

SK HYNIX, INC.

Separate Financial Statements

December 31, 2017 and 2016

(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) which comprise the separate statements of financial position as of December 31, 2017 and 2016, the separate 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

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 audits. We 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 financial position of the Company as of December 31, 2017 and 2016 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 14, 2018

This report is effective as of February 14, 2018, 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, 2017 and 2016

(In millions of won)

	Note	2017	2016
Assets			
Current assets			
Cash and cash equivalents	4,5 ₩	2,270,036	476,917
Short-term financial instruments	4,5,6	5,109,329	2,487,942
Trade receivables, net	4,5,7,30	5,259,052	2,896,443
Loans and other receivables, net	4,5,7,30	41,049	32,131
Inventories, net	8	2,224,740	1,698,723
Other current assets	9	434,724	341,145
		<u>15,338,930</u>	<u>7,933,301</u>
Non-current assets			
Investments in subsidiaries, associates, and joint ventures	10	4,778,280	4,588,062
Available-for-sale financial assets	4,5,11	37,593	143,590
Loans and other receivables, net	4,5,7,30	29,600	30,858
Other financial assets	4,5,6	11	319
Property, plant and equipment, net	12,31	21,322,943	16,071,281
Intangible assets, net	13	1,918,259	1,546,733
Investment property, net	14	2,468	2,573
Deferred tax assets	19	136,291	513,359
Employee benefit assets	18	13,385	-
Other non-current assets	9,30,31	735,086	569,017
		<u>28,973,916</u>	<u>23,465,792</u>
Total assets	₩	<u>44,312,846</u>	<u>31,399,093</u>

See accompanying notes to the separate financial statements.

SK HYNIX, INC.

Separate Statements of Financial Position, Continued

As of December 31, 2017 and 2016

(In millions of won)

	Note	2017	2016
Liabilities			
Current liabilities			
Trade payables	4,5,30 ₩	1,107,029	1,144,476
Other payables	4,5,30	2,642,022	1,554,621
Other non-trade payables	4,5,30	1,204,808	583,984
Borrowings	4,5,15,31	634,768	644,765
Other financial liabilities	4,5,20	-	288
Provisions	17	103,099	46,005
Current tax liabilities		2,354,425	342,787
Other current liabilities	16	30,063	34,735
		<u>8,076,214</u>	<u>4,351,661</u>
Non-current liabilities			
Other non-trade payables	4,5	4,406	27,640
Borrowings	4,5,15,31	3,394,588	3,571,022
Defined benefit liabilities, net	18	-	297,953
Other non-current liabilities	16	65,763	59,304
		<u>3,464,757</u>	<u>3,955,919</u>
Total liabilities		<u>11,540,971</u>	<u>8,307,580</u>
Equity			
Capital stock	21	3,657,652	3,657,652
Capital surplus	21	4,183,564	4,183,564
Other equity	21,33	(771,100)	(771,913)
Accumulated other comprehensive income(loss)	22	(10,735)	-
Retained earnings	23	25,712,494	16,022,210
Total equity		<u>32,771,875</u>	<u>23,091,513</u>
Total liabilities and equity	₩	<u><u>44,312,846</u></u>	<u><u>31,399,093</u></u>

See accompanying notes to the separate financial statements.

SK HYNIX, INC.

Separate Statements of Comprehensive Income

For the years ended December 31, 2017 and 2016

(In millions of won, except per share information)

	Note	2017	2016
Revenue	30,31 ₩	29,718,939	16,733,111
Cost of sales	25,30	12,980,539	10,847,469
Gross profit		16,738,400	5,885,642
Selling and administrative expense	24,25	3,397,609	2,873,223
Operating profit		13,340,791	3,012,419
Finance income	4,26	843,011	723,215
Finance expenses	4,26	1,075,823	726,476
Other income	27	76,569	46,329
Other expenses	27	112,548	93,745
Profit before income tax		13,072,000	2,961,742
Income tax expense	28	2,961,203	306,720
Profit for the year		10,110,797	2,655,022
Other comprehensive income (loss)			
Item that will never be reclassified to profit or loss:			
Remeasurements of defined benefit liability, net of tax	18	3,088	105,479
Items that are or may be reclassified to profit or loss:			
Loss on valuation of available-for-sale financial assets, net of tax	11, 22	(10,735)	-
Other comprehensive income (loss) for the year, net of tax		(7,647)	105,479
Total comprehensive income for the year	₩	10,103,150	2,760,501
Earnings per share			
Basic earnings per share (in won)	29	14,321	3,761
Diluted earnings per share (in won)	29	14,320	3,761

See accompanying notes to the separate financial statements.

SK HYNIX, INC.
Separate Statements of Changes in Equity
For the years ended December 31, 2017 and 2016

(In millions of won)

	<i>Note</i>	Capital stock	Capital surplus	Other equity	Other comprehensive accumulated income (loss)	Retained earnings	Total equity
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		-	-	-	-	(353,001)	(353,001)
Capital change due to business combination	23	-	1,548	-	-	-	1,548
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>-</u>	<u>16,022,210</u>	<u>23,091,513</u>
Balance at January 1, 2017		3,657,652	4,183,564	(771,913)	-	16,022,210	23,091,513
Total comprehensive income							
Profit for the year		-	-	-	-	10,110,797	10,110,797
Remeasurements of defined benefit liability, net of tax	18	-	-	-	-	3,088	3,088
Loss on valuation of available-for-sale financial assets, net of tax	11,22	-	-	-	(10,735)	-	(10,735)
Total comprehensive income		-	-	-	(10,735)	10,113,885	10,103,150
Transactions with owners of the Company							
Dividends paid	23	-	-	-	-	(423,601)	(423,601)
Share-based payment transaction	33	-	-	813	-	-	813
Transactions with owners of the Company		-	-	813	-	(423,601)	(422,788)
Balance at December 31, 2017	₩	<u>3,657,652</u>	<u>4,183,564</u>	<u>(771,100)</u>	<u>(10,735)</u>	<u>25,712,494</u>	<u>32,771,875</u>

See accompanying notes to the separate financial statements.

SK HYNIX, INC.

Separate Statements of Cash Flows

For the years ended December 31, 2017 and 2016

(In millions of won)

	Note	2017	2016
Cash flows from operating activities			
Cash generated from operating activities	32 ₩	14,201,277	5,670,892
Interest received		38,564	40,578
Interest paid		(117,278)	(118,272)
Dividends received		17,619	37,862
Income tax paid		(569,595)	(843,561)
Net cash provided by operating activities		13,570,587	4,787,499
Cash flows from investing activities			
Net change in short-term financial instruments		(2,666,481)	326,394
Decrease in other financial instruments		308	-
Collection of loans and other receivables		12,604	62,170
Increase in loans and other receivables		(15,876)	(10,418)
Proceeds from disposal of available-for-sale financial assets		3,431	2,651
Acquisition of available-for-sale financial assets		(24,530)	(15,597)
Cash inflows from derivative transactions		902	1,077
Cash outflows from derivative transactions		(1,201)	(1,525)
Proceeds from disposal of property, plant and equipment		318,376	165,545
Acquisition of property, plant and equipment		(8,290,404)	(5,343,010)
Proceeds from disposal of intangible assets		985	1,585
Acquisition of intangible assets		(765,784)	(515,365)
Receipt of government grants		4,900	133
Decrease (increase) in investments in subsidiaries (MMT), net		698,877	(373,772)
Acquisition of investments in subsidiaries		(490,208)	(5,512)
Acquisition of investments in associates		(113,960)	-
Cash outflows from business combination		-	(4,133)
Net cash used in investing activities	₩	(11,328,061)	(5,709,777)

See accompanying notes to the separate financial statements.

SK HYNIX, INC.
Separate Statements of Cash Flows, Continued
For the years ended December 31, 2017 and 2016

(In millions of won)

	Note	2017	2016
Cash flows from financing activities			
Proceeds from borrowings	32 ₩	685,084	2,080,343
Repayments of borrowings	32	(647,537)	(1,347,311)
Dividends paid		(423,601)	(353,001)
Net cash provided by (used in) financing activities		<u>(386,054)</u>	<u>380,031</u>
Effect of movements in exchange rates on cash and cash equivalents		<u>(63,353)</u>	<u>4,225</u>
Net increase (decrease) in cash and cash equivalents		1,793,119	(538,022)
Cash and cash equivalents at beginning of the year		476,917	1,014,939
Cash and cash equivalents at end of the year	₩	<u><u>2,270,036</u></u>	<u><u>476,917</u></u>

See accompanying notes to the separate financial statements.

SK HYNIX, INC.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

1. Reporting Entity

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

The Company manufactures, distributes and sells semiconductor products and its shares have been listed on the Korea Exchange since 1996. The Company's headquarters is located at 2091 Gyeongchung-daero, Bupal-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, 2017, 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	72,818,475	10.00
Other investors	487,083,320	66.91
Treasury shares	22,000,570	3.02
	<u>728,002,365</u>	<u>100.00</u>

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

SK HYNIX, INC.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

2. Basis of Preparation

The separate financial statements have been 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 1027, 'Separate Financial Statements' presented by a parent, an investor in an associate or a venturer in a joint venture, 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 24, 2018, which will be submitted for approval at the shareholders' meeting to be held on March 28, 2018.

(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
- available-for-sale financial assets are measured at fair value
- assets or 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 classification of leases.

SK HYNIX, INC.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

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 net realizable value of inventories, impairment of development costs and goodwill, recognition and measurement of provisions, measurement of defined benefit obligations, recognition of deferred tax assets.

(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 is included in note 5.

SK HYNIX, INC.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

3. Significant Accounting Policies

The significant accounting policies applied by the Company in these separate financial statements are explained below. Except for the new accounting standards that are effective for annual periods beginning on or after January 1, 2017, 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 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 1027, '*Separate Financial Statements*'. The Company applied the cost method to investments in subsidiaries and associates in accordance with K-IFRS 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.

SK HYNIX, INC.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

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, 2017 and 2016

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, 2017 and 2016

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.

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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
Other intangible assets	4 ~ 10

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, and deferred tax assets, 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.

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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-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).

(16) 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

(16) 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 (asset) comprise of actuarial gains and losses, the return on plan assets excluding amounts included in net interest on the net defined benefit liability (asset), and any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset), 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.

3. Significant Accounting Policies, Continued

(17) 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.

(18) Emissions Rights

The Company accounts for greenhouse gases emission right and the relevant liability as below pursuant to the *Act on Allocation and Trading of Greenhouse Gas Emission*.

(a) Greenhouse Gases Emission Right

Greenhouse Gases Emission Right consists of emission allowances which are allocated from the government free of charge or purchased from the market. The cost includes any directly attributable costs incurred during the normal course of business.

Emission rights held for the purpose of performing the obligation is classified as intangible asset and is initially measured at cost and after initial recognition, are carried at cost less accumulated impairment losses. Emission rights held for short-swing profits are classified as current asset and are measured at fair value with any changes in fair value recognized as profit or loss in the respective reporting period.

The Company derecognizes an emission right asset when the emission allowance is unusable, disposed or submitted to government in which the future economic benefits are no longer expected to be probable.

(b) Emission liability

Emission liability is a present obligation of submitting emission rights to the government with regard to emission of greenhouse gas. Emission liability is recognized when it is probable that outflows of resources will be required to settle the obligation and the costs required to perform the obligation are reliably estimable. Emission liability is an amount of estimated obligations for emission rights to be submitted to the government for the performing period. The emission liability is measured based on the expected quantity of emission for the performing period in excess of emission allowance in possession and the unit price for such emission rights in the market at the end of the reporting period.

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3. Significant Accounting Policies, Continued

(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.

(21) Share-based payment

The Company has granted shares or share options to its employees. For equity-settled share-based payment transactions, the Company measures the goods or services received, and the corresponding increase in equity as a capital adjustment at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the Company cannot reliably estimate the fair value of the goods or services received, the Company measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted. If the fair value of the equity instruments cannot be estimated reliably at the measurement date, the Company measures them at their intrinsic value and recognizes the goods or services received based on the number of equity instruments that ultimately vest.

For cash-settled share-based payment transactions, the Company measures the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the Company remeasures the fair value of the liability at each reporting date and at the date of settlement, with changes in fair value recognized in profit or loss for the period.

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

(22) 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.

(23) 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

(24) 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 a business combination, or 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

(25) 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.

(26) Change in Accounting Policies

The Company adopted the amendments to K-IFRS 1007 'Statement of Cash Flows' in the period beginning January 1, 2017. The amendment requires the Company to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Company has disclosed the reconciliation of the opening and closing balances of liabilities arising from financing activities including changes from financing cash flows; changes arising from obtaining or losing control of subsidiaries or other businesses; the effect of changes in foreign exchange rates; changes in fair values; and other changes in note 32.

(27) Standards issued but not yet effective

The following new standards, amendments to standards are effective for annual periods beginning after January 1, 2017 and earlier application is permitted; however, the Company has not early adopted them in preparing these financial statements.

(a) K-IFRS 1109, *Financial Instruments*

K-IFRS 1109, '*Financial Instruments*' 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.

During the year ended December 31, 2017, the Company assessed the impacts of adoption of K-IFRS 1109 on its financial statements, the accounting system and the internal controls. The potential general impact on its financial statements resulting from the application of new standard are as follows:

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3. Significant Accounting Policies, Continued

(27) Standards issued but not yet effective, Continued

(a) K-IFRS 1109, *Financial Instruments*, Continued

(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.

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 ¹	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, 2017, the Company has loans and receivables amounting to ₩12,128,628 million, available-for-sale financial assets amounting to ₩37,593 million, and financial assets at fair value through profit or loss amounting to ₩580,449 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.

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.

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3. Significant Accounting Policies, Continued

(27) Standards issued but not yet effective, Continued

(a) K-IFRS 1109, *Financial Instruments*, Continued

(i) Classification and measurement of financial assets, Continued

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.

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.

Based on the evaluation to date, the expected impact on classification and measurement on financial assets that existed as of December 31, 2017 resulting from the adoption of the new standard is as follows.

(In millions of won)

	Under K-IFRS 1039	Under K-IFRS 1109	Under K-IFRS 1039	Under K-IFRS 1109
Cash and cash equivalents	Loans and receivables	Amortized cost	₩ 2,270,036	2,270,036
Short-term financial instruments	Financial assets at fair value through profit or loss	FVTPL	580,449	580,449
Short-term financial instruments	Loans and receivables	Amortized cost	4,528,880	4,528,880
Trade receivables	Loans and receivables	Amortized cost	5,259,052	5,259,052
Loans and other receivables	Loans and receivables	Amortized cost	70,649	70,649
Other financial assets	Loans and receivables	Amortized cost	11	11
Available-for-sale financial assets	Available-for-sale financial assets	FVTPL	37,593	37,593
			₩ 12,746,670	12,746,670

(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, 2017, there was no financial liabilities measured at FVTPL.

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3. Significant Accounting Policies, Continued

(27) Standards issued but not yet effective, Continued

(a) K-IFRS 1109, *Financial Instruments*, Continued

(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 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 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, 2017, the Company has financial instruments (loans and receivables) measured at amortized cost amounting to ₩12,130,016 million, and has recognized loss allowances for ₩1,388 million.

Upon adoption of K-IFRS 1109, the Company expects to measure the loss allowance based on the amount of expected credit losses over the entire period for trade receivables, contract assets and lease receivables that have significant financial elements. In addition, the Company plans to use the practical expedient by considering that the financial assets' credit risks had not increased significant from initial recognition through January 1, 2018.

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

(27) Standards issued but not yet effective, Continued

(b) K-IFRS 1115, *Revenue from Contracts from Customers*

K-IFRS 1115 'Revenue from Contracts from Customers' 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 and K-IFRS 2118 Transfers of assets from customers. The Company plans to adopt K-IFRS 1115 in its financial statements for the year beginning on January 1, 2018., and in regards with transition to K-IFRS 1115, the Company has decided to apply the cumulative effect method, i.e. recognizing the cumulative effect of applying K-IFRS 1115 at the date of initial application, which is January 1, 2018, without restatement of the comparative periods presented. In doing so, the Company also decided to apply the practical expedients as allowed by K-IFRS 1115 by applying the new standard only to those contracts that are not considered as completed contracts at the date of initial application.

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 Company established a separate task force team to prepare for the adoption of K-IFRS 1115 during the year ended December 31, 2017. The Company analyzed the revenue transactions of the Company with assistance from external professional accounting advisory firm and IT system service advisors, improved the internal control processes and established the related financial reporting system. As the adoption of K-IFRS 1115 is expected to affect not only the accounting function, but also overall business practices including product sales strategy and business behavior, the Company are in the process of training employees on the changes as a result of the adoption of the new standard. The adoption plan and progress status of the new standard are reported to management on a regular basis. The information of expected impacts upon adoption of K-IFRS 1115 disclosed herein is subject to change as management obtains new information and completes its transition efforts.

3. Significant Accounting Policies, Continued

(27) Standards issued but not yet effective, Continued

(b) K-IFRS 1115, *Revenue from Contracts from Customers*, Continued

(i) Identification of 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), which generates a substantial portion of the revenue.

When applying K-IFRS 1115, ① sales of products and ② delivery of products (i.e. shipping service) are identified as separate performance obligations in the contracts with customers. However, for transactions for which the shipping terms are on delivery basis, which is the Company's most common transaction term, those two performance obligations are not separately identified as the control over the products is transferred upon the completion of delivery. However, for the export transactions for which the shipping terms are on shipment basis ("C-terms") and the customer pays shipping costs or insurance premiums, the two performance obligations are separately accounted for because delivery of products is performed after the control over the products is transferred to the customer. The transaction price allocated to the performance obligation of delivery service will be recognized when the obligation of delivery of the product is completed.

In estimating the financial impact of the Company in connection with the adoption of K-IFRS 1115, the Company's revenue in relation to the performance obligation of delivery of products under C-terms is expected to be deferred, however, the impact is not expected to be material.

(ii) Variable consideration

In general, the Company's contract with customers allows a customer to return the products. Under K-IFRS 1115, the Company initially recognizes revenue which is measured at the gross transaction price, less the expected level of returns using the guidance on estimating variable considerations and the constraint. The expected level of returns is estimated by using the method the Company expects to better predict the amount of consideration to which it will be entitled. Also, 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 recognizes the amounts received or receivable for which the Company does not expect to be entitled as a refund liability.

Based on the evaluation to date, upon adoption of K-IFRS 1115 on January 1, 2018, the Company's provisions are expected to decrease by ~~₩~~45,147 million and Company's other current assets and other current liabilities are expected to increase by ~~₩~~26,183 million and ~~₩~~71,330 million, respectively.

(iii) Allocation of the transaction price to performance obligations

In applying 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 under exceptional cases.

(iv) The adoption of K-IFRS 1115 does not have any impact on the Company's statements of cash flows.

3. Significant Accounting Policies, Continued

(27) Standards issued but not yet effective, Continued

(c) K-IFRS 1116, *Leases*

K-IFRS 1116 'Leases' is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. K-IFRS 1116 replaces existing leases guidance including K-IFRS 1017, *Leases*, K-IFRS 2104, *Determining whether an Arrangement contains a Lease*, K-IFRS 2015, *Operating Leases - Incentives* and K-IFRS 2027, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

K-IFRS 1116 provides a single model where lessee recognize assets and liabilities in relation with lease contract on financial statements. Lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. However, there are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard of K-IFRS 1017.

The Company started initial assessment on the adoption of K-IFRS 1116, however more detailed assessment has not been conducted. The actual financial impact at the date of initial adoption when K-IFRS 1116 is applied is determined by a future economic environments at the date of initial application such as the borrowing interest rate and a portfolio of lease contracts as of January 1, 2019, execution of lease renewal option and coverage in use of a practical expedient and lease recognition exemption and others.

Based on the evaluation to date, the most significant impact identified is that the Company shall recognize assets and liabilities for the warehouses and manufacturing facilities used under an operating lease.

As a result of the adoption of K-IFRS 1116, the nature of costs in relation with leases will be changed as the operating lease expenses previously recognized on a straight-line basis will be changed to depreciation expenses of right-of-use assets and interest expenses of lease liabilities.

Based on the evaluation to date, the Company expects that the application of K-IFRS 1116 does not have a material impact on the Company's ability to comply with debt covenants in relation to borrowings.

(i) Determining whether arrangement contains a lease

There are certain arrangements which are not in the legal form of a lease but determined to contain lease under K-IFRS 2104. In applying K-IFRS 1116, the Company may elect either:

- applying the definition of lease under K-IFRS 1116 for the Company's entire lease contracts; or
- applying a practical expedient that the Company does not reassess whether an arrangement is, or contains, a lease

The Company plans to apply the practical expedient that maintains the definition of lease for the lease contracts existing at the date of initial application. When the practical expedient is applied, leases contracted before January 1, 2019 and identified as a lease under K-IFRS 1017 or K-IFRS 2104 are accounted for by applying K-IFRS 1116 without reassessing whether the contracts satisfy the definition of lease under the new standard.

3. Significant Accounting Policies, Continued

(27) Standards issued but not yet effective, Continued

(c) K-IFRS 1116, *Leases*, Continued

(ii) Transition

As a lessee, the Company can apply the K-IFRS 1116 using either:

- a full retrospective approach; or
- a modified retrospective approach with a practical expedient.

Lessee should apply one of the approach consistently for lessee's entire lease contracts. Modified retrospective approach requires the lessee to recognize the cumulative effect of initial application in retained earnings as of January 1, 2019 and the comparative financial statement will not be restated.

When modified retrospective approach is applied for the lease contracts classified as an operating lease under K-IFRS 1017, lessee may elect the application of various practical expedients for each existing lease contracts at the date of adoption of the standard. The Company is assessing the financial impact when the practical expedient is applied.

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4. Categories of Financial Instruments

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

(In millions of won)

		2017		
		Financial assets at fair value through profit or loss	Available-for- sale financial assets	Loans and receivables
				Total
Cash and cash equivalents	₩	-	-	2,270,036
Short-term financial instruments		580,449	-	4,528,880
Trade receivables		-	-	5,259,052
Loans and other receivables		-	-	70,649
Other financial assets		-	-	11
Available-for-sale financial assets		-	37,593	-
	₩	580,449	37,593	12,128,628

(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
Short-term financial instruments		570,442	-	1,917,500
Trade receivables		-	-	2,896,443
Loans and other receivables		-	-	62,989
Other financial assets		-	-	319
Available-for-sale financial assets		-	143,590	-
	₩	570,442	143,590	5,354,168

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

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

(In millions of won)

		2017	
	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Total
Trade payables	₩ -	1,107,029	1,107,029
Other payables	-	2,642,022	2,642,022
Other non-trade payables ¹	-	1,209,214	1,209,214
Borrowings	-	4,029,356	4,029,356
	₩ -	8,987,621	8,987,621

(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

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

(In millions of won)

	2017	2016
Current		
Accrued expenses	₩ 1,204,808	583,984
Non-current		
Rent deposits payable	4,406	2,928
Long-term other payables	-	24,712
	4,406	27,640
	₩ 1,209,214	611,624

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, 2017 and 2016 are as follows:

(a) Profit or loss

(In millions of won)

	2017	2016
Loans and receivables		
Interest income	₩ 49,700	32,264
Foreign exchange differences	(615,109)	144,083
Reversal of impairment	1,452	6,129
	<u>(563,957)</u>	<u>182,476</u>
Available-for-sale financial assets		
Dividend income	-	18
Gain on disposal	30,920	-
	<u>30,920</u>	<u>18</u>
Financial assets at fair value through profit or loss		
Gain on valuation	449	442
Gain on disposal	7,318	5,789
	<u>7,767</u>	<u>6,231</u>
Financial liabilities measured at amortized cost		
Interest expenses	(120,624)	(113,268)
Foreign exchange differences	396,927	(110,380)
	<u>276,303</u>	<u>(223,648)</u>
Financial liabilities at fair value through profit or loss		
Gain on valuation from derivative instruments	-	395
Loss on transaction from derivative instruments	(11)	(448)
	<u>(11)</u>	<u>(53)</u>
	<u>₩ (248,978)</u>	<u>(34,976)</u>

(b) Other comprehensive income

(In millions of won)

	2017	2016
Loss on valuation of available-for-sale financial assets, net of tax	₩ (10,735)	-

SK HYNIX, INC.
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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 foreign exchange 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.

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, 2017 are as follows:

(In millions of won and millions of foreign currencies)

	Assets		Liabilities	
	Foreign currencies	Korean won equivalent	Foreign currencies	Korean won equivalent
USD	8,627	9,242,899	3,030	3,246,790
EUR	-	580	72	92,656
JPY	1,634	15,508	58,598	556,155

As of December 31, 2017, the impacts from foreign exchange risks on each monetary foreign currency assets and liabilities assuming change in exchange rate by 10% are as follows:

(In millions of won)

	If increased by 10%	If decreased by 10%
USD	₩ 599,611	(599,611)
EUR	(9,208)	9,208
JPY	(54,065)	54,065

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.

As of December 31, 2017, 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 ₩19,178 million (2016: ₩21,068 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings and interest income on floating rate financial assets.

(iii) Price risk

The Company invests in equity and debt securities resulted from its business needs and the purpose of liquidity management. The Company's equity and debt securities are exposed to price risk as of December 31, 2017.

(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, 2017 is the carrying amount of trade and other receivables.

(ii) Other financial assets

Credit risk also arises from other financial assets such as cash and cash equivalents; short-term financial instruments; and deposits with banks and financial institutions as well as short-term and long-term loans mainly due to the bankruptcy of each counterparty to those financial assets. The maximum exposure to credit risk as of December 31, 2017 is the carrying amount of those financial assets. The Company transacts only with banks and financial institutions with high credit ratings, and accordingly management does not expect any significant loss from non-performance by the counterparties.

SK HYNIX, INC.

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5. Financial Risk Management, Continued

(c) Liquidity risk

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

The Company invests surplus cash in interest-bearing current accounts, time deposits and demand deposits, 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, 2017 and 2016 are as follows:

(In millions of won)

		2017				
		Less than 1 year	1 - 2 years	2 - 5 years	More than 5 years	Total
Borrowings (other than finance lease liabilities)	₩	732,770	1,155,876	2,247,391	80,505	4,216,542
Finance lease liabilities		10,379	10,379	31,137	34,748	86,643
Trade payables		1,107,029	-	-	-	1,107,029
Other payables		2,642,360	-	-	-	2,642,360
Other non-trade payables		1,182,008	-	4,406	-	1,186,414
Financial guarantee contract		8	-	-	-	8
	₩	<u>5,674,554</u>	<u>1,166,255</u>	<u>2,282,934</u>	<u>115,253</u>	<u>9,238,996</u>

(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
	₩	<u>4,019,778</u>	<u>676,054</u>	<u>2,872,196</u>	<u>254,287</u>	<u>7,822,315</u>

SK HYNIX, INC.
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5. Financial Risk Management, Continued

The table above analyzes the Company's non-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 include estimated interest payments.

(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, proceeds and repayments of borrowings, issue new shares or sell assets to reduce debt.

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

(In millions of won)

	2017	2016
Total liabilities (A)	₩ 11,540,971	8,307,580
Total equity (B)	32,771,875	23,091,513
Cash and cash equivalents and short-term financial instruments (C)	7,379,365	2,964,859
Total borrowings (D)	4,029,356	4,215,787
Debt-to-equity ratio (A/B)	35.22%	35.98%
Net borrowing ratio (D-C)/B ¹	-	5.42%

¹ Does not present net borrowing ratio as of December 31, 2017 as the ratio was calculated as negative.

SK HYNIX, INC.
Notes to the Separate Financial Statements
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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, 2017 and 2016:

(In millions of won)

		2017			
	Carrying amounts	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Short-term financial instruments	₩ 580,449	-	580,449	-	580,449
Available-for-sale financial assets	10,253	-	-	10,253	10,253
	590,702	-	580,449	10,253	590,702
Financial assets not measured at fair value					
Cash and cash equivalents ¹	2,270,036	-	-	-	-
Short-term financial instruments ¹	4,528,880	-	-	-	-
Trade receivables ¹	5,259,052	-	-	-	-
Loans and other receivables ¹	70,649	-	-	-	-
Other financial assets ¹	11	-	-	-	-
Available-for-sale financial assets ^{1,2}	27,340	-	-	-	-
	12,155,968	-	-	-	-
Financial liabilities not measured at fair value					
Trade payables ¹	1,107,029	-	-	-	-
Other payables ¹	2,642,022	-	-	-	-
Other non-trade payables ¹	1,209,214	-	-	-	-
Borrowings	4,029,356	-	4,037,013	-	4,037,013
	₩ 8,987,621	-	4,037,013	-	4,037,013

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5. Financial Risk Management, Continued

(In millions of won)

	Carrying amounts	2016			
		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Short-term financial instruments	₩ 570,442	-	570,442	-	570,442
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
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>

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 K-IFRS 1039, 'Financial Instrument: Recognition and Measurement' as fair values of such equity instruments cannot be reliably measured using other valuation techniques.

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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	₩ 580,449	2	The present value method
Available-for-sale financial assets:			
Available-for-sale equity instruments	10,253	3	The binomial model and others

(c) There was no transfer between fair value hierarchy levels for the year ended December 31, 2017 and the changes in financial assets classified as level 3 fair value measurements during the year ended December 31, 2017 are as follows:

(In millions of won)

	<u>Beginnig Balance</u>	<u>Transfers</u>	<u>Acquisition</u>	<u>Disposals</u>	<u>Other Comprehensive Income</u>	<u>Ending Balance</u>
Available-for-sale financial assets	₩ -	21,690	3,392	(22)	(14,807)	10,253

6. Restricted Financial Instruments

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

(In millions of won)

	<u>2017</u>	<u>2016</u>	<u>Description</u>
Short-term financial instruments	₩ 227,500	77,500	Restricted for supporting small businesses
Other financial assets	-	308	Pledged for borrowings of childcare facilities
	11	11	Bank overdraft guarantee deposit
	<u>11</u>	<u>319</u>	
	₩ <u>227,511</u>	<u>77,819</u>	

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7. Trade Receivables and Loans and Other Receivables

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

(In millions of won)

		2017	2016
Current			
Other receivables	₩	15,348	22,402
Accrued income		20,630	9,494
Short-term loans		5,071	235
		<u>41,049</u>	<u>32,131</u>
Non-current			
Long-term loans		2,160	1,915
Guarantee deposits		27,440	28,943
		<u>29,600</u>	<u>30,858</u>
	₩	<u>70,649</u>	<u>62,989</u>

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

(In millions of won)

		2017	
	Gross Amount	Provision for impairment	Carrying amount
Trade receivables	₩ 5,259,052	-	5,259,052
Current loans and other receivables	42,335	(1,286)	41,049
Non-current loans and other receivables	29,702	(102)	29,600
	₩ <u>5,331,089</u>	<u>(1,388)</u>	<u>5,329,701</u>

(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>

SK HYNIX, INC.
Notes to the Separate Financial Statements
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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, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Beginning balance	₩ 1,069	2,398
Reversal	(1,069)	(1,329)
Ending balance	₩ -	1,069

Movements in the provision for impairment of current loans and other receivables for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Beginning balance	₩ 1,371	36,294
Reversal	(85)	(62)
Receivables written off during the period as uncollectible	-	(34,861)
Ending balance	₩ 1,286	1,371

Movements in the provision for impairment of non-current loans and other receivables for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Beginning balance	₩ 399	5,138
Provision	-	15
Reversal	(297)	(4,754)
Ending balance	₩ 102	399

SK HYNIX, INC.
Notes to the Separate Financial Statements
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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, 2017 and 2016 are as follows:

(In millions of won)

		2017					
		Not impaired				Impaired	Total
		Overdue					
		Not past due	Less than 3 months	Over 3 months and less than 6 months			
				Over 6 months			
Trade receivables	₩	5,257,491	1,560	-	1	-	5,259,052
Current loans and other receivables		41,049	-	-	-	1,286	42,335
Non-current loans and other receivables		29,600	-	-	-	102	29,702
	₩	5,328,140	1,560	-	1	1,388	5,331,089

(In millions of won)

(In millions of won)

		2016					
		Not impaired				Impaired	Total
		Overdue					
		Not past due	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

SK HYNIX, INC.
Notes to the Separate Financial Statements
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8. Inventories

(1) Details of inventories as of December 31, 2017 and 2016 are as follows:

(In millions of won)

		2017	
	Acquisition Cost	Inventory valuation allowance	Carrying amount
Finished goods	₩ 520,895	(105,601)	415,294
Work-in-process	1,432,927	(29,096)	1,403,831
Raw materials	251,791	(25,960)	225,831
Supplies	176,006	(7,040)	168,966
Goods in transit	10,818	-	10,818
	₩ 2,392,437	(167,697)	2,224,740

(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

(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)

	2017	2016
Inventories recognized as cost of sales	₩ 12,906,368	10,847,364
Loss on (reversal of) valuation allowance of inventories	107,047	(102,147)

SK HYNIX, INC.
Notes to the Separate Financial Statements
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9. Other Current and Non-current Assets

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

(In millions of won)

	2017	2016
Current		
Advance payments	₩ 33,859	427
Prepaid expenses	205,823	223,465
Value added tax refundable	191,996	107,341
Others	3,046	9,912
	<u>434,724</u>	<u>341,145</u>
Non-current		
Long-term advance payments	183,489	-
Long-term prepaid expenses	551,597	567,522
Others	-	1,495
	<u>735,086</u>	<u>569,017</u>
	<u>₩ 1,169,810</u>	<u>910,162</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, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Investments in subsidiaries	₩ 4,426,309	4,493,260
Investments in associates and joint ventures	351,971	94,802
	₩ 4,778,280	4,588,062

(2) Details of investments in subsidiaries as of December 31, 2017 and 2016 are as follows:

(In millions of won)

	Location	Percentage of ownership (%) in 2017	Book value	
			2017	2016
SK hyeng Inc.	Korea	100.00	₩ 7,521	7,521
SK hystec Inc.	Korea	100.00	6,760	6,760
Siliconfile Technologies Inc.	Korea	100.00	30,756	30,756
Happymore Inc.	Korea	100.00	7,400	3,000
SK hynix system ic Inc. ¹	Korea	100.00	290,172	-
SK hynix America Inc. (SKHYA)	U.S.A.	97.74	31	31
SK hynix Deutschland GmbH (SKHYD)	Germany	100.00	22,011	22,011
SK hynix Asia Pte. Ltd. (SKHYS)	Singapore	100.00	52,380	52,380
SK hynix Semiconductor Hong Kong Ltd. (SKHYH)	Hong Kong	100.00	32,623	32,623
SK hynix U.K. Ltd. (SKHYU)	U.K.	100.00	1,775	1,775
SK hynix Semiconductor Taiwan Inc. (SKHYT)	Taiwan	100.00	37,562	37,562
SK hynix Japan Inc. (SKHYJ)	Japan	100.00	42,905	42,905
SK hynix Semiconductor (Shanghai) Co., Ltd. (SKHYCS)	China	100.00	4,938	4,032
SK hynix Semiconductor India Pvt. Ltd. (SKHYIS) ²	India	1.00	5	5
SK hynix (Wuxi) Semiconductor Sales Ltd. (SKHYCW)	China	100.00	237	237
SK hynix Semiconductor (China) Ltd. (SKHYCL)	China	90.26	2,847,911	2,520,881
SK hynix Semiconductor (Wuxi) Ltd. (SKHYMC)	China	100.00	238,271	238,271
SK hynix Semiconductor (Chongqing) Ltd. (SKHYCQL) ³	China	-	-	-
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
Softeq Flash Solutions LLC. (SOFTEQ)	Belarus	99.90	14,579	14,579
SK APTECH Ltd. (SKAPTECH)	Hong Kong	100.00	166,299	166,299
SK hynix Ventures Hong Kong Ltd. (SKH Ventures)	Hong Kong	100.00	3,053	2,512
MMT (Money Market Trust) ⁴	Korea	100.00	300,000	990,000
			₩ 4,426,309	4,493,260

¹ SK hynix system ic Inc. was established during the year period ended December 31, 2017.

² Subsidiary of SK hynix Asia Pte. Ltd.

³ Subsidiary of SK APTECH Ltd.

⁴ The Company disposed all existing MMT and acquired new MMT during the year ended December 31, 2017.

SK HYNIX, INC.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

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

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

(In millions of won)

Type	Investee	Ownership (%) in 2017	Carrying amount	
			2017	2016
Associate	Stratio, Inc. ¹	9.12	₩ 2,194	2,194
	SK China Company Limited ^{1, 2}	11.87	257,169	-
Joint venture	HITECH Semiconductor	45.00	92,608	92,608
	(Wuxi) Co., Ltd. (HITECH)		₩ 351,971	94,802

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

² During the year ended December 31, 2017, the Company acquired shares of SK China Company Limited through a combination of contribution in kind of available-for-sale financial assets for which the fair value amounted to ₩143,209 million as of acquisition date and cash in the amount of ₩113,960 million.

SK HYNIX, INC.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

11. Available-for-sale Financial Assets

(1) Details of available-for-sale financial assets as of December 31, 2017 and 2016 are as follows:

(In millions of won)

	Ownership (%)/ Type	2017	Book value	2016
		Acquisition cost		Book value
ProMOS	7.93 ₩	21,847	-	-
JNT Frontier Private Equity Unit	Certificate	684	684	971
SV M&A No.1 Equity Unit	Certificate	-	-	805
Daishin Aju IB Investment Co., Ltd. Equity Unit	Certificate	483	483	483
Seoul Investment Early & Green Venture Fund	Certificate	1,513	1,513	1,648
TS 2011-4 Technology Transfer & Business Equity Unit	Certificate	318	318	566
IMM Investment Equity Unit	-	-	-	224
L&S Venture Capital Equity Unit	Certificate	1,170	1,170	1,170
KTC-NP-Growth Equity Unit	Certificate	2,155	2,155	2,956
Semiconductor Growth Fund	Certificate	17,250	17,250	-
Intellectual Discovery, Ltd.	7.05	4,000	1,699	4,000
SKY Property Mgmt. Ltd. ¹	-	-	-	112,360
China Walden Venture Investments II	Certificate	7,312	6,116	6,188
Exnodes Inc.	Convertible Bond	716	716	716
Netspeed	6.07	3,083	558	3,083
Keyssa, Inc.	2.29	6,174	832	6,174
MEMS DRIVE, INC.	2.94	2,246	844	2,246
AutoTech Fund I, LP	Certificate	1,444	1,444	-
RENO SUB-SYSTEM, INC.	2.68	2,246	204	-
IMEC.XPAND COMM.VA	Certificate	1,607	1,607	-
	₩	74,248	37,593	143,590

¹ The Company acquired shares in SK China Company Limited through the contribution in kind of available-for-sale financial assets (SKY Property Mgmt. Ltd.) with the book value of ₩112,360. The Company recognized a gain on disposal of available-for-sale financial assets amounted to ₩30,849 million during the year ended December 31, 2017.

(2) Changes in the carrying amount of available-for-sale financial assets for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Beginning balance	₩ 143,590	130,645
Acquisition	24,530	15,596
Disposal	(115,720)	(2,651)
Loss on valuation	(14,807)	-
Ending balance	₩ 37,593	143,590

SK HYNIX, INC.
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December 31, 2017 and 2016

12. Property, Plant and Equipment

(1) Changes in property, plant and equipment for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

		2017						
		Land	Buildings	Structures	Machinery	Vehicles	Others	Construction-in-progress
Beginning net book amount	₩	571,924	2,260,102	315,476	11,083,284	918	351,223	1,488,354
Changes during 2017								
Acquisition		7,677	196,675	258,856	6,110,034	55	136,294	2,665,669
Disposals		(2,220)	-	(2,962)	(244,054)	-	(101)	(46,690)
Depreciation		-	(98,027)	(33,644)	(3,517,102)	(312)	(123,237)	-
Transfers		496	330,103	107,663	852,420	-	5,674	(1,296,356)
Others		-	-	-	(46,643)	-	(401)	(8,205)
Ending net book amount		577,877	2,688,853	645,389	14,237,939	661	369,452	2,802,772
Acquisition cost		577,877	3,425,917	980,859	37,131,679	1,920	1,026,747	2,802,772
Accumulated depreciation		-	(713,365)	(316,366)	(22,727,928)	(1,259)	(657,270)	-
Accumulated impairment		-	(23,699)	(19,104)	(161,305)	-	(25)	-
Government grants		-	-	-	(4,507)	-	-	-
	₩	577,877	2,688,853	645,389	14,237,939	661	369,452	2,802,772

SK HYNIX, INC.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

12. Property, Plant and Equipment, Continued

(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									
Acquisition		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

(2) Details of depreciation expense allocation for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

		2017	2016
Cost of sales	₩	3,395,214	2,917,183
Selling and administrative expenses		268,982	256,635
Other expenses		2,661	1,208
Development costs and other		105,465	54,294
	₩	<u>3,772,322</u>	<u>3,229,320</u>

(3) Certain property, plant and equipment are pledged as collaterals for borrowings of the Company as of December 31, 2017 (see note 31).

(4) The Company capitalized borrowing costs amounting to ₩3,964 million (2016: ₩14,663 million) on qualifying assets for the year ended December 31, 2017. Borrowing costs were calculated using a capitalization rate of 1.53% (2016: 3.59%) for the year ended December 31, 2017.

SK HYNIX, INC.
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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 others under finance lease agreements.

The book value of the machinery and others subject to finance lease agreement amounted to ₩77,434 million as of December 31, 2017 (as of December 31, 2016: ₩67,245 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 ₩35,244 million as of December 31, 2017. (as of December 31, 2016: ₩40,219 million).

The Company leases certain machinery and others from Macquarie Capital under operating lease agreements. The payment schedule of minimum lease payments under operating lease agreements as of December 31, 2017 is as follows:

(In millions of won)

	Minimum lease payments
No later than 1 year	₩ 161,704
Later than 1 year	190,804
	<u>₩ 352,508</u>

(6) Details of insured assets as of December 31, 2017 is as follows:

(In millions of won)

	Insured assets	Insured amount	Insurance company
Package insurance	Property, plant and equipment; investment property; Inventories; and business interruption	₩ 53,360,200	Hyundai Marine & Fire Insurance Co., Ltd. and others
Erection all risks insurance	Property, plant and equipment	8,912,280	
		<u>₩ 62,272,480</u>	

In addition to the assets stated above, vehicles 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, 2017 and 2016 are as follows:

(In millions of won)

		2017				
		Goodwill	Industrial property rights	Development costs	Others	Total
Beginning net book amount	₩	419,046	98,929	629,882	398,876	1,546,733
Changes during 2017						
Internal development		-	-	511,647	-	511,647
Separate acquisition		-	26,536	-	227,601	254,137
Disposals		-	(4,847)	-	(984)	(5,831)
Amortization		-	(15,776)	(259,279)	(112,712)	(387,767)
Impairment		-	-	-	(383)	(383)
Others		-	(277)	-	-	(277)
Ending net book amount		<u>419,046</u>	<u>104,565</u>	<u>882,250</u>	<u>512,398</u>	<u>1,918,259</u>
Acquisition cost		419,046	184,425	1,986,970	784,766	3,375,207
Accumulated amortization and impairment		-	(79,860)	(1,104,720)	(272,368)	(1,456,948)
	₩	<u>419,046</u>	<u>104,565</u>	<u>882,250</u>	<u>512,398</u>	<u>1,918,259</u>

(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)
Amortization		-	(14,397)	(204,379)	(78,828)	(297,604)
Impairment		-	-	-	(98)	(98)
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. is included.

SK HYNIX, INC.
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13. Intangible Assets, Continued

(2) The details of amortization of intangible assets during the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Cost of Sales	₩ 38,423	23,773
Selling and Administrative Expenses	348,481	273,455
Development costs and other	863	376
	₩ <u>387,767</u>	<u>297,604</u>

(3) 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, 2017. No impairment loss of goodwill was recognized since the recoverable amount is higher than carrying value of the CGU as of December 31, 2017.

(4) Details of development cost

(a) Detailed criteria for capitalization of development costs

The Company's development projects for a new product proceeds in the process of review and planning phases (Phase 0 ~ 4) and product design and mass production phases (Phase 5 ~ 8). The Company recognizes expenditures incurred after Phase 4 in relation with the development for new technology is recognized as an intangible asset. Expenditures incurred at phase 0 through 4 are recognized as expenses.

(b) Development cost capitalized and expenses on research and development

Among costs associated with development activities, ₩511,647 million (2016: ₩352,023 million) that met capitalization criteria, were capitalized as development cost for the year ended December 31, 2017. In addition, costs associated with research activities and other development expenditures that did not meet the criteria in the amount of ₩1,992,157 million (2016: ₩1,770,839 million) were recognized as expenses for the year ended December 31, 2017.

(c) Details of development costs as of December 31, 2017 and 2016 are as follows:

(In millions of won)

		2017	
	Individual Asset	Book value	Residual amortization period
DRAM	1xnm B	₩ 305,848	19 months
	1xynm ¹	192,260	-
NAND	F14	3,990	4 months
	3D(48)	42,343	9 months
	3D(72)	111,164	18 months
	3D(96) ¹	186,488	-
	3D(128) ¹	8,635	-
CIS	Hi-1332	2,520	9 months
	Hi-1333 ¹	7,695	-
	Hi-1336 ¹	7,235	-
	Hi-1221 ¹	3,431	-
	Hi-1631 ¹	10,641	-
		₩ <u>882,250</u>	

¹ Amortization has not started as of December 31, 2017

SK HYNIX, INC.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

13. Intangible Assets, Continued

(In millions of won)

		2016	
	Individual Asset	Book value	Residual amortization period
DRAM	1xnm A	₩ 45,967	7 months
	1xnm B ¹	279,531	-
	1xynm ¹	20,399	-
NAND	3D(36) A	14,566	10 months
	3D(36) B	8,554	10 months
	F14	15,960	16 months
	3D(48)	98,800	21 months
	3D(72) ¹	109,479	-
	3D(96) ¹	27,099	-
CIS	Hi-842	91	5 months
	Hi-1331	774	5 months
	Hi-1332	5,880	21 months
	Hi-1333 ¹	1,956	-
	Hi-1221 ¹	826	-
		₩ 629,882	

¹ Amortization has not started as of December 31, 2016

(d) There are no impairment losses and reversals of impairment in development costs recognized for the years ended December 31, 2017 and 2016, and there are no accumulated impairment losses in development costs recognized as of December 31, 2017 and 2016.

SK HYNIX, INC.
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14. Investment Property

(1) Details of changes in investment property for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Beginning balance	₩ 2,573	2,679
Depreciation	(105)	(106)
Ending balance	<u>2,468</u>	<u>2,573</u>
Acquisition cost	5,170	5,170
Accumulated depreciation	(2,702)	(2,597)
	₩ <u>2,468</u>	<u>2,573</u>

(2) The depreciation expense of ₩105 million was charged to cost of sales for the year ended December 31, 2017 (2016: ₩106 million).

(3) Rental income from investment property for the year ended December 31, 2017 was ₩495 million (2016: ₩500 million).

SK HYNIX, INC.
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15. Borrowings

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

(In millions of won)

		2017	2016
Current			
Short-term borrowings	₩	107,140	-
Current portion of long-term borrowings		307,792	324,029
Current portion of debentures		219,836	320,736
		<u>634,768</u>	<u>644,765</u>
Non-current			
Long-term borrowings		2,077,431	2,035,641
Debentures		1,317,157	1,535,381
		<u>3,394,588</u>	<u>3,571,022</u>
	₩	<u>4,029,356</u>	<u>4,215,787</u>

(2) Details of short-term borrowings as of December 31, 2017 and 2016 are as follows:

(In millions of won)

	Financial institutions	Interest rate per annum in 2017 (%)	2017	2016
General borrowings	Export-Import Bank of Korea	3M LIBOR + 0.73	₩ 107,140	-

SK HYNIX, INC.
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15. Borrowings, Continued

(3) Details of long-term borrowings as of December 31, 2017 and 2016 are as follows:

(In millions of won)

	Financial institutions	Interest rate per annum in 2017 (%) ¹	2017	2016
Local currency borrowings:				
Borrowings for childcare facilities	NongHyup Bank	-	₩ -	62
Funds for equipment	Korea Development Bank	-	-	83,333
	KEB Hana Bank	-	-	30,000
	Korea Development Bank	2.02~2.50	500,000	200,000
Finance lease liabilities	Hansu Technical Service Ltd.	3.70	74,557	38,948
	ME Semiconductor Rental First L.L.C.	-	-	8,688
			574,557	361,031
Foreign currency borrowings:				
General borrowings	Export-Import Bank of Korea	3M LIBOR + 1.00~1.40	910,690	825,808
	Woori Bank	3M LIBOR + 1.20	107,140	120,850
		3M LIBOR + 0.98	160,710	181,275
Funds for equipment	Korea Development Bank	3M LIBOR + 1.15	107,140	120,850
		3M LIBOR + 0.95	160,710	181,275
		3M LIBOR + 1.25	214,280	241,700
	KEB Hana Bank	3M LIBOR + 1.23	85,712	96,680
	NongHyup Bank	3M LIBOR + 1.33	64,284	96,680
Finance lease liabilities		-	-	120,850
	Goodmemory First L.L.C.	-	-	12,671
			1,810,666	1,998,639
			2,385,223	2,359,670
Less: Current maturities			(307,792)	(324,430)
			₩ 2,077,431	2,035,641

¹ As of December 31, 2017, the benchmark interest rates are as follows:

Type	Interest rate per annum as of December 31, 2017
3M LIBOR	1.69%

SK HYNIX, INC.
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15. Borrowings, Continued

(4) Details of debentures as of December 31, 2017 and 2016 are as follows:

(In millions of won)

	Maturity date	Interest rate per annum in 2017 (%)		2017	2016
Unsecured notes in local currency:					
212th	May 30, 2019	5.35	₩	450,000	450,000
213th	Sep. 4, 2017	-		-	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	70,000
216-2nd	Feb. 19, 2021	2.22		180,000	180,000
216-3rd	Feb. 19, 2023	2.53		80,000	80,000
217-1st	May 27, 2018	1.73		80,000	80,000
217-2nd	May 27, 2021	2.30		150,000	150,000
Secured notes in foreign currency:					
Foreign 8th	Jun. 20, 2017	-		-	120,850
				1,540,000	1,860,850
Less: Discounts on debentures				(3,007)	(4,733)
Current portion				(219,836)	(320,736)
			₩	<u>1,317,157</u>	<u>1,535,381</u>

SK HYNIX, INC.
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15. Borrowings, Continued

(5) 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, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Total minimum lease payment		
No later than 1 year	₩ 10,379	27,043
Between 1 and 5 years	41,516	21,400
Later than 5 years	34,748	18,725
	<u>86,643</u>	<u>67,168</u>
Discount on present value	<u>(12,086)</u>	<u>(6,861)</u>
Net minimum lease payment		
No later than 1 year	10,177	26,603
Between 1 and 5 years	37,204	19,136
Later than 5 years	27,176	14,568
	<u>₩ 74,557</u>	<u>60,307</u>

16. Other Current and Non-current Liabilities

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

(In millions of won)

	2017	2016
Current		
Advance receipts	₩ 196	217
Unearned income	81	228
Withholdings	29,767	33,572
Deposits received	19	718
	<u>30,063</u>	<u>34,735</u>
Non-current		
Other long-term employee benefits	60,863	59,304
Long-term advance receipts	4,900	-
	<u>₩ 65,763</u>	<u>59,304</u>

SK HYNIX, INC.
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17. Provisions

(1) Details of changes in provisions for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

2017					
	Beginning balance	Increase	Utilization	Reversal	Ending balance
Purchase commitments	₩ 163	7,153	-	-	7,316
Warranty	2,988	1,030	(255)	-	3,763
Sales returns	16,346	160,927	(132,125)	-	45,148
Legal claims	400	9,460	(400)	-	9,460
Emission allowances	26,108	11,999	(695)	-	37,412
	₩ 46,005	190,569	(133,475)	-	103,099

(In millions of won)

2016					
	Beginning balance	Increase	Utilization	Reversal	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)	(426)	400
Emission allowances	6,081	21,366	(1,339)	-	26,108
	₩ 31,953	87,572	(73,094)	(426)	46,005

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. (SKHYCL). For the work-in-process that will be purchased from the subsidiary, the Company records 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, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Present value of defined benefit obligations	₩ 1,285,003	1,157,053
Fair value of plan assets	(1,298,388)	(859,100)
Net defined benefit liabilities (assets)	₩ (13,385)	297,953
Defined benefit liabilities	₩ -	297,953
Defined benefit assets ¹	13,385	-

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

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

	2017 (%)	2016 (%)
Discount rate for defined benefit obligations	4.31	4.00
Expected rate of salary increase	5.46	5.48

(3) Weighted average durations of defined benefit obligations as of December 31, 2017 and 2016 are 11.48 and 12.10 years, respectively.

(4) Changes in defined benefit obligations for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Beginning balance	₩ 1,157,053	1,020,198
Current service cost	150,850	153,576
Past service cost	-	31,608
Interest cost	45,426	39,871
Transferred from (to) associates	(2,059)	(1,885)
Remeasurements:	(23,238)	(45,829)
Demographic assumption	-	-
Financial assumption	(44,898)	6,079
Adjustment based on experience	21,660	(51,908)
Benefits paid	(43,029)	(40,486)
Ending balance	₩ 1,285,003	1,157,053

SK HYNIX, INC.
Notes to the Separate Financial Statements
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18. Defined Benefit Liabilities, Continued

(5) Changes in plan assets for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Beginning balance	₩ 859,100	547,708
Contributions	450,000	320,000
Interest income	33,842	19,519
Transferred from (to) associates	326	(1,320)
Benefits paid	(25,902)	(17,961)
Remeasurements	(18,978)	(8,846)
Ending balance	₩ 1,298,388	859,100

(6) The amounts recognized in profit or loss for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Current service cost	₩ 150,850	153,576
Past service cost	-	31,608
Net interest cost	11,584	20,352
	₩ 162,434	205,536

(7) The accounts in which defined benefit plan related expenses are included for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Cost of sales	₩ 90,029	118,417
Selling and administrative expenses	72,405	87,119
	₩ 162,434	205,536

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

(In millions of won)

	2017	2016
Deposits	₩ 1,297,024	857,615
Other	1,364	1,485
	₩ 1,298,388	859,100

Actual return on plan assets for the years ended December 31, 2017 and 2016 amounted to ₩14,864 million and ₩10,673 million, respectively.

SK HYNIX, INC.
Notes to the Separate Financial Statements
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18. Defined Benefit Liabilities, Continued

(9) As of December 31, 2017, 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, 2018 is ~~₩~~250,000 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, 2017 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%)	₩ (130,602)	153,354
Expected salary increase rate (if changed by 1%)	153,938	(133,390)

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.

(11) Information about the maturity profile of the defined benefit obligation as of December 31, 2017 is as follows:

(In millions of won)

	2017				
	Less than 1 year	1 - 5 years	5 - 10 years	10 - 20 years	Total
Benefits paid	₩ 42,173	302,075	750,906	2,833,574	3,928,728

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) Contributions to defined contribution plans amounting to ~~₩~~70 million (2016: ~~₩~~12 million) was recognized as cost of sales for the year ended December 31, 2017.

SK HYNIX, INC.
Notes to the Separate Financial Statements
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19. Deferred income tax

(1) Changes in deferred income tax assets and liabilities for the years ended December 31, 2017 and 2016, are as follows:

(In millions of won)

	2017			
	January 1, 2017	Profit or loss	Equity	December 31, 2017
Loss on valuation of inventories	₩ 15,992	31,293	-	47,285
Accumulated depreciation	19,870	(4,280)	-	15,590
Defined benefits liabilities, net	59,370	(58,199)	(1,171)	-
Available-for-sale financial assets	34,441	4,802	4,072	43,315
Employee benefits	27,797	5,474	-	33,271
Provisions	36,309	2,129	-	38,438
Advanced depreciation provision	(55,666)	(7,553)	-	(63,219)
Others	22,380	(769)	-	21,611
Deferred tax assets for temporary differences, net	160,493	(27,103)	2,901	136,291
Tax credit carryforwards recognized	352,866	(352,866)	-	-
Deferred tax assets recognized	₩ 513,359	(379,969)	2,901	136,291

SK HYNIX, INC.
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19. Deferred Income Tax, Continued

(In millions of won)

2016				
	January 1, 2016	Profit or loss	Equity	December 31, 2016
Loss on valuation of inventories	₩ 39,827	(23,835)	-	15,992
Accumulated depreciation	5,707	14,163	-	19,870
Defined benefits liabilities, net	15,316	(24,442)	68,496	59,370
Available-for-sale financial assets	34,427	14	-	34,441
Employee benefits	4,082	23,715	-	27,797
Provisions	21,702	14,607	-	36,309
Advanced depreciation provision	(55,666)	-	-	(55,666)
Others	(441)	22,821	-	22,380
Deferred tax assets for temporary differences, net	64,954	27,043	68,496	160,493
Tax credit carryforwards recognized	123,037	229,829	-	352,866
Deferred tax assets recognized	₩ 187,991	256,872	68,496	513,359

(2) As of December 31, 2017, the deductible temporary differences that are not recognized as deferred tax assets (liabilities) are as follows:

(In millions of won)

	2017	2016
Investments in subsidiaries, associates, and joint ventures and others	₩ 1,543,180	1,567,088

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, 2017 and 2016 are as follows:

(In millions of won)

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

(2) Details of gains and losses from derivative instruments for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

		<u>2017</u>			
		<u>Gain on valuation</u>	<u>Loss on valuation</u>	<u>Gain on transaction</u>	<u>Loss on transaction</u>
Interest rates swap	₩	-	-	902	913

(In millions of won)

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

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21. Capital Stock, Capital Surplus and Other Equity

(1) The Company has 9,000,000,000 authorized shares and the face value per share is ₩5,000 as of December 31, 2017. Details of the number of shares issued, common stock, capital surplus and other equity as of December 31, 2017 and 2016 are as follows:

(In millions of won and thousands of shares)

	2017	2016
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	557,767
	<u>4,183,564</u>	<u>4,183,564</u>
Other equity:		
Acquisition cost of treasury shares	(771,913)	(771,913)
Stock option	813	-
	<u>₩ (771,100)</u>	<u>(771,913)</u>
Number of treasury shares	<u>22,001</u>	<u>22,001</u>

¹ As of December 31, 2017, the number of outstanding shares is 728,002 thousand shares, which differs from total issued shares due to the effect of stock retirement.

(2) There are no changes in number of outstanding shares during the year ended December 31, 2017 and 2016.

22. Accumulated other comprehensive income

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

(In millions of won)

	2017	2016
Loss on valuation of available-for-sale financial assets	₩ (10,735)	-

(2) Changes in accumulated other comprehensive income are as follows:

(In millions of won)

		2017	
	Beginning	Change	Ending
Loss on valuation of available-for-sale financial assets	₩ -	(10,735)	(10,735)

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Notes to the Separate Financial Statements
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23. Retained Earnings and Dividends

(1) Details of retained earnings as of December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Legal reserve ¹	₩ 108,354	65,994
Discretionary reserve ²	235,506	235,506
Unappropriated retained earnings	25,368,634	15,720,710
	<u>₩ 25,712,494</u>	<u>16,022,210</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)

	2017	2016
Retained earnings before appropriations		
Unappropriated retained earnings carried over from the prior year	₩ 15,254,749	12,960,209
Remeasurements of defined benefit liability	3,088	105,479
Profit for the year	10,110,797	2,655,022
	<u>25,368,634</u>	<u>15,720,710</u>
Appropriation of retained earnings		
Earned surplus reserve	70,600	42,360
Cash dividend (2017: ₩1,000 per share, 20% on par value , 2016: ₩600 per share, 12% on par value)	706,002	423,601
	<u>776,602</u>	<u>465,961</u>
Unappropriated retained earnings carried forward to the subsequent year	<u>₩ 24,592,032</u>	<u>15,254,749</u>

SK HYNIX, INC.
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23. Retained Earnings and Dividends, Continued

(3) For the years ended December 31, 2017 and 2016, the Company's dividends are as follows.

(a) Details of dividends for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won and in thousands of shares)

	2017	2016
Type of dividends	Cash dividends	Cash dividends
Outstanding ordinary shares	706,002	706,002
Par value (in won)	₩ 5,000	5,000
Dividend rate	20%	12%
Total dividends	₩ 706,002	423,601

(b) Dividend payout ratio for the years ended December 31, 2017 and 2016 is as follows:

(In millions of won)

	2017	2016
Dividends	₩ 706,002	423,601
Profit for the year	10,110,797	2,655,022
Dividend payout ratio	6.98%	15.95%

(c) Dividend yield ratio for the years ended December 31, 2017 and 2016 is as follows:

(In won)

	2017	2016
Dividends per share	₩ 1,000	600
Closing stock price	76,500	44,700
Dividend yield ratio	1.31%	1.34%

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24. Selling and Administrative Expenses

Selling and administrative expenses for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Selling and administrative expenses:		
Salaries	₩ 344,712	249,364
Defined benefit plan	24,395	29,364
Employee benefits	61,262	62,200
Commission	212,295	208,362
Depreciation	82,302	69,057
Amortization	342,270	271,184
Freight and custody charges	27,904	22,647
Legal cost	32,723	8,529
Rental	3,148	4,385
Taxes and dues	5,708	6,548
Training	25,187	17,924
Advertising	83,408	46,869
Utilities	10,665	10,229
Supplies	77,590	52,771
Repair	34,093	4,930
Travel and transportation	7,024	6,269
Sales promotion	4,286	5,524
Sales repair	1,030	12,203
Others	25,450	14,025
	<u>1,405,452</u>	<u>1,102,384</u>
Research and development:		
Expenditure on research and development	2,503,804	2,122,862
Development cost capitalized	(511,647)	(352,023)
	<u>1,992,157</u>	<u>1,770,839</u>
	<u>₩ 3,397,609</u>	<u>2,873,223</u>

25. Expenses by Nature

Nature of expenses for the years ended December 31, 2017 and 2016 is as follows:

(In millions of won)

	2017	2016
Changes in finished goods and work-in-process	₩ (471,863)	(265,986)
Raw materials, supplies and consumables	5,587,359	4,779,210
Labor costs	2,613,638	1,886,379
Depreciation and amortization	4,051,205	3,471,152
Royalty	221,789	229,422
Commission	1,020,211	893,135
Utilities	786,045	697,061
Repair	779,673	485,122
Outsourcing	1,250,068	1,080,854
Other	540,023	464,343
Total ¹	<u>₩ 16,378,148</u>	<u>13,720,692</u>

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

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26. Finance Income and Expenses

Finance income and expenses for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Finance Income:		
Interest income	₩ 49,700	32,264
Dividend income	17,619	37,862
Foreign exchange differences	735,945	645,386
Gain from derivative instruments	902	1,472
Gain on valuation of financial assets at fair value through profit or loss	449	442
Gain on disposal of financial assets at fair value through profit or loss	7,318	5,789
Gain on disposal of available-for-sale financial assets	31,078	-
	<u>843,011</u>	<u>723,215</u>
Finance Expenses:		
Interest expense	120,624	113,268
Foreign exchange differences	954,128	611,683
Loss on disposal of available-for-sale financial assets	158	-
Loss on derivative instruments	913	1,525
	<u>1,075,823</u>	<u>726,476</u>
Net finance expenses	<u>₩ (232,812)</u>	<u>(3,261)</u>

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27. Other Income and Expenses

(1) Other income for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Gain on disposal of property, plant and equipment	₩ 38,563	14,198
Gain on disposal of investment in subsidiaries and associates	8,877	11,228
Others	29,129	20,903
	₩ <u>76,569</u>	<u>46,329</u>

(2) Other expenses for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Loss on disposal of property, plant and equipment	₩ 16,214	4,109
Loss on disposal of intangible assets	4,846	5,218
Loss on disposal of trade receivables	1,515	734
Loss on impairment of property, plant and equipment	-	3,746
Loss on impairment of intangible assets	383	98
Donation	75,150	50,607
Others	14,440	29,218
	₩ <u>112,548</u>	<u>93,745</u>

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28. Income Tax Expense

(1) Income tax expense for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Current tax:		
Current tax on profits for the year	₩ 2,637,306	485,840
Adjustments for the current tax liabilities attributable to prior year, but recognized in current year	(56,072)	77,752
	<u>2,581,234</u>	<u>563,592</u>
Deferred tax:		
Changes in net deferred tax assets	379,969	(256,872)
Income tax expense	<u>₩ 2,961,203</u>	<u>306,720</u>

(2) The relationship between tax expense and accounting profit for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Profit before income tax	₩ 13,072,000	2,961,742
Tax calculated at statutory income tax rates	3,162,962	716,280
Tax effects of:		
Tax-exempt income	(157)	(2,666)
Non-deductible expenses	2,135	2,315
Change in unrecognized deferred tax assets	(5,786)	(363,550)
Tax credit	(117,281)	(101,447)
Adjustments for the current tax liabilities attributable to prior year, but recognized in current year	(56,072)	77,752
Others	(24,598)	(21,964)
Income tax expense	<u>₩ 2,961,203</u>	<u>306,720</u>

(3) Income taxes recognized in other comprehensive income (loss) for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Remeasurements of defined benefit liabilities	₩ (1,171)	68,496
Loss on valuation of available-for-sale financial assets	4,072	-
	<u>₩ 2,901</u>	<u>68,496</u>

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29. Earnings per Share

Basic earnings per share is calculated by dividing the profit attributable to ordinary shareholders of the Company by the weighted average number of outstanding ordinary shares during the years.

(1) Basic earnings per share for the years ended December 31, 2017 and 2016 are as follows:

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

	2017	2016
Profit attributable to ordinary shareholders	₩ 10,110,797	2,655,022
Weighted average number of outstanding ordinary shares ¹	706,001,795	706,001,795
Basic earnings per share (in won)	₩ 14,321	3,761

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

(In shares)

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

(2) Diluted earnings per share for the years ended December 31, 2017 and 2016 are as follows:

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

	2017	2016
Profit attributable to ordinary shareholders	₩ 10,110,797	2,655,022
Weighted average number of diluted outstanding ordinary shares ¹	706,038,232	706,001,795
Diluted earnings per share (in won)	₩ 14,320	3,761

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

(In shares)

	2017	2016
Weighted average number of outstanding ordinary shares	706,001,795	706,001,795
Stock options	36,437	-
Weighted average number of diluted outstanding ordinary shares	706,038,232	706,001,795

SK HYNIX, INC.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

30. Transactions with Related Parties and Others

(1) Details of related parties as of December 31, 2017 are as follows:

Type	Name of related parties
Subsidiaries	SKHYA and other 23 entities ¹
Associates	Stratio, Inc., SK China Company Limited, Gemini Partners Pte. Ltd., TCL Fund
Joint venture	HITECH Semiconductor(Wuxi) Co., Ltd.
Other related parties	SK Telecom Co., Ltd., which has significant influence over the 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, 2017 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 system ic Inc. ¹	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 Asia Pte. Ltd. (SKHYS)	SK hynix, Inc.	Overseas sales subsidiary
SK hynix Semiconductor Hong Kong Ltd. (SKHYH)	SK hynix, Inc.	Overseas sales subsidiary
SK hynix U.K. Ltd. (SKHYU)	SK hynix, Inc.	Overseas sales subsidiary
SK hynix Semiconductor Taiwan Inc. (SKHYT)	SK hynix, Inc.	Overseas sales subsidiary
SK hynix Japan Inc. (SKHYJ)	SK hynix, Inc.	Overseas sales subsidiary
SK hynix Semiconductor (Shanghai) Co., Ltd. (SKHYCS)	SK hynix, Inc.	Overseas sales subsidiary
SK hynix Semiconductor India Pvt. Ltd. (SKHYIS)	SKHYS	Overseas sales subsidiary
SK hynix (Wuxi) Semiconductor Sales Ltd. (SKHYCW)	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 Semiconductor (Chongqing) Ltd. (SKHYCQL)	SKAPTECH	Overseas manufacturing 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
Softeq Flash Solutions LLC. (SOFTEQ)	SK hynix, Inc.	Overseas R&D center
SK APTECH Ltd. (SKAPTECH)	SK hynix, Inc.	Overseas investing subsidiary
SK hynix Ventures Hong Kong Ltd. (SKH Ventures)	SK hynix, Inc.	Overseas investing subsidiary

¹ SK hynix system ic Inc. was established during the year ended December 31, 2017.

SK HYNIX, INC.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

30. Transactions with Related Parties and Others, Continued

(3) Significant transactions for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

		2017			
	Company	Operating revenue and others	Operating expense and others	Asset acquisition	Dividend income
Subsidiaries	Domestic subsidiary	₩ 336,974	466,227	141,197	-
	Overseas sales subsidiaries	28,585,234	171,418	1,598,690	2,494
	Overseas manufacturing subsidiaries ¹	82,850	2,414,166	63,973	-
	Overseas R&D centers	88	202,919	41	297
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	5,752	582,745	-	14,828
Other related parties	SK Telecom Co., Ltd. ²	251	96,074	23,006	-
	SK Holdings Co., Ltd. ³	207	151,222	132,134	-
	ESSEN CORE Limited	15,148	-	-	-
	SK Engineering & Construction Co., Ltd.	257	6,819	1,421,459	-
	SK Energy Co., Ltd.	1,235	54,617	-	-
	SK Networks Co., Ltd.	-	1,878	-	-
	SKC Solmics Co., Ltd.	-	14,558	906	-
	Chungcheong energy service Co., Ltd.	10	16,052	-	-
	Happynarae Co., Ltd.	19	388,927	33,441	-
	SK Materials Co., Ltd.	-	38,014	-	-
	SK Siltron Co., Ltd	1,222	48,251	-	-
	Others	37	137,864	14,990	-
		₩ 29,029,284	4,791,751	3,429,837	17,619

¹ Operating revenue and others for the year ended December 31, 2017 include proceeds from asset disposal that amount to ₩78,255 million.

² Operating expense and others include dividend payments of ₩87,660 million.

³ For the year ended December 31, 2017 royalty on the use of the SK brand amounted to ₩34,004 million.

SK HYNIX, INC.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

30. Transactions with Related Parties and Others, Continued

(In millions of won)

		2016			
	Company	Operating revenue and others	Operating expense and others	Asset acquisition	Dividend income
Subsidiaries	Domestic subsidiaries	₩ 49,877	314,531	35,585	11,000
	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
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	-	-
	SKC Solmics Co., Ltd.	-	23,555	371	-
	Chungcheong energy service Co., Ltd.	10	16,460	-	-
	Happynarae Co., Ltd.	16	135,858	10,506	-
	SK Materials Co., Ltd.	-	33,102	-	-
	Others	9	92,057	7,692	-
		₩ 15,756,512	4,117,933	1,772,116	37,845

¹ Operating revenue and others for the year ended December 31, 2017 include proceeds from asset disposal that amount to ₩6,068 million.

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

³ For the year ended December 31, 2016 royalty on the use of the SK brand amounted to ₩37,170 million.

SK HYNIX, INC.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

30. Transactions with Related Parties and Others, Continued

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

(In millions of won)

		2017		
	Company	Trade receivables and others	Loans	Other payables and others
Subsidiaries	Domestic subsidiaries ¹	₩ 37,293	4,920	174,644
	Overseas sales subsidiaries ¹	5,081,829	-	466,164
	Overseas manufacturing subsidiaries	32,850	-	438,892
	Overseas R&D centers	22	-	28,511
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	-	-	90,782
Other related parties	SK Telecom Co., Ltd.	94	-	2,803
	SK Holdings Co., Ltd.	5,365	-	105,960
	SK Engineering & Construction Co., Ltd.	21	-	941,843
	SK Energy Co., Ltd.	93	-	10,505
	SK Networks Co., Ltd.	-	-	1,033
	SKC Solmics Co., Ltd.	-	-	1,576
	Chungcheong energy service Co., Ltd.	11	-	2,127
	Happynarae Co., Ltd.	2	-	46,406
	SK Materials Co., Ltd.	-	-	9,889
	SK Siltron Co., Ltd. ²	150,384	-	10,429
	Others	2	-	90,279
		₩ 5,307,966	4,920	2,421,843

¹ The Company loaned to Happymore Inc. in the amount of ₩4,920 million for the year ended December 31, 2017.

² The Company has paid ₩150,000 million in advance for the purchase price of wafers during the year ended December 31, 2017 (See note 31).

SK HYNIX, INC.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

30. Transactions with Related Parties and Others, Continued

(In millions of won)

		2016	
	Company	Trade receivables and others	Other payables and others
Subsidiaries	Domestic subsidiaries	₩ 1,310	56,689
	Overseas sales subsidiaries ¹	2,768,314	117,573
	Overseas manufacturing subsidiaries	34,749	533,485
	Overseas R&D centers	57	15,387
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
	SKC Solmics Co., Ltd.	-	8,966
	Chungcheong energy service Co., Ltd.	-	1,804
	Happynarae Co., Ltd.	2	17,807
	SK Materials Co., Ltd.	-	8,043
	Others	2	42,353
		₩ <u>2,810,851</u>	<u>1,538,316</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, 2017.

(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, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Salaries	₩ 106,291	68,504
Defined benefit plan related expenses	8,840	8,184
Share-based payment	813	-
Others	13	21
	₩ <u>115,957</u>	<u>76,709</u>

SK HYNIX, INC.

Notes to the Separate Financial Statements

December 31, 2017 and 2016

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, 2017 and 2016 are as follows. These entities are not related parties according to K-IFRS 1024, 'Related Party Disclosures'.

(In millions of won)

		2017			
		Operating revenue and others	Operating expense and others	Asset acquisition	Dividend income
Company					
Companies in the Conglomerate	SK Discovery Co., Ltd	₩ -	1,072	-	-
	SK Chemicals Co., Ltd.	-	38	-	-
		₩ -	1,110	-	-

(In millions of won)

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

(7) The balances of significant transactions between the Company and the companies that are in the same conglomerate group designated by 'Fair Trade Law'. The details of the balances as of December 31, 2017 and 2016 are as follows. These entities are not related parties according to K-IFRS 1024, 'Related Party Disclosures'.

(In millions of won)

		2017	
		Trade receivables and others	Other payables and others
Company			
Companies in the Conglomerate	SK Discovery Co., Ltd	₩ -	228
	SK Chemicals Co., Ltd.	-	38
		₩ -	266

(In millions of won)

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

SK HYNIX, INC.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

31. Commitments and Contingencies

(1) Significant pending litigations and claims of the Company as of December 31, 2017 are as follows:

(a) Lawsuit from Netlist, Inc.

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

Meanwhile, the lawsuit filed to the US International Trade Commission on September 1, 2016 was finalized on January 16, 2018 in conclusion that the Company and its subsidiaries did not infringe the patents of Netlist, Inc.

(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, 2017 and 2016

31. Commitments and Contingencies, Continued

(5) Assets provided as collateral

Details of assets provided as collateral as of December 31, 2017 are as follows:

(In millions of won)

		Book value	Pledged amount	Remark
Machinery	₩	1,026,157	1,178,556	Borrowings for equipment and others

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, 2017 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	265
	Export finance including bills bought	USD	250
	Comprehensive limit contract for import and export	USD	960
	Accounts receivable factoring contracts which have no right to recourse	KRW	140,000

(7) Details of guarantees provided to others as of December 31, 2017 are as follows:

(In millions of won)

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

(8) Capital commitments

The Company's unrecorded commitments in relation to the capital expenditures on property, plant and equipment as of December 31, 2017 and 2016 are ₩557,400 million and ₩261,729 million, respectively.

(9) Equity investment in Toshiba semiconductor business

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

Meanwhile, the Bain Consortium and Toshiba signed an agreement to acquire Toshiba's semiconductor business and an approvals from various countries' government were in process as of December 31, 2017. The completion of the arrangement is subject to the results of compliance in the prerequisites set forth in the arrangement including the approval by various countries' government.

31. Commitments and Contingencies, Continued

(10) Long-term purchase agreement for raw materials

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

(11) Agreement with SK hynix system ic Inc.

The Company has entered into an agreement of Foundry supply with SK hynix system ic Inc., a subsidiary, to receive related services. In addition, the Company has provided SK hynix system ic Inc. with the related services such as manufacturing products, equipment operation, development and management support and others in accordance with the arrangement for operation agency and shared service.

SK HYNIX, INC.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

32. Statements of Cash Flows

(1) Reconciliations between profit for the year and net cash inflow from operating activities for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Profit for the year	₩ 10,110,797	2,655,022
Adjustment		
Income tax expense	2,961,203	306,720
Defined benefit plan	162,434	205,536
Depreciation	3,772,322	3,229,320
Depreciation of investment property	105	106
Amortization	387,767	297,604
Share-based compensation expenses	813	-
Loss on disposal of property, plant and equipment	16,214	4,109
Loss on disposal of intangible assets	4,846	5,218
Loss on impairment of property, plant and equipment	-	3,746
Loss on impairment of intangible assets	383	98
Interest expense	120,624	113,268
Loss on foreign currency translation	228,210	101,210
Gain on disposal of investments in subsidiaries and associates	(8,877)	(11,228)
Gain on disposal of property, plant and equipment	(38,563)	(14,198)
Gain on disposal of financial assets at fair value through profit or loss	(7,318)	(5,789)
Gain on valuation of financial assets at fair value through profit or loss	(449)	(442)
Gain on disposal of available-for-sale financial assets	(31,078)	-
Loss on derivative instruments, net	11	53
Interest income	(49,700)	(32,264)
Gain on foreign currency translation	(277,275)	(89,449)
Dividend income	(17,619)	(37,862)
Others, net	213	(2,410)
Changes in operating assets and liabilities		
Increase in trade receivables	(2,465,578)	(30,835)
Decrease in loans and other receivables	6,945	22,258
Increase in inventories	(607,829)	(291,108)
Increase in other assets	(265,698)	(48,369)
Increase (decrease) in trade payables	(19,394)	107,129
Decrease in other payables	(301)	(196,612)
Increase (decrease) in other non-trade payables	625,715	(302,774)
Increase in provisions	57,382	13,889
Increase (decrease) in other liabilities	(578)	5,976
Payment of defined benefit liabilities	(14,450)	(17,030)
Contribution to plan assets	(450,000)	(320,000)
Cash generated from operating activities	₩ 14,201,277	5,670,892

SK HYNIX, INC.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

32. Statements of Cash Flows, Continued

(2) Details of significant transactions without inflows and outflows of cash for the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Transfer of business to SK hynix system ic Inc.	₩ 132,841	-
In-kind contribution for SK China Company limited	143,208	-
Increase in other payables related to acquisition of property, plant and equipment	1,079,972	249,570
Write off of other receivables	-	34,861
Business combination	-	33,000

(3) Changes in liabilities arising from financial activities during the years ended December 31, 2017 and 2016 are as follows:

(In millions of won)

	2017	2016
Beginning balance	₩ 4,215,787	3,432,618
Cash flows from financing activities		
Proceeds from borrowings	685,084	2,080,343
Repayments of borrowings	(647,537)	(1,347,311)
Foreign currency differences	(225,688)	48,354
Present value discount (interest expense)	1,710	1,783
Ending Balance	₩ 4,029,356	4,215,787

SK HYNIX, INC.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

33. Share-based Payment

(1) The Company granted equity-settled share options to the Company's key management during the year ended December 31, 2017 and the details of the share options as of December 31, 2017 are as follows:

(In shares)

	Total numbers of share option granted	Exercised	Forfeited or Cancelled	Outstanding at December 31, 2017
1 st	99,600	-	-	99,600
2 nd	99,600	-	-	99,600
3 rd	99,600	-	-	99,600
	298,800	-	-	298,800

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

(2) Measurement of fair value

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

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

(3) The compensation expense for the year ended December 31, 2017 was ₩813 million.

SK HYNIX, INC.
Notes to the Separate Financial Statements
December 31, 2017 and 2016

34. Transfer of business

Based on the resolution in the Company's Board of Directors on May 24, 2017, the Company made ₩343,295 million of capital contribution and transferred assets and liabilities related with foundry business to SK hynix system ic Inc.

Details of the proceed from the transfer of business and assets and liabilities transferred as of July 1, 2017, the transfer date, are as follows:

(In millions of won)

	Amount
Assets transferred	
Inventories, net	₩ 81,812
Property, plant and equipment, net	55,250
Intangible assets, net	277
Other non-current assets	70
	<u>137,409</u>
Liabilities transferred	
Other current liabilities	755
Other non-trade payables	1,125
Defined benefit liabilities, net	2,443
Other non-current liabilities	245
	<u>4,568</u>
Net assets transferred (I)	<u>132,841</u>
Proceed from the transfer of business (II)	<u>185,964</u>
Difference (II – I)	<u>₩ 53,123</u>

The Company adjusted the amount of the investment by the difference between the proceed from the transfer of business and the amount of net assets transferred as the transfer of business does not have commercial substance.

Independent Auditors' 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, 2017. 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, 2017, 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, 2017 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, 2017. We did not review the Company's IACS subsequent to December 31, 2017. 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 14, 2018

Notice to Readers

This report is annexed in relation to the audit of the separate financial statements as of December 31, 2017 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 Assessment of Internal Accounting Control System ("IACS")

English translation of a Report Originally Issued in Korean

To the Board of Directors and Audit Committee of
SK hynix, Inc.

I, as the Internal Accounting Control Officer ("IACO") of SK hynix, Inc. ("the Company"), assessed the status of the design and operation of the Company's IACS as of December 31, 2017.

The Company's management including IACO is responsible for designing and operating IACS. I, as the IACO, assessed whether the IACS has been appropriately designed and is effectively operating to prevent and detect error or fraud which may cause material misstatement of the financial statements, for the purpose of preparing and disclosing reliable financial statements reporting. I, as the IACO, applied the IACS Framework established by the Korea Listed Companies Association for the assessment of design and operation of the IACS.

Based on the assessment of the IACS, the Company's IACS has been appropriately designed and is operating effectively as of December 31, 2017, in all material respects, in accordance with the IACS Framework issued by the Internal Accounting Control System Operation Committee.

January 15, 2018

/s/ Internal Accounting Control Officer

/s/ Chief Executive Officer