.
Notes to the Separate Financial Statements
December 31, 2016 and 2015

7. 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 years ended December 31, 2016 and 2015 are as follows:

(In millions of won)

	2016	2015
Beginning balance	₩ 2,398	1,735
Provision for receivables impairment	-	663
Unused amounts reversed	(1,329)	-
Ending balance	₩ 1,069	2,398

Movements in the provision for impairment of current loans and other receivables for the years ended December 31, 2016 and 2015 are as follows:

(In millions of won)

	2016	2015
Beginning balance	₩ 36,294	1,667
Provision for receivables impairment	-	34,861
Unused amounts reversed	(62)	(234)
Receivables written off during the period as uncollectible	(34,861)	-
Ending balance	₩ 1,371	36,294

Movements in the provision for impairment of non-current loans and other receivables for the years ended December 31, 2016 and 2015 are as follows:

(In millions of won)

	2016	2015
Beginning balance	₩ 5,138	5,083
Provision for receivables impairment	15	59
Unused amounts reversed	(4,754)	(4)
Ending balance	₩ 399	5,138

SK HYNIX, INC.
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7. Trade Receivables and Loans and Other Receivables, Continued

(4) The aging analyses of trade receivables and loans and other receivables as of December 31, 2016 and 2015 are as follows:

(In millions of won)

		2016					
		Not impaired				Impaired	Total
		Not Past due	Overdue				
			Less than 3 months	Over 3 months and less than 6 months			
				Over 6 months			
Trade receivables	₩	2,896,914	598	-	-	-	2,897,512
Current loans and other receivables		32,212	-	-	-	1,290	33,502
Non-current loans and other receivables		31,155	-	-	-	102	31,257
	₩	2,960,281	598	-	-	1,392	2,962,271

(In millions of won)

(In millions of won)

		2015					
		Not impaired				Impaired	Total
		Not Past due	Overdue				
			Less than 3 months	Over 3 months and less than 6 months	Over 6 months		
Trade receivables	₩	2,803,302	-	-	-	-	2,803,302
Current loans and other receivables		87,896	-	-	-	36,155	124,051
Non-current loans and other receivables		32,691	-	-	-	25,109	57,800
	₩	2,923,889	-	-	-	61,264	2,985,153

SK HYNIX, INC.
Notes to the Separate Financial Statements
December 31, 2016 and 2015

8. Inventories

(1) Details of inventories as of December 31, 2016 and 2015 are as follows:

(In millions of won)

	2016		
	Acquisition Cost	Inventory valuation allowance	Carrying amount
Finished goods	₩ 414,807	(34,481)	380,326
Work-in-process	989,543	(22,607)	966,936
Raw materials	199,163	(3,562)	195,601
Supplies	124,292	-	124,292
Goods in transit	31,568	-	31,568
	₩ 1,759,373	(60,650)	1,698,723

(In millions of won)

	2015		
	Acquisition cost	Inventory valuation allowance	Carrying Amount
Finished goods	₩ 428,584	(28,251)	400,333
Work-in-process	811,860	(130,917)	680,943
Raw materials	159,779	(3,629)	156,150
Supplies	101,379	-	101,379
Goods in transit	68,809	-	68,809
	₩ 1,570,411	(162,797)	1,407,614

(2) The amount of the inventories recognized as cost of sales and loss on (reversal of) valuation allowance of inventories charged to (deducted from) cost of sales are as follows:

(In millions of won)

	2016	2015
Inventories recognized as cost of sales	₩ 10,847,364	11,001,370
Loss on (reversal of) valuation allowance of inventories	(102,147)	103,427

SK HYNIX, INC.
Notes to the Separate Financial Statements
December 31, 2016 and 2015

9. Other Current and Non-current Assets

Details of other current and non-current assets as of December 31, 2016 and 2015 are as follows:

(In millions of won)

	2016	2015
Current		
Advance payments	₩ 427	383
Prepaid expenses	223,465	190,948
Value added tax refundable	107,341	103,894
Others	9,912	7,443
	<u>341,145</u>	<u>302,668</u>
Non-current		
Long-term prepaid expenses	567,522	556,634
Others	1,495	7,476
	<u>569,017</u>	<u>564,110</u>
	₩ <u>910,162</u>	<u>866,778</u>

SK HYNIX, INC.
Notes to the Separate Financial Statements
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10. Investments in Subsidiaries, Associates and Joint Ventures

(1) Investments in subsidiaries, associates and joint ventures as of December 31, 2016 and 2015 are as follows:

(In millions of won)

		2016	2015
Investments in subsidiaries	₩	4,493,260	4,134,200
Investments in associates and joint ventures		94,802	94,802
	₩	<u>4,588,062</u>	<u>4,229,002</u>

(2) Details of investments in subsidiaries as of December 31, 2016 and 2015 are as follows:

(In millions of won)

	Location	Percentage of ownership (%) in 2016	Book value	
			2016	2015
SK hyeng Inc.	Korea	100.00	₩ 7,521	7,521
SK hystec Inc.	Korea	100.00	6,760	6,760
Siliconfile Technologies Inc. ¹	Korea	100.00	30,756	62,208
Happymore Inc. ²	Korea	100.00	3,000	-
SK hynix America Inc. (SKHYA)	U.S.A.	97.74	31	31
Hynix Semiconductor Manufacturing America Inc. (HSMA) ³	U.S.A.	-	-	-
SK hynix Deutschland GmbH (SKHYD)	Germany	100.00	22,011	22,011
SK hynix U.K. Ltd. (SKHYU)	U.K.	100.00	1,775	1,775
SK hynix Asia Pte. Ltd. (SKHYS)	Singapore	100.00	52,380	52,380
SK hynix Semiconductor India Pvt. Ltd. (SKHYIS) ⁴	India	1.00	5	5
SK hynix Semiconductor Hong Kong Ltd. (SKHYH)	Hong Kong	100.00	32,623	32,623
SK hynix Semiconductor (Shanghai) Co., Ltd. (SKHYCS)	China	100.00	4,032	4,032
SK hynix Japan Inc. (SKHYJ)	Japan	100.00	42,905	42,905
SK hynix Semiconductor Taiwan Inc. (SKHYT)	Taiwan	100.00	37,562	37,562
SK hynix Semiconductor (China) Ltd. (SKHYCL)	China	90.26	2,520,881	2,520,881
SK hynix Semiconductor (Wuxi) Ltd. (SKHYMC)	China	100.00	238,271	238,271
SK hynix (Wuxi) Semiconductor Sales Ltd. (SKHYCW)	China	100.00	237	237
SK hynix Italy S.r.l (SKHYIT)	Italy	100.00	18	18
SK hynix memory solutions Inc. (SKHMS)	U.S.A.	100.00	311,283	311,283
SK hynix Flash Solution Taiwan (SKHYFST)	Taiwan	100.00	7,819	7,819
SK APTECH Ltd. (SKAPTECH)	Hong Kong	100.00	166,299	166,299
SK hynix Semiconductor (Chongqing) Ltd. (SKHYCQL) ⁵	China	-	-	-
Softeq Flash Solutions LLC. (SOFTEQ)	Belarus	99.90	14,579	14,579
SK hynix Ventures Hong Kong Ltd. (SKH Ventures) ⁶	Hong Kong	100.00	2,512	-
MMT (Money Market Trust) ⁷	Korea	100.00	990,000	605,000
			₩ <u>4,493,260</u>	<u>4,134,200</u>

SK HYNIX, INC.
Notes to the Separate Financial Statements
December 31, 2016 and 2015

10. Investments in Subsidiaries, Associates and Joint Ventures, Continued

¹ Investments in Siliconfile Technologies Inc. decreased by ₩31,452 million due to the business combination (refer to note 33).

² Happymore Inc. was established during the year ended December 31, 2016.

³ HSMA is a subsidiary of SK Hynix America Inc. and its liquidation process was completed during the year ended December 31, 2016.

⁴ Subsidiary of SK hynix Asia Pte. Ltd.

⁵ Subsidiary of SK APTECH Ltd.

⁶ The Company acquired SK hynix Ventures Hong Kong Ltd. (SKH Ventures) during the year ended December 31, 2016.

⁷ The Company disposed the entire MMT (Money Market Trust) held at December 31, 2015 and the balance of MMT as of December 31, 2016 was acquired during the year ended December 31, 2016.

(3) Details of investments in associates and joint ventures as of December 31, 2016 and 2015 are as follows:

(In millions of won)

Type	Investee	Ownership (%) in 2016		Carrying amount	
				2016	2015
Associate	Stratio, Inc.	9.10	₩	2,194	2,194
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd. (HITECH)	45.00		92,608	92,608
			₩	94,802	94,802

SK HYNIX, INC.
Notes to the Separate Financial Statements
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11. Available-for-sale Financial Assets

(1) Details of available-for-sale financial assets as of December 31, 2016 and 2015 are as follows:

(In millions of won)

		2016		2015
	Ownership (%)/ Type	Acquisition cost	Book value	Book value
ProMOS	7.93 ₩	21,847	-	-
JNT Frontier Private Equity Unit	Certificate	971	971	1,213
SV M&A No.1 Equity Unit	Certificate	805	805	1,120
Daishin Aju IB Investment Co., Ltd. Equity Unit	Certificate	483	483	699
Seoul Investment Early & Green Venture Fund	Certificate	1,648	1,648	1,678
TS 2011-4 Technology Transfer & Business Equity Unit	Certificate	566	566	1,262
IMM Investment Equity Unit	Certificate	224	224	620
L&S Venture Capital Equity Unit	Certificate	1,170	1,170	1,849
KTC-NP-Growth Equity Unit	Certificate	2,956	2,956	2,271
Intellectual Discovery, Ltd.	7.05	4,000	4,000	4,000
SKY Property Mgmt. Ltd.	15.00	112,360	112,360	112,360
China Walden Venture Investments II	Certificate	6,188	6,188	3,573
Exnodes Inc.	Convertible Bond	716	716	-
Netspeed	6.07	3,083	3,083	-
Keyssa, Inc.	2.29	6,174	6,174	-
MEMS DRIVE, INC.	2.94	2,246	2,246	-
	₩	<u>165,437</u>	<u>143,590</u>	<u>130,645</u>

(2) Changes in the carrying amount of available-for-sale financial assets for the years ended December 31, 2016 and 2015 are as follows:

(In millions of won)

	2016	2015
Beginning balance	₩ 130,645	126,605
Acquisition	15,596	5,359
Disposal	(2,651)	(1,319)
Ending balance	₩ <u>143,590</u>	<u>130,645</u>

SK HYNIX, INC.
Notes to the Separate Financial Statements
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12. Property, Plant and Equipment

(1) Changes in property, plant and equipment for the years ended December 31, 2016 and 2015 are as follows:

(In millions of won)

		2016							
		Land	Buildings	Structures	Machinery	Vehicles	Others	Construction-in-progress	Total
Beginning net book amount	₩	564,162	2,255,568	235,692	9,130,810	1,181	324,842	1,341,294	13,853,549
Changes during 2016									
Additions		567	31,968	94,797	4,213,097	55	94,082	1,174,645	5,609,211
Receipt of government grants		-	-	-	(133)	-	-	-	(133)
Disposals		(2,824)	-	-	(148,953)	-	(105)	(6,398)	(158,280)
Depreciation		-	(85,828)	(19,589)	(3,016,637)	(318)	(106,948)	-	(3,229,320)
Transfers		10,019	58,658	7,390	905,768	-	39,352	(1,021,187)	-
Impairments		-	(264)	(2,814)	(668)	-	-	-	(3,746)
Ending net book amount		571,924	2,260,102	315,476	11,083,284	918	351,223	1,488,354	16,071,281
Acquisition cost		571,924	2,899,171	631,978	33,953,372	2,358	901,076	1,488,354	40,448,233
Accumulated depreciation		-	(615,370)	(297,398)	(22,625,478)	(1,440)	(549,822)	-	(24,089,508)
Accumulated impairment		-	(23,699)	(19,104)	(239,075)	-	(31)	-	(281,909)
Government grants		-	-	-	(5,535)	-	-	-	(5,535)
	₩	571,924	2,260,102	315,476	11,083,284	918	351,223	1,488,354	16,071,281

SK HYNIX, INC.
Notes to the Separate Financial Statements
December 31, 2016 and 2015

12. Property, Plant and Equipment, Continued

(In millions of won)

		2015							
		Land	Buildings	Structures	Machinery	Vehicles	Others	Construction-in-progress	Total
Beginning net book amount	₩	540,258	1,164,759	117,015	7,299,285	744	181,753	1,558,716	10,862,530
Changes during 2015									
Additions		-	-	-	44,727	-	-	5,915,347	5,960,074
Receipt of government grants		-	-	-	(378)	-	-	-	(378)
Disposals		(4)	(71)	-	(222,414)	-	(41)	(3,622)	(226,152)
Depreciation		-	(74,401)	(14,906)	(2,574,025)	(313)	(81,894)	-	(2,745,539)
Transfers ¹		23,908	1,187,331	133,583	4,583,615	750	225,024	(6,129,147)	25,064
Impairments		-	(22,050)	-	-	-	-	-	(22,050)
Ending net book amount		564,162	2,255,568	235,692	9,130,810	1,181	324,842	1,341,294	13,853,549
Acquisition cost		564,162	2,851,606	539,089	29,899,799	2,333	812,514	1,341,294	36,010,797
Accumulated depreciation		-	(550,289)	(284,293)	(20,517,026)	(1,152)	(486,222)	-	(21,838,982)
Accumulated impairment		-	(45,749)	(19,104)	(245,645)	-	(1,450)	-	(311,948)
Government grants		-	-	-	(6,318)	-	-	-	(6,318)
	₩	564,162	2,255,568	235,692	9,130,810	1,181	324,842	1,341,294	13,853,549

¹ ₩25,064 million was transferred to investment property during the year ended December 31, 2015.

(2) Details of depreciation expense allocation for the years ended December 31, 2016 and 2015 are as follows:

(In millions of won)

		2016	2015
Cost of sales	₩	2,917,183	2,435,754
Selling and administrative expenses		256,635	248,492
Other expenses		1,208	4,296
Development costs and other		54,294	56,997
	₩	<u>3,229,320</u>	<u>2,745,539</u>

(3) Certain property, plant and equipment are pledged as collaterals for borrowings as of December 31, 2016 (see note 31).

(4) In 2016, the Company capitalized borrowing costs amounting to ₩14,663 million (2015: ₩18,892 million) on qualifying assets. Borrowing costs were calculated using a capitalization rate of 3.59% (2015: 4.83%) for the year ended December 31, 2016.

SK HYNIX, INC.
Notes to the Separate Financial Statements
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12. Property, Plant and Equipment, Continued

(5) The Company leases certain machinery and others from ME Semiconductor Rental First L.L.C. and other under finance lease agreements.

The book value of the machinery and others subject to finance lease agreement amounted to ₩67,245 million as of December 31, 2016 (as of December 31, 2015: ₩138,514 million). The machinery and others are pledged as collateral for the finance lease liabilities.

The Company provides SK hyeng Inc. and others with certain machinery and others under operating lease agreements. The book value of the machinery and others subject to operating lease agreement amounted to ₩40,219 million as of December 31, 2016. (as of December 31, 2015: ₩40,742 million).

The Company 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 December 31, 2016 is as follows:

(In millions of won)

	Minimum lease payments
No later than 1 year	₩ 147,340
Later than 1 year	203,087
	₩ 350,427

(6) As of December 31, 2016, certain inventories; property, plant and equipment; and investment properties are insured and details of insured assets are as follows:

(In millions of won)

	Insured assets	Insured amount	Insurance company
Package insurance	Property, plant and equipment, investment property Inventories Business interruption	₩ 42,594,058	Hyundai Marine & Fire Insurance Co., Ltd. and others
Fire insurance	Property, plant and equipment	940	
Erection all risks insurance	Property, plant and equipment	3,015,309	
		₩ 45,610,307	

In addition to the assets stated above, vehicle and delivery equipment are insured by vehicle comprehensive insurance and liability insurance.

SK HYNIX, INC.
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13. Intangible Assets

(1) Changes in intangible assets for the years ended December 31, 2016 and 2015 are as follows:

(In millions of won)

		2016				
		Goodwill	Industrial property rights	Development costs	Others	Total
Beginning net book amount	₩	386,450	89,794	482,238	340,775	1,299,257
Changes during 2016						
Internal development		-	-	352,023	-	352,023
Separate acquisition ¹		32,596	28,740	-	138,622	199,958
Disposals		-	(5,208)	-	(1,595)	(6,803)
Impairment		-	-	-	(98)	(98)
Amortization		-	(14,397)	(204,379)	(78,828)	(297,604)
Ending net book amount		<u>419,046</u>	<u>98,929</u>	<u>629,882</u>	<u>398,876</u>	<u>1,546,733</u>
Acquisition cost		419,046	171,569	1,475,323	558,199	2,624,137
Accumulated amortization and impairment		-	(72,640)	(845,441)	(159,323)	(1,077,404)
	₩	<u>419,046</u>	<u>98,929</u>	<u>629,882</u>	<u>398,876</u>	<u>1,546,733</u>

¹ Goodwill of ₩32,596 million transferred from Siliconfile Technologies Inc. in 2016 is included (refer to note 33).

(In millions of won)

		2015				
		Goodwill	Industrial property rights	Development costs	Others	Total
Beginning net book amount	₩	386,450	80,546	317,872	186,448	971,316
Changes during 2015						
Internal development		-	-	347,932	-	347,932
Separate acquisition		-	31,465	-	196,937	228,402
Disposals		-	(9,536)	-	(503)	(10,039)
Impairment		-	-	-	(163)	(163)
Amortization		-	(12,681)	(183,566)	(41,944)	(238,191)
Ending net book amount		<u>386,450</u>	<u>89,794</u>	<u>482,238</u>	<u>340,775</u>	<u>1,299,257</u>
Acquisition cost		386,450	159,858	1,123,300	421,227	2,090,835
Accumulated amortization and impairment		-	(70,064)	(641,062)	(80,452)	(791,578)
	₩	<u>386,450</u>	<u>89,794</u>	<u>482,238</u>	<u>340,775</u>	<u>1,299,257</u>

SK HYNIX, INC.
Notes to the Separate Financial Statements
December 31, 2016 and 2015

13. Intangible Assets, Continued

(2) Amortization of ₩23,773 million (2015: ₩8,745 million) is included in the cost of sale and ₩273,455 million (2015: ₩229,157 million) in selling and administrative expenses and ₩376 million (2015: ₩289 million) in development expense in the statements of comprehensive income for the year ended December 31, 2016.

(3) Among costs associated with development activities, ₩352,023 million (2015: ₩347,932 million) that met capitalization criteria, were capitalized as development cost for the year ended December 31, 2016. In addition, costs associated with research activities and other development expenditures that did not meet the criteria and amounted to ₩1,770,839 million (2015: ₩1,641,269 million) were recognized as expenses for the year ended December 31, 2016.

(4) Goodwill impairment tests

Goodwill impairment tests are undertaken annually. As the Company has only one CGU, goodwill was allocated to one CGU. Recoverable amount of the CGU was determined based on fair value less costs to sell, which was determined using the current stock price as of December 31, 2016. No impairment loss of goodwill was recognized since the recoverable amount is higher than carrying value of the CGU as of December 31, 2016.

14. Investment Property

Details of changes in investment property for the years ended December 31, 2016 and 2015 are as follows:

(In millions of won)

	2016	2015
Beginning balance	₩ 2,679	28,456
Changes for the year		
Depreciation	(106)	(713)
Transfer ¹	-	(25,064)
Ending balance	<u>2,573</u>	<u>2,679</u>
Acquisition cost	5,170	5,170
Accumulated depreciation	(2,597)	(2,491)
	₩ <u>2,573</u>	<u>2,679</u>

¹ Transfer from (to) property, plant and equipment.

The depreciation expense of ₩106 million (2015: ₩713 million) was charged to cost of sales for the year ended December 31, 2016.

Rental income from investment property for the year ended December 31, 2016 was ₩500 million (2015: ₩2,627 million).

SK HYNIX, INC.
Notes to the Separate Financial Statements
December 31, 2016 and 2015

15. Borrowings

(1) Details of borrowings as of December 31, 2016 and 2015, are as follows:

(In millions of won)

	2016	2015
Current		
Current portion of long-term borrowings	₩ 324,029	343,430
Current portion of debentures	320,736	399,863
	<u>644,765</u>	<u>743,293</u>
Non-current		
Long-term borrowings	2,035,641	1,396,106
Debentures	1,535,381	1,293,220
	<u>3,571,022</u>	<u>2,689,326</u>
	<u>₩ 4,215,787</u>	<u>3,432,619</u>

SK HYNIX, INC.
Notes to the Separate Financial Statements
December 31, 2016 and 2015

15. Borrowings, Continued

(2) Details of long-term borrowings as of December 31, 2016 and 2015 are as follows:

(In millions of won)

	Financial institutions	Interest rate per annum in 2016 (%)¹	2016	2015
Local currency borrowings:				
Borrowings for childcare facilities	NongHyup Bank	2.00	₩ 62	123
Funds for equipment	Korea Development Bank (formerly Korea Finance Corporation)	3.98	83,333	166,667
Funds for equipment ²	KEB Hana Bank	CD (91 days) + 1.31	30,000	40,000
Funds for equipment	Korea Development Bank	2.02	200,000	-
Finance lease liabilities	Hansu Technical Service Ltd.	3.70	38,948	42,775
Finance lease liabilities	ME Semiconductor Rental First L.L.C.	5.00	8,688	74,898
			<u>361,031</u>	<u>324,463</u>
Foreign currency borrowings:				
General borrowings	Export-Import Bank of Korea	3M LIBOR + 1.00 ~ 3.15	825,808	488,333
General borrowings	Woori Bank	3M LIBOR + 1.25	120,850	-
General borrowings	Woori Bank	3M LIBOR + 0.98	181,275	175,800
Funds for equipment	Korea Development Bank	Exchange equalization fund rate + 0.60	120,850	117,200
General borrowings	Korea Development Bank	3M LIBOR + 0.95	181,275	175,800
General borrowings	Korea Development Bank	3M LIBOR + 1.25	241,700	-
General borrowings	KEB Hana Bank	Exchange equalization fund rate + 0.63	96,680	93,760
Funds for equipment	NongHyup Bank	Exchange equalization fund rate + 0.63	96,680	93,760
Funds for equipment	NongHyup Bank	3M LIBOR + 3.19	120,850	234,400
Finance lease liabilities	Goodmemory First L.L.C.	4.70	12,671	36,020
			<u>1,998,639</u>	<u>1,415,073</u>
			<u>2,359,670</u>	<u>1,739,536</u>
Less: Current maturities			<u>(324,029)</u>	<u>(343,430)</u>
			<u>₩ 2,035,641</u>	<u>1,396,106</u>

SK HYNIX, INC.
Notes to the Separate Financial Statements
December 31, 2016 and 2015

15. Borrowings, Continued

¹ As of December 31, 2016, the benchmark interest rates are as follows:

Type	Interest rate per annum as of December 31, 2016
Exchange equalization fund rate	1.33%
CD (91 days)	1.52%
3M LIBOR	1.00%

² The Company entered into interest swap contracts with KEB Hana Bank to hedge interest rate risk from the local currency loans.

(3) Details of debentures as of December 31, 2016 and 2015 are as follows:

(In millions of won)

	Maturity date	Interest rate per annum in 2016 (%)		2016	2015
Unsecured notes in local currency:					
211th	May 6, 2016	6.20	₩	-	400,000
212th	May 30, 2019	5.35		450,000	450,000
213th	Sep. 4, 2017	3.72		200,000	200,000
214-1st	Aug. 26, 2020	2.27		210,000	210,000
214-2nd	Aug. 26, 2022	2.63		140,000	140,000
215-1st	Nov. 25, 2018	2.26		70,000	70,000
215-2nd	Nov. 25, 2020	2.56		100,000	100,000
215-3rd	Nov. 25, 2022	2.75		10,000	10,000
216-1st	Feb. 19, 2018	1.74		70,000	-
216-2nd	Feb. 19, 2021	2.22		180,000	-
216-3rd	Feb. 19, 2023	2.53		80,000	-
217-1st	May 27, 2018	1.73		80,000	-
217-2nd	May 27, 2021	2.30		150,000	-
Secured notes in foreign currency:					
Foreign 8th ¹	Jun. 20, 2017	3M LIBOR+2.85		120,850	117,200
				1,860,850	1,697,200
Less: Discounts on debentures				(4,733)	(4,117)
Current portion				(320,736)	(399,863)
			₩	1,535,381	1,293,220

¹ The Company is provided with USD 100 million of bank payment guarantee from Shinhan Bank as of December 31, 2016.

SK HYNIX, INC.
Notes to the Separate Financial Statements
December 31, 2016 and 2015

15. Borrowings, Continued

(4) Finance lease liability

Lease liabilities are effectively secured as the rights to the leased asset belong to the lessor.

Details of future minimum lease payments to the lessor as of December 31, 2016 and 2015 are as follows:

(In millions of won)

	2016	2015
Total minimum lease payment		
No later than 1 year	₩ 27,043	98,927
Between 1 and 5 years	21,400	42,704
Later than 5 years	18,725	24,075
	<u>67,168</u>	<u>165,706</u>
Discount on present value	(6,861)	(12,013)
Net minimum lease payment		
No later than 1 year	26,603	96,116
Between 1 and 5 years	19,136	39,182
Later than 5 years	14,568	18,395
	<u>₩ 60,307</u>	<u>153,693</u>

16. Other Current and Non-current Liabilities

Details of other current and non-current liabilities as of December 31, 2016 and 2015 are as follows:

(In millions of won)

	2016	2015
Current		
Advance receipts	₩ 217	192
Unearned income	228	219
Withholdings	33,572	27,256
Deposits received	718	354
	<u>34,735</u>	<u>28,021</u>
Non-current		
Other long-term employee benefits	59,304	58,516
	<u>₩ 94,039</u>	<u>86,537</u>

SK HYNIX, INC.
Notes to the Separate Financial Statements
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17. Provisions

(1) Details of changes in provisions for the years ended December 31, 2016 and 2015 are as follows:

(In millions of won)

		2016			
		Beginning balance	Increase	Utilization	Ending balance
Purchase commitments	₩	-	163	-	163
Warranty		2,821	12,203	(12,036)	2,988
Sales returns		21,528	53,440	(58,622)	16,346
Legal claims		1,523	400	(1,097)	400
Emission allowances		6,081	21,366	(1,339)	26,108
	₩	<u>31,953</u>	<u>87,572</u>	<u>(73,094)</u>	<u>46,005</u>

(In millions of won)

		2015				
		Beginning balance	Increase	Utilization	Reversal	Ending balance
Purchase commitments	₩	784	-	(784)	-	-
Warranty		6,739	2,086	(3,490)	(2,514)	2,821
Sales returns		21,405	79,870	(79,747)	-	21,528
Legal claims		4,400	1,440	(4,370)	(30)	1,523
Emission allowances		-	6,081	-	-	6,081
	₩	<u>33,328</u>	<u>89,477</u>	<u>(88,391)</u>	<u>(2,544)</u>	<u>31,953</u>

¹ Others include foreign exchange rate differences.

SK HYNIX, INC.
Notes to the Separate Financial Statements
December 31, 2016 and 2015

17. Provisions, Continued

(2) Accrual for loss on purchase commitment

The Company is committed to purchase wafers (semi-finished goods) from its overseas subsidiary, SK hynix Semiconductor (China) Ltd. For the work-in-process that will be purchased from the subsidiary, the Company accrues provisions for expected losses if the total manufacturing costs are expected to exceed the sale price of finished goods at the end of reporting period.

(3) Provisions for warranty

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

(4) Provisions for sales returns

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

(5) Provisions for legal claims

The Company recognizes provisions for legal claims when the Company 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.

(6) Provision for emission allowances

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

SK HYNIX, INC.
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18. Defined Benefit Liabilities

Under the defined benefit plan, the Company pays employee benefits to retired employees in the form of a lump sum that are based on their salaries and years of service at the time of their retirement. Accordingly, the Company is exposed to a variety of actuarial assumption risks such as risk associated with expected years of service, interest risk, and market (investment) risk.

(1) Details of defined benefit liabilities as of December 31, 2016 and 2015 are as follows:

(In millions of won)

	2016	2015
Present value of defined benefit obligations	₩ 1,157,053	1,020,198
Fair value of plan assets	(859,100)	(547,708)
	₩ 297,953	472,490

(2) Principal actuarial assumptions as of December 31, 2016 and 2015 are as follows:

	2016	2015
Discount rate for defined benefit obligations	4.00%	4.00%
Expected rate of salary increase	5.48%	5.52%

(3) Weighted average durations of defined benefit obligations as of December 31, 2016 and 2015 are 12.10 and 12.39 years, respectively.

(4) Changes in defined benefit obligations for the years ended December 31, 2016 and 2015 are as follows:

(In millions of won)

	2016	2015
Beginning balance	₩ 1,020,198	857,390
Current service cost	153,576	134,152
Past service cost	31,608	-
Interest cost	39,871	38,029
Transferred from associates	(1,885)	576
Remeasurements:		
Demographic assumption	-	(1,907)
Financial assumption	6,079	32,733
Adjustment based on experience	(51,908)	(18,224)
Benefits paid	(40,486)	(22,551)
Ending balance	₩ 1,157,053	1,020,198

(5) Changes in plan assets for the years ended December 31, 2016 and 2015 are as follows:

(In millions of won)

	2016	2015
Beginning balance	₩ 547,708	402,089
Contributions	320,000	150,000
Interest income	19,519	17,749
Transferred from associates	(1,320)	123
Benefits paid	(17,961)	(13,866)
Remeasurements	(8,846)	(8,387)

SK HYNIX, INC.
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Ending balance	₩	<u>859,100</u>	<u>547,708</u>
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18. Defined Benefit Liabilities, Continued

(6) The amounts recognized in profit or loss for the years ended December 31, 2016 and 2015 are as follows:

(In millions of won)

		2016	2015
Current service cost	₩	<u>153,576</u>	<u>134,152</u>
Past service cost		<u>31,608</u>	<u>-</u>
Net interest cost		<u>20,352</u>	<u>20,280</u>
	₩	<u>205,536</u>	<u>154,432</u>

(7) The accounts in which defined benefit plan related expenses are included for the years ended December 31, 2016 and 2015 are as follows:

(In millions of won)

		2016	2015
Cost of sales (manufacturing costs)	₩	<u>129,920</u>	<u>83,968</u>
Selling and administrative expenses		<u>75,616</u>	<u>70,464</u>
	₩	<u>205,536</u>	<u>154,432</u>

(8) Details of plan assets as of December 31, 2016 and December 31, 2015 are as follows:

(In millions of won)

		2016	2015
Deposits	₩	<u>857,615</u>	<u>546,135</u>
Other		<u>1,485</u>	<u>1,573</u>
	₩	<u>859,100</u>	<u>547,708</u>

Actual return on plan assets for the years ended December 31, 2016 and 2015 amounted to ₩10,673 million and ₩9,362 million, respectively.

(9) As of December 31, 2016, the Company funded defined benefit obligations through insurance plans with Mirae Asset Life Insurance Co., Ltd. and other insurance companies. The Company's reasonable estimation of contribution to the plan assets for the year ending December 31, 2017 is ₩300,000 million under the assumption that the Company maintains the defined benefit plan.

(10) The sensitivity analysis of the defined benefit obligations as of December 31, 2016 to changes in the principal assumptions is as follows:

(In millions of won)

		Effects on defined benefit obligation	
		Increase of rate	Decrease of rate
Discount rate (if changed by 1%)	₩	<u>(123,217)</u>	<u>145,336</u>
Expected salary increase rate (if changed by 1%)		<u>145,418</u>	<u>(125,497)</u>

The sensitivity analysis does not consider dispersion of all cash flows that are expected from the plan and provides approximate values of sensitivity for the assumptions used.

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18. Defined Benefit Liabilities, Continued

(11) Information about the maturity profile of the defined benefit obligation as of December 31, 2016 is as follows:

(In millions of won)

		2016			
		Less than 1 year	1 - 5 years	5 - 10 years	10 - 20 years
Benefits paid	₩	33,505	241,923	639,772	2,624,603
					Total
					3,539,803

Information about the maturity profile is based on undiscounted amount of defined benefit obligation and classified to employee's expected years of remaining services

(12) The Company adopted defined contribution retirement pension for the employees subject to peak wage system. Contributions to defined contribution plans amounting to ₩12 million was recognized as cost of sales for the year ended December 31, 2016.

19. Deferred income tax

(1) Changes in deferred income tax assets and liabilities for the years ended December 31, 2016 and 2015, are as follows:

(In millions of won)

		2016		
		January 1, 2016	Profit or loss	December 31, 2016
Loss on valuation of inventories	₩	39,827	(23,835)	-
Valuation of equity-method investments		213,991	(24)	-
Accumulated depreciation		34,481	(14,611)	-
Defined benefits liabilities, net		92,534	(101,660)	68,496
Deemed investments and others		161,995	(4,547)	-
Available-for-sale financial assets		42,247	14	-
Employee benefits		24,660	3,137	-
Provisions		21,702	14,607	-
Advanced depreciation provision		(55,666)	-	-
Others		(2,664)	25,044	-
Deferred tax assets for temporary differences, net		573,107	(101,875)	68,496
Deferred tax assets not recognized		(508,058)	128,918	-
Tax credit carryforwards recognized		122,942	229,829	-
Deferred tax assets recognized	₩	187,991	256,872	68,496
				513,359

SK HYNIX, INC.
Notes to the Separate Financial Statements
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19. Deferred Income Tax, Continued

(In millions of won)

	2015			
	January 1, 2015	Profit or loss	Equity	December 31, 2015
Loss on valuation of inventories	₩ 17,858	21,969	-	39,827
Valuation of equity-method investments	214,691	(700)	-	213,991
Accumulated depreciation	35,819	(1,338)	-	34,481
Defined benefits liabilities, net	89,444	3,090	-	92,534
Deemed investments and others	161,995	-	-	161,995
Available-for-sale financial assets	42,985	(738)	-	42,247
Employee benefits	23,801	859	-	24,660
Provisions	64,885	(43,183)	-	21,702
Advanced depreciation provision	(55,666)	-	-	(55,666)
Others	(7,695)	5,031	-	(2,664)
Deferred tax assets for temporary differences, net	588,117	(15,010)	-	573,107
Deferred tax assets not recognized	(573,438)	65,380	-	(508,058)
Tax credit carryforwards recognized	175,916	(52,974)	-	122,942
Deferred tax assets recognized	₩ 190,595	(2,604)	-	187,991

(2) Deferred tax assets are recognized for deductible temporary differences, tax loss carryforwards and tax credit carryforwards to the extent that the realization of the related tax benefit through future taxable profits is probable.

As of December 31, 2016, the Company did not recognize deferred tax assets of ₩379,140 million (2015: ₩508,058 million) associated with deductible temporary differences amounting to ₩1,567,088 million (2015: ₩2,099,421 million).

As of December 31, 2016, there were no unused tax credits carry-forwarded that were not recognized as deferred tax assets (2015: ₩234,632).

SK HYNIX, INC.
Notes to the Separate Financial Statements
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20. Derivative Financial Instruments

(1) Details of derivative financial liabilities as of December 31, 2016 and 2015 are as follows:

(In millions of won)

		2016	2015
Current			
Interest rates swap	₩	288	-
Non-current			
Interest rates swap		-	683
	₩	288	683

(2) Details of gains and losses from derivative instruments for the years ended December 31, 2016 and 2015 are as follows:

(In millions of won)

		2016		
		Gain on valuation	Loss on valuation	Gain on transaction
Interest rates swap	₩	395	-	1,077
				1,525

(In millions of won)

		2015		
		Gain on valuation	Loss on valuation	Gain on transaction
Interest rates swap	₩	25	-	1,672
				2,058

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21. Capital Stock, Capital Surplus and Other Equity

(1) Details of capital stock, capital surplus and other equity as of December 31, 2016 and 2015 are as follows:

(In millions of won and thousands of shares)

		2016	2015
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		557,767	556,219
		4,183,564	4,182,016
Other equity:			
Acquisition cost of treasury shares	₩	(771,913)	(771,913)
Number of treasury shares		22,001	22,001

¹ As of December 31, 2016, the number of outstanding shares is 728,002 thousand shares, which differs from total issued shares due to the effect of stock retirement.

(2) Changes in number of outstanding shares as of December 31, 2016 and December 31, 2015 are as follows:

(In thousands of shares)

	2016	2015
Beginning	706,002	728,002
Acquisition of treasury shares	-	(22,000)
Ending	706,002	706,002

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22. Retained Earnings

(1) Details of retained earnings as of December 31, 2016 and 2015 are as follows:

(In millions of won)

	2016	2015
Legal reserve ¹	₩ 65,994	30,694
Discretionary reserve ²	235,506	235,506
Unappropriated retained earnings	15,720,710	13,348,510
	<u>₩ 16,022,210</u>	<u>13,614,710</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 a reserve for technology development.

(2) Statement of Appropriations of Retained Earnings

(In millions of won, except for cash dividend per common stock)

	2016	2015
Retained earnings before appropriations		
Unappropriated retained earnings carried over from the prior year	₩ 12,960,209	9,350,419
Remeasurements of defined benefit liability	105,479	(20,989)
Profit for the year	2,655,022	4,019,080
	<u>15,720,710</u>	<u>13,348,510</u>
Appropriation of retained earnings¹		
Earned surplus reserve	42,360	35,300
Cash dividend (2016: ₩600 per share, 12% on par value , 2015: ₩500 per share, 10% on par value)	423,601	353,001
	<u>465,961</u>	<u>388,301</u>
Unappropriated retained earnings carried forward to the subsequent year	<u>₩ 15,254,749</u>	<u>12,960,209</u>

¹ For the years ended December 31, 2016 and 2015, the date of appropriation is March 24, 2017 and March 18, 2016, respectively.

SK HYNIX, INC.
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December 31, 2016 and 2015

23. Dividends

(1) Details of dividends for the years ended December 31, 2016 and 2015 are as follows:

(In millions of won and in thousands of shares)

	2016	2015
Type of dividends	Cash dividends	Cash dividends
Outstanding ordinary shares	706,002	706,002
Par value (in won)	₩ 5,000	5,000
Dividend rate	12%	10%
Total dividends	₩ 423,601	353,001

(2) Dividend payout ratio for the years ended December 31, 2016 and 2015 is as follows:

(In millions of won)

	2016	2015
Dividends	₩ 423,601	353,001
Profit for the year	2,655,022	4,019,080
Dividend payout ratio	15.95%	8.78%

(3) Dividend yield ratio for the years ended December 31, 2016 and 2015 is as follows:

(In won)

	2016	2015
Dividends per share	₩ 600	500
Closing stock price	44,700	30,750
Dividend yield ratio	1.34%	1.63%

SK HYNIX, INC.
Notes to the Separate Financial Statements
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24. Selling and Administrative Expenses

Selling and administrative expenses for the years ended December 31, 2016 and 2015 are as follows:

(In millions of won)

	2016	2015
Selling and administrative expenses:		
Salaries	₩ 249,364	283,107
Defined benefit plan related	29,364	24,394
Employee benefits	62,200	57,366
Commission	208,362	192,589
Depreciation	69,057	79,106
Amortization	271,184	227,437
Legal cost	22,647	6,594
Rental	8,529	8,420
Taxes and dues	4,385	6,122
Training	6,548	18,220
Advertising	17,924	43,239
Utility	46,869	10,026
Freight and custody charges	10,229	32,089
Supplies	52,771	47,290
Repair	4,930	7,778
Travel and transportation	6,269	8,152
Sales promotion cost	5,524	5,926
Other	26,228	3,078
	<u>1,102,384</u>	<u>1,060,933</u>
Research and development:		
Expenditure on research and development	2,122,862	1,989,201
Development cost capitalized	(352,023)	(347,932)
	<u>1,770,839</u>	<u>1,641,269</u>
	<u>₩ 2,873,223</u>	<u>2,702,202</u>

25. Expenses by Nature

Nature of expenses for the years ended December 31, 2016 and 2015 is as follows:

(In millions of won)

	2016	2015
Changes in finished goods and work-in-process	₩ (265,986)	(93,638)
Raw materials and consumables	4,779,210	4,877,645
Labor costs	1,886,379	2,065,024
Depreciation and amortization	3,471,152	2,922,861
Royalty	229,422	210,902
Commission	893,135	805,487
Utilities	697,061	603,977
Repair	485,122	473,668
Outsourcing	1,080,854	1,333,661
Other	464,343	504,698
Total ¹	<u>₩ 13,720,692</u>	<u>13,704,285</u>

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

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26. Finance Income and Expenses

Details of finance income and expenses for the years ended December 31, 2016 and 2015 are as follows:

(In millions of won)

	2016	2015
Finance Income:		
Interest income	₩ 32,264	38,885
Dividend income	37,862	24,091
Foreign exchange differences	645,386	597,146
Gain from derivative instruments	1,472	1,697
Gain on disposal of financial assets at fair value through profit or loss	5,789	27,434
Gain on valuation of financial assets at fair value through profit or loss	442	602
	₩ <u>723,215</u>	<u>689,855</u>
Finance Expenses:		
Interest expense	₩ 113,268	103,975
Foreign exchange differences	611,683	547,392
Loss from derivative instruments	1,525	2,058
	<u>726,476</u>	<u>653,425</u>
Net finance income (expenses)	₩ <u>(3,261)</u>	<u>36,430</u>

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27. Other Income and Expenses

Other income for the years ended December 31, 2016 and 2015 are as follows:

(In millions of won)

	2016	2015
Gain on disposal of property, plant and equipment	₩ 14,198	35,245
Gain on disposal of investment in subsidiaries and associates	11,228	7,130
Others	20,903	16,706
	₩ <u>46,329</u>	<u>59,081</u>

Other expenses for the years ended December 31, 2016 and 2015 are as follows:

(In millions of won)

	2016	2015
Loss on disposal of property, plant and equipment	₩ 4,109	26,599
Loss on disposal of intangible assets	5,218	5,487
Loss on disposal of trade receivables	734	201
Loss on impairment of property, plant and equipment	3,746	22,050
Loss on impairment of intangible assets	98	163
Donation	50,607	54,682
Bad debt for other receivables	15	34,920
Others	29,218	25,437
	₩ <u>93,745</u>	<u>169,539</u>

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28. Income Tax Expense

(1) Income tax expense for the years ended December 31, 2016 and 2015 are as follows:

(In millions of won)

	2016	2015
Current tax:		
Current tax on profits for the year	₩ 485,840	980,795
Adjustments for the tax liability attributable to prior year, but recognized in current year	77,752	-
Deferred tax:		
Origination and reversal of temporary differences, recognition of previously unrecognized tax credits and others	(256,872)	2,604
Income tax expense	₩ 306,720	983,399

(2) The relationship between tax expense and accounting profit for the years ended December 31, 2016 and 2015 are as follows:

(In millions of won)

	2016	2015
Profit before income tax	₩ 2,961,742	5,002,479
Tax calculated at statutory income tax rates	716,280	1,210,138
Tax effects of:		
Tax-exempt income	(2,666)	(20)
Non-deductible expenses	2,315	3,500
Tax credit	(101,447)	(104,345)
Change in unrecognized deferred tax assets	(363,550)	(150,565)
Adjustments for the tax liability attributable to prior year, but recognized in current year	77,752	-
Others	(21,964)	24,691
Income tax expense	₩ 306,720	983,399

(3) Income taxes directly charged to equity for the years ended December 31, 2016 and 2015 are as follows:

(In millions of won)

	2016	2015
Remeasurements of defined benefit liabilities	₩ 68,496	-

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29. Earnings per Share

(1) Basic earnings per share for the years ended December 31, 2016 and 2015 are as follows:

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

	2016	2015
Profit attributable to ordinary shareholders	₩ 2,655,022	4,019,080
Weighted average number of outstanding ordinary shares ¹	706,001,795	720,143,294
Basic earnings per share (in won)	₩ 3,761	5,581

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

(In shares)

	2016	2015
Outstanding ordinary shares	728,002,365	728,002,365
Acquisition of treasury shares	(22,000,570)	(7,859,071)
Weighted average number of outstanding ordinary shares	706,001,795	720,143,294

(2) There is no potential ordinary shares with dilutive effect during the years ended December 31, 2016 and 2015. Accordingly, diluted earnings per share for the years ended December 31, 2016 and 2015 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 December 31, 2016 are as follows:

Type	Name of related parties
Subsidiaries	SKHYA and other 22 entities ¹
Associates	Stratio, Inc., 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 Company, SK Holdings Co., Ltd., which has control over SK Telecom Co., Ltd., and their subsidiaries

¹ MMT (Money Market Trust) was excluded from related to party transactions.

(2) Subsidiaries of the Company as of December 31, 2016 are as follows:

Company	Controlling company	Remarks
SK hyeng Inc.	SK hynix, Inc.	Domestic subsidiary
SK hystec Inc.	SK hynix, Inc.	Domestic subsidiary
Siliconfile Technologies Inc.	SK hynix, Inc.	Domestic subsidiary
Happymore Inc.	SK hynix, Inc.	Domestic subsidiary
SK hynix America Inc. (SKHYA)	SK hynix, Inc.	Overseas sales subsidiary
SK hynix Deutschland GmbH (SKHYD)	SK hynix, Inc.	Overseas sales subsidiary
SK hynix U.K. Ltd. (SKHYU)	SK hynix, Inc.	Overseas sales subsidiary
SK hynix Asia Pte. Ltd. (SKHYS)	SK hynix, Inc.	Overseas sales subsidiary
SK hynix Semiconductor India Pvt. Ltd. (SKHYIS)	SKHYS	Overseas sales subsidiary
SK hynix Semiconductor Hong Kong Ltd. (SKHYH)	SK hynix, Inc.	Overseas sales subsidiary
SK hynix Semiconductor (Shanghai) Co., Ltd. (SKHYCS)	SK hynix, Inc.	Overseas sales subsidiary
SK hynix Japan Inc. (SKHYJ)	SK hynix, Inc.	Overseas sales subsidiary
SK hynix Semiconductor Taiwan Inc. (SKHYT)	SK hynix, Inc.	Overseas sales subsidiary
SK hynix Semiconductor (China) Ltd. (SKHYCL)	SK hynix, Inc.	Overseas manufacturing subsidiary
SK hynix Semiconductor (Wuxi) Ltd. (SKHYMC)	SK hynix, Inc.	Overseas manufacturing subsidiary
SK hynix (Wuxi) Semiconductor Sales Ltd. (SKHYCW)	SK hynix, Inc.	Overseas sales subsidiary
SK hynix Italy S.r.l (SKHYIT)	SK hynix, Inc.	Overseas R&D center
SK hynix memory solutions Inc. (SKHMS)	SK hynix, Inc.	Overseas R&D center
SK hynix Flash Solution Taiwan (SKHYFST)	SK hynix, Inc.	Overseas R&D center
SK APTECH Ltd. (SKAPTECH)	SK hynix, Inc.	Holding company
SK hynix Semiconductor (Chongqing) Ltd. (SKHYCQL)	SKAPTECH	Overseas manufacturing subsidiary
Softeq Flash Solutions LLC. (SOFTEQ)	SK hynix, Inc.	Overseas R&D center
SK hynix Ventures Hong Kong Ltd. (SKH Ventures)	SK hynix, Inc.	Overseas investing subsidiary

SK HYNIX, INC.
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30. Transactions with Related Parties and Others, Continued

(3) Significant transactions for the years ended December 31, 2016 and 2015 are as follows:

(In millions of won)

		2016			
	Company	Operating revenue and others	Operating expense and others	Asset acquisition	Dividend income
Subsidiaries	Overseas sales subsidiaries	₩ 15,686,664	151,332	890,402	5,338
	Overseas manufacturing subsidiaries ¹	14,835	2,315,605	39,306	-
	Overseas R&D centers	1,947	197,680	-	781
	Domestic subsidiaries	49,877	314,531	35,585	11,000
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	1,169	568,526	-	20,726
Other related parties	SK Telecom Co., Ltd. ²	306	80,845	10,710	-
	SK Holdings Co., Ltd. ³	270	117,058	118,965	-
	SK Engineering & Construction Co., Ltd.	279	21,375	658,579	-
	SK Energy Co., Ltd.	1,130	47,708	-	-
	SK Networks Co., Ltd.	-	2,241	-	-
	SK Materials Co., Ltd.	-	33,102	-	-
	SKC Solmics Co., Ltd.	-	23,555	371	-
	Chungcheong energy service Co., Ltd.	10	16,460	-	-
	HAPPYNARAE Co., Ltd.	16	135,858	10,506	-
	Others	9	92,057	7,692	-
		₩ <u>15,756,512</u>	<u>4,117,933</u>	<u>1,772,116</u>	<u>37,845</u>

¹ Operating revenue and others for the year ended December 31, 2016 include proceeds from asset disposal that amount to ₩6,068 million.

² Operating expense and others include dividend payments of ₩73,050 million.

³ The Company entered into a contract with SK Holdings Co., Ltd. under which the Company pays royalty for the use of SK brand in proportion to sales amount. For the year ended December 31, 2016, royalty on the use of the SK brand amounted to ₩37,170 million.

SK HYNIX, INC.
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30. Transactions with Related Parties and Others, Continued

(In millions of won)

		2015			
	Company	Operating revenue and others	Operating expense and others	Asset acquisition	Dividend income
Subsidiaries	Overseas sales subsidiaries	₩ 17,654,481	254,365	548,162	7,046
	Overseas manufacturing subsidiaries ¹	32,257	2,484,444	140,567	-
	Overseas R&D centers	97	153,114	-	-
	Domestic subsidiaries	86,655	323,495	-	-
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	1,364	678,907	-	15,780
Other related parties	SK Telecom Co., Ltd. ²	2,384	52,102	3,984	-
	SK Holdings Co., Ltd. ^{3,4}	108	62,040	73,134	-
	SK Engineering & Construction Co., Ltd.	250	800	1,075,645	-
	SK Energy Co., Ltd.	1,006	44,893	-	-
	SK Networks Co., Ltd.	-	1,577	-	-
	SKC Solmics Co., Ltd.	-	25,102	205	-
	Chungcheong energy service Co., Ltd.	-	24,292	-	-
	HAPPYNARAE Co., Ltd.	10	57,485	20,000	-
	Others	8	50,650	13,026	-
		₩ 17,778,620	4,213,266	1,874,723	22,826

¹ Operating revenue and others for the year ended December 31, 2015 include proceeds from asset disposal that amount to ₩28,833 million.

² Operating expense and others include dividend payments of ₩43,830 million.

³ The Company entered into a contract with SK Holdings Co., Ltd. under which the Company pays royalty for the use of SK brand in proportion to sales amount. For the year ended December 31, 2015, royalty on the use of the SK brand amounted to ₩33,955 million

⁴ On August 1, 2015, SK C&C Co., Ltd. merged with SK Holdings Co., Ltd. and changed its name to SK Holdings Co., Ltd.

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30. Transactions with Related Parties and Others, Continued

(4) The balances of significant transactions as of December 31, 2016 and 2015 are as follows:

(In millions of won)

		2016	
	Company	Trade receivables and others	Other payables and others
Subsidiaries	Overseas sales subsidiaries ¹	₩ 2,768,314	177,573
	Overseas manufacturing subsidiaries	34,749	533,485
	Overseas R&D centers	57	15,387
	Domestic subsidiaries	1,310	56,689
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	-	99,328
Other related parties	SK Telecom Co., Ltd.	92	4,267
	SK Holdings Co., Ltd.	6,214	94,369
	SK Engineering & Construction Co., Ltd.	26	530,780
	SK Energy Co., Ltd.	85	6,544
	SK Networks Co., Ltd.	-	921
	SK Materials Co., Ltd.	-	8,043
	SKC Solmics Co., Ltd.	-	8,966
	Chungcheong energy service Co., Ltd.	-	1,804
	HAPPYNARAE Co., Ltd.	2	17,807
	Others	2	42,353
		₩ <u>2,810,851</u>	<u>1,598,316</u>

¹ The Company collected loans to SK hynix America Inc. (SKHYA) in the amount of ₩51,908 million for the year ended December 31, 2016.

SK HYNIX, INC.
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December 31, 2016 and 2015

30. Transactions with Related Parties and Others, Continued

(In millions of won)

		2015		
	Company	Trade receivables and others	Loans	Other payables and others
Subsidiaries	Overseas sales subsidiaries	₩ 2,511,975	52,740	238,292
	Overseas manufacturing subsidiaries	42,751	-	422,244
	Overseas R&D centers ¹	44	-	6,140
	Domestic subsidiaries	11,411	-	71,162
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd. ²	-	-	108,519
Other related parties	SK Telecom Co., Ltd.	155	-	2,796
	SK Holdings Co., Ltd.	87	-	95,607
	SK Engineering & Construction Co., Ltd.	26	-	236,540
	SK Energy Co., Ltd.	74	-	5,962
	SK Networks Co., Ltd.	-	-	777
	SKC Solmics Co., Ltd.	-	-	8,507
	Chungcheong energy service Co., Ltd.	-	-	1,425
	HAPPYNARAE Co., Ltd.	1	-	19,322
	Others	1	-	24,430
		₩ 2,566,525	52,740	1,241,723

¹ The Company collected loans to SK hynix memory solutions Inc. (SKHMS) in the amount of ₩10,992 million for the year ended December 31, 2015.

² The Company repaid remaining balance of borrowings from HITECH Semiconductor (Wuxi) Co., Ltd. in the amount of ₩22,552 million for the year ended December 31, 2015

(5) Key management compensation

Key management includes directors, members of the board of directors, chief financial officer and internal auditors. The compensation paid to key management for employee services for the years ended December 31, 2016 and 2015 are as follows:

(In millions of won)

	2016	2015
Salaries	₩ 68,504	60,024
Defined benefit plan related expenses	8,184	7,025
Others	21	15
	₩ 76,709	67,064

SK HYNIX, INC.
Notes to the Separate Financial Statements
December 31, 2016 and 2015

30. Transactions with Related Parties and Others, Continued

(6) The significant transactions between the Company and the companies that are in the same conglomerate group according to 'Fair Trade Law' as of December 31, 2016 and 2015 are as follows. These entities are not related parties according to K-IFRS No. 1024, 'Related Party Disclosures'.

(In millions of won)

		2016			
	Company	Operating revenue and others	Operating expense and others	Asset acquisition	Dividend income
Companies in the Conglomerate	SK Chemicals Co., Ltd.	₩ -	420	-	-

(In millions of won)

		2015			
	Company	Operating revenue and others	Operating expense and others	Asset acquisition	Dividend income
Companies in the Conglomerate	SK C&C Inc. ¹	₩ 120	29,423	67,569	-
	SKinfosec Co., Ltd. ¹	-	966	-	-
	Others	-	164	-	-
		₩ 120	30,553	67,569	-

¹The transactions occurred before merger between SK C&C Inc. and SK Holdings Inc.

(7) As of December 31, 2015, there was no balances for significant transactions between companies that are in the same conglomerate group designated by 'Fair Trade Law'. The details of the balances as of December 31, 2016 are as follows. These entities are not related parties according to K-IFRS No. 1024, 'Related Party Disclosures'.

(In millions of won)

		2016	
	Company	Trade receivables and others	Other payables and others
Companies in the Conglomerate	SK Chemicals Co., Ltd.	₩ -	183

SK HYNIX, INC.
Notes to the Separate Financial Statements
December 31, 2016 and 2015

31. Commitments and Contingencies

(1) Significant pending litigations and claims of the Company as of December 31, 2016 are as follows:

(a) Lawsuit from Netlist, Inc.

Netlist, Inc. filed a lawsuit alleging infringement of multiple patents to US District Court for the Central District of California, USA, on August 31, 2016 and to US International Trade Commission on September 1, 2016. As of December 31, 2016, the patent infringement lawsuit filed by Netlist, Inc. in the US has not been finalized and the final result cannot be predicted due to its early stage in the litigation.

(b) Other patent infringement claims and litigation

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

(4) Post-process service contract with HITECH

The Company 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 Company is liable to guarantee a certain level of margin to HITECH.

SK HYNIX, INC.
Notes to the Separate Financial Statements
December 31, 2016 and 2015

31. Commitments and Contingencies, Continued

(5) Assets provided as collateral

Details of assets provided as collateral as of December 31, 2016 are as follows:

(In millions of won)

		Book value	Pledged amount	Remark
Land	₩	25,030		
Buildings		103,977	1,439,069	Borrowings for equipment
Machinery		1,122,192		and others
	₩	<u>1,251,199</u>	<u>1,439,069</u>	

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

(6) Financing agreements

Details of credit lines with financial institutions as of December 31, 2016 are as follows:

(In millions of won, millions of U.S. dollars)

Financial institution	Commitment	Currency	Amount
KEB Hana Bank and others	Import finance including usance	USD	275
	Export finance including bills bought	USD	350
	Comprehensive limit contract for import and export	USD	1,080

(7) Details of guarantees provided to others as of December 31, 2016 are as follows:

(In millions of won)

	Amount	Remark
Employees	₩ 8	Guarantees for employees' borrowings relating to employee stock ownership

(8) Capital commitments

As of December 31, 2016, the Company has ₩261,729 million (as of December 31, 2015: ₩210,036 million) of commitments in relation to the capital expenditures on property, plant and equipment

SK HYNIX, INC.
Notes to the Separate Financial Statements
December 31, 2016 and 2015

32. Cash Generated from Operating Activities

(1) Reconciliations between profit for the year and net cash inflow from operating activities for the years ended December 31, 2016 and 2015 are as follows:

(In millions of won)

	2016	2015
Profit for the year	₩ 2,655,022	4,019,080
Adjustment		
Income tax expense	306,720	983,399
Interest cost	113,268	103,975
Interest income	(32,264)	(38,885)
Dividend income	(37,862)	(24,091)
Depreciation	3,229,320	2,745,539
Depreciation of investment property	106	713
Amortization	297,604	238,191
Loss on disposal of property, plant and equipment	4,109	26,599
Loss on disposal of intangible asset	5,218	5,487
Loss on impairment of property, plant and equipment	3,746	22,050
Loss on impairment of intangible asset	98	163
Defined benefit plan	205,536	154,432
Loss on foreign currency translation	101,210	114,197
Loss and gain on derivative instruments	53	361
Gain on disposal of property, plant and equipment	(14,198)	(35,245)
Gain on foreign currency translation	(89,449)	(44,503)
Gain on disposal of investments in subsidiaries and associates	(11,228)	(7,130)
Gain on disposal of financial assets at fair value through profit or loss	(5,789)	(27,434)
Gain on valuation of financial assets at fair value through profit or loss	(442)	(602)
Others, net	(2,410)	35,546
Changes in operating assets and liabilities		
Decrease (increase) in trade receivables	(30,835)	761,933
Decrease in loans and other receivables	22,258	1,203
Increase in inventories	(291,108)	(190,333)
Increase in other assets	(48,369)	(49,601)
Increase in trade payables	107,129	99,382
Increase (decrease) in other payables	(196,612)	125,876
Decrease in other non-trade payables	(302,774)	(171,546)
Increase (decrease) in provisions	13,889	(7,539)
Increase (decrease) in other liabilities	5,976	(24,725)
Contribution to plan assets	(320,000)	(150,000)
Payment of defined benefit liabilities	(17,030)	(5,755)
Cash generated from operating activities	₩ <u>5,670,892</u>	<u>8,660,737</u>

SK HYNIX, INC.
Notes to the Separate Financial Statements
December 31, 2016 and 2015

32. Cash Generated from Operating Activities, Continued

(2) Details of significant transactions without inflows and outflows of cash for the years ended December 31, 2016 and 2015 are as follows:

(In millions of won)

	2016	2015
Increase in other payables related to acquisition of property, plant and equipment	₩ 249,570	-
Write off of other receivables	34,861	-
Business combination	33,000	-

33. Business combination

The company acquired a CIS division from Siliconfile which is a subsidiary of the Company for the purpose of enhancing management efficiency through business restructuring on October 25, 2016. The consideration transferred assets acquired and liabilities assumed as of the acquisition date are as follows:

(In millions of won)

	2016
Consideration transferred:	
Cash	₩ (4,133)
Investments in subsidiaries	(31,452)
	<u>(35,585)</u>
Assets acquired and liabilities assumed:	
Property, plant and equipment.	195
Goodwills	32,596
Other intangible assets	4,025
Others	317
	<u>37,133</u>
Total ¹	₩ <u>1,548</u>

¹ Assets acquired and liabilities assumed are measured at book value and the difference with consideration transferred is recognized in equity.

Independent Accountants' Review Report on Internal Accounting Control System

English translation of a Report Originally Issued in Korean

To the Representative Director of
SK Hynix, Inc.

We have reviewed the accompanying Report on the Operations of Internal Accounting Control System ("IACS") of SK Hynix, Inc. (the "Company") as of December 31, 2016. The Company's management is responsible for designing and maintaining effective IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review management's assessment and issue a report based on our review. In the accompanying report of management's assessment of IACS, the Company's management stated: "Based on the assessment on the assessment result, I believe that the Company's ICFR, as of Dec 31, 2016, is effectively designed and operating, in all material respects, in conformity with the Best Practice Guideline."

We conducted our review in accordance with IACS Review Standards, issued by the Korean Institute of Certified Public Accountants. Those Standards require that we plan and perform the review to obtain assurance of a level less than that of an audit as to whether Report on the Operations of Internal Accounting Control System is free of material misstatement. Our review consists principally of obtaining an understanding of the Company's IACS, inquiries of company personnel about the details of the report, and tracing to related documents we considered necessary in the circumstances. We have not performed an audit and, accordingly, we do not express an audit opinion.

A company's IACS is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of separate financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, however, IACS may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that Report on the Operations of Internal Accounting Control System as of December 31, 2016 is not prepared in all material respects, in accordance with IACS Framework issued by the Internal Accounting Control System Operation Committee.

This report applies to the Company's IACS in existence as of December 31, 2016. We did not review the Company's IACS subsequent to December 31, 2016. This report has been prepared for Korean regulatory purposes, pursuant to the External Audit Law, and may not be appropriate for other purposes or for other users.

KPMG Samjong Accounting Corp.

Seoul, Korea
February 17, 2017

Notice to Readers

This report is annexed in relation to the audit of the separate financial statements as of December 31, 2016 and the review of internal accounting control system pursuant to Article 2-3 of the Act on External Audit for Stock Companies of the Republic of Korea.

Report on the Effectiveness of the Internal Control over Financial Reporting

To the Board of Directors and Audit Committee of SK HYNIX INC.

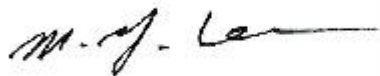
I, as the Internal Control over Financial Reporting ("ICFR") Officer of SK HYNIX INC. ("the Company"), assessed the effectiveness of the design and operation of the Company's ICFR for the year ended Dec 31, 2016.

The Company's management, including myself, is responsible for designing and operating an ICFR. I assessed the design and operational effectiveness of the ICFR in the prevention and detection of an error or fraud which may cause a misstatement in the preparation and disclosure of reliable financial statements. I followed the Best Practice Guideline to evaluate the effectiveness of the ICFR design and operation.

Based on the assessment results, I believe that the Company's ICFR, as of Dec 31, 2016, is effectively designed and operating, in all material respects, in conformity with the Best Practice Guideline.

Jan 13, 2017

Myoung Young Lee, ICFR Officer



Sung Wook Park, Chief Executive Officer

