

SK hynix Inc.

Separate Financial Statements

December 31, 2020

SK hynix Inc.

Index

December 31, 2020 and 2019

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Independent Auditor's Report

(English Translation of a Report Originally Issued in Korean)

To the Shareholders and Board of Directors of

SK hynix Inc.

Opinion

We have audited the accompanying separate financial statements of SK hynix Inc. (the Company), which comprise the separate statement of financial position as at December 31, 2020, and the separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS).

We also have audited, in accordance with Korean Standards on Auditing, the Company's Internal Control over Financial Reporting as of December 31, 2020, based on *Conceptual Framework for Designing and Operating Internal Control over Financial Reporting*, and our report dated March 2, 2021 expressed an unqualified opinion.

Basis for Opinion

We conducted our audits in accordance with Korean Standards on Auditing. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements of the Republic of Korea that are relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with the ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

(1) Fair value measurement of financial assets related to the Company's investments to KIOXIA Holdings Corporation presented as long-term investment assets

Reasons why the matter was determined to be a key audit matter

The Company holds equity investment in a special purpose entity ("SPC1") and convertible bonds ("SPC2") in relation to investments in KIOXIA Holding Corporation with total amount of ₩5,946,719 million, which represents 9.28% of total assets as at December 31, 2020, and the Company recognized ₩1,685,313 million as gain on valuation of the financial assets for the year ended December 31, 2020 with respect to the investments. The financial assets are non-listed and measured at the fair value using significant unobservable inputs; therefore, the financial assets are classified to Level 3 of the fair value.

The fair value of SPC1 and SPC2 was measured in consideration of the profit-sharing agreement between investors based on the estimated equity value of KIOXIA, a non-public company, and the Company used an independent external expert for the fair value measurement.

The carrying amount of the financial assets is material in the separate financial statements and the selection of the valuation techniques that will be applied in the fair value measurement, assumptions and estimates of inputs that have significant impact on the fair value measurement involve the Company management's judgement. Accordingly, we determined the fair value measurement of the financial assets as a key audit matter.

How our audit addressed the Key Audit Matter

We performed the following audit procedures, including the use of auditor's experts.

- Obtained an understanding and evaluated the Company's accounting policy, process and internal controls including management's review and approval in relation to the fair value measurements of the financial assets
- Evaluated the competence and independence of external specialist used by management
- Reviewed the relevant contracts to understand the investment conditions related to the financial asset investment and reviewed whether it is appropriately reflected in management's valuation details
- Assessed the appropriateness of the valuation technique used in the fair value estimates by management
- Assessed the reasonableness of key assumptions applied in fair value estimates of SPC1, SPC2 and equity value of KIOXIA
- Performed a lookback analysis by comparing the estimation of prior year to actual operating results whether KIOXIA equity value measurement includes any optimistic assumptions
- Reviewed the consistency of the sales growth rate, operating profit margin rate and investment forecasts applied in the equity value measurement of KIOXIA with market conditions
- Evaluated the results of sensitivity analysis on the discount rates and permanent growth rate performed by management to assess the impact of changes in key assumptions on the fair value measurement

(2) Appropriateness of machinery's depreciation starting point

Reasons why the matter was determined to be a key audit matter

The company's property, plant and equipment amount to ₩31,607,910 million, of which the machinery accounts for ₩ 18,921,038 million. Regarding the recognition of depreciation expenses for machinery, the Company starts depreciating machinery when the acquisition and installation of the machinery is complete, and it is available for use. Meanwhile, during the current period, the Company has started to depreciate the machinery amounting to ₩ 4,453,773 million, for the year ended December 31, 2020 after determining that the machinery is available for

use.

The size of the investment in machinery that the Company makes annually for the maintenance and expansion of production plants is significant and the effect of depreciation amount on the separate financial statements is significant depending on the determination when it is available for use. Accordingly, we determined the appropriateness of depreciation starting point as a key audit matter.

How our audit addressed the Key Audit Matter

We performed the following audit procedures.

- Obtained an understanding on the Company's policy, process and internal controls in relation to the determination on when to start depreciation of the machinery
- Assessed the Company's internal controls in relation to the determination on when the machinery is available for use and when its depreciation begins including the machinery transferred from construction-in-progress
- Assessed internal controls for identification and reviewing the reasons for assets remaining as assets under constructions for long time
- Inspected evidence documents used by the Company in determining the depreciation starting point of the machinery
- Observed and made inquiries on operations of key production facilities invested during the current period
- Made inquiries on when certain construction-in-progress is expected to be available for use and start depreciation and reviewed the relevant evidence documents

Emphasis of Matters

Without modifying our opinion, we draw attention to Note 3 of the separate financial statements. Note 3 to the separate financial statements describes uncertainties relating to the impact of Coronavirus disease 2019 (COVID-19) on the Company's operations including market demands and the Company's production capability. Our opinion is not modified in respect of this matter.

Other Matters

The separate financial statements of the Company for the year ended December 31, 2019, were audited by another auditor who expressed an unqualified opinion on those statements, not presented herein, on February 25, 2020. On the other hand, the separate financial statements expressed by the auditor are those prior to reflecting the changes in accounting policies described in Note 2.30 to the separate financial statements, and the comparative separate financial statements for the year ended December 31, 2019, reflect the relevant matters.

Auditing standards and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the separate financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Korean Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Korean Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit

matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Si-Chang, Choi, Certified Public Accountant.

Seoul, Korea

March 2, 2021

This report is effective as of March 2, 2021, 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 there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

SK hynix Inc.
Separate Statements of Financial Position
December 31, 2020 and, 2019

(In millions of Korean won)

	Notes	2020	2019
Assets			
Current assets			
Cash and cash equivalents	4,5 ₩	2,202,138	1,672,492
Short-term financial instruments	4,5,6	307,500	257,500
Short-term investment assets	4,5	1,110,955	973,513
Trade receivables, net	4,5,7,33	4,185,100	3,646,659
Loans and other receivables, net	4,5,7,33	84,042	26,170
Inventories, net	8	4,980,384	4,354,732
Current tax assets		-	198,257
Other current assets	9	440,122	596,208
		<u>13,310,241</u>	<u>11,725,531</u>
Non-current assets			
Investments in subsidiaries, associates and joint ventures	10	6,776,725	6,323,449
Long-term investment assets	4,5,11	6,024,478	4,295,661
Loans and other receivables, net	4,5,7,33,34	2,040,813	63,636
Other financial assets	4,5,6	11	11
Property, plant and equipment, net	12,15,34	31,607,910	31,691,264
Right-of-use assets, net	3,13	1,001,863	1,064,335
Intangible assets, net	14	3,004,983	2,146,231
Investment property, net	12,15	209,417	258
Deferred tax assets	21	-	280,936
Employee benefit assets	20	53,869	-
Other non-current assets	9,34	40,695	577,614
		<u>50,760,764</u>	<u>46,443,395</u>
Total assets	₩	<u>64,071,005</u>	<u>58,168,926</u>

SK hynix Inc.
Separate Statements of Financial Position, Continued
December 31, 2020 and 2019

<i>(In millions of Korean won)</i>	Notes	2020	2019
Liabilities			
Current liabilities			
Trade payables	4,5,33 ₩	1,570,339	1,158,561
Other payables	4,5,33	2,083,920	1,926,383
Other non-trade payables	4,5,16,33	1,167,602	1,088,225
Borrowings	4,5,17,34	1,613,755	1,703,235
Provisions	19	33,995	22,040
Current tax liabilities		535,892	52,479
Lease liabilities	3,4,5,13	244,715	229,150
Other current liabilities	18	238,148	166,742
		<u>7,488,366</u>	<u>6,346,815</u>
Non-current liabilities			
Long-term other payables	4	272,389	-
Other non-trade payables	4,5,16	24,222	15,228
Borrowings	4,5,17,34	5,583,434	4,760,546
Defined benefit liabilities	20	-	52,491
Deferred tax liabilities	21	202,311	-
Lease liabilities	3,4,5,13	748,164	857,183
Other non-current liabilities	18	95,319	84,223
Other financial liabilities	4,5,22	82,496	15,532
		<u>7,008,335</u>	<u>5,785,203</u>
Total liabilities		<u>14,496,701</u>	<u>12,132,018</u>
Equity			
Capital stock	23	3,657,652	3,657,652
Capital surplus	23	4,183,564	4,183,564
Other equity	23,36	(2,503,122)	(2,504,713)
Accumulated other comprehensive income	24	14,546	12,753
Retained earnings	25	44,221,664	40,687,652
		<u>49,574,304</u>	<u>46,036,908</u>
Total equity		<u>49,574,304</u>	<u>46,036,908</u>
Total liabilities and equity	₩	<u>64,071,005</u>	<u>58,168,926</u>

The above separate statements of financial position should be read in conjunction with the accompanying notes.

SK hynix Inc.
Separate Statements of Comprehensive Income
Years Ended December 31, 2020 and 2019

(In millions of Korean won, except per share information)

	Notes	2020	2019
Revenue	26,33	₩ 30,524,987	25,320,755
Cost of sales	28,33	20,753,412	18,381,302
Gross profit		9,771,575	6,939,453
Selling and administrative expenses	27,28	5,225,698	4,949,753
Operating profit		4,545,877	1,989,700
Finance income	4,29	2,574,509	902,300
Finance expenses	4,29	1,405,243	1,020,121
Other income	30	83,023	108,735
Other expenses	30	148,132	177,100
Profit before income tax		5,650,034	1,803,514
Income tax expense	31	1,432,193	326,533
Profit for the year		4,217,841	1,476,981
Other comprehensive income (loss)			
Item that will never be reclassified to profit or loss:			
Remeasurements of defined benefit liability, net of tax	20	173	(89,454)
Items that are or may be reclassified to profit or loss:			
Gain on valuation of derivatives, net of tax	22,24	1,793	12,753
Other comprehensive income (loss) for the year, net of tax		1,966	(76,701)
Total comprehensive income for the year		₩ 4,219,807	1,400,280
Earnings per share			
Basic earnings per share (in Korean won)	32	6,166	2,159
Diluted earnings per share (in Korean won)		6,165	2,159

The above separate statements of comprehensive income should be read in conjunction with the accompanying notes

SK hynix Inc.
Separate Statements of Changes in Equity
Years Ended December 31, 2020 and 2019

<i>(In millions of Korean won)</i>	Notes	Capital stock	Capital surplus	Other equity	Accumulated other comprehensive income	Retained earnings	Total equity
Balance at January 1, 2019		₩ 3,657,652	₩ 4,183,564	₩ (2,506,451)	₩ -	₩ 40,326,128	₩ 45,660,893
Comprehensive income :							
Profit for the period		-	-	-	-	1,476,981	1,476,981
Remeasurements of defined benefit liabilities, net of tax	20	-	-	-	-	(89,454)	(89,454)
Gain on valuation of derivatives, net of tax	22	-	-	-	12,753	-	12,753
Total comprehensive income for the year		-	-	-	12,753	1,387,527	1,400,280
Transactions with owners of the Company :							
Dividends paid		-	-	-	-	(1,026,003)	(1,026,003)
Share-based payments	36	-	-	1,738	-	-	1,738
Total transactions with owners of the Company		-	-	1,738	-	(1,026,003)	(1,024,265)
Balance at December 31, 2019		₩ 3,657,652	₩ 4,183,564	₩ (2,504,713)	₩ 12,753	₩ 40,687,652	₩ 46,036,908
Balance at January 1, 2020		₩ 3,657,652	₩ 4,183,564	₩ (2,504,713)	₩ 12,753	₩ 40,687,652	₩ 46,036,908
Comprehensive income :							
Profit for the period		-	-	-	-	4,217,841	4,217,841
Remeasurements of defined benefit liabilities, net of tax	20	-	-	-	-	173	173
Gain on valuation of derivatives, net of tax	22	-	-	-	1,793	-	1,793
Total comprehensive income for the year		-	-	-	1,793	4,218,014	4,219,807
Transactions with owners of the Company :							
Dividends paid	25	-	-	-	-	(684,002)	(684,002)
Share-based payments	36	-	-	1,591	-	-	1,591
Total transactions with owners of the Company		-	-	1,591	-	(684,002)	(682,411)
Balance at December 31, 2020		₩ 3,657,652	₩ 4,183,564	₩ (2,503,122)	₩ 14,546	₩ 44,221,664	₩ 49,574,304

The above separate statements of changes in equity should be read in conjunction with the accompanying notes.

SK hynix Inc.
Separate Statements of Cash Flows
Years Ended December 31, 2020 and 2019

<i>(In millions of Korean won)</i>	<u>Notes</u>	<u>2020</u>	<u>2019</u>
Cash flows from operating activities			
Cash generated from operations	35	₩ 11,258,606	₩ 10,045,234
Interest received		21,579	22,610
Interest paid		(155,014)	(139,179)
Dividends received		33,061	26,737
Income tax paid		(268,023)	(5,098,321)
Net cash inflow from operating activities		<u>10,890,209</u>	<u>4,857,081</u>
Cash flows from investing activities			
Decrease in short-term financial instruments		287,500	957,500
Increase in short-term financial instruments		(337,500)	(737,500)
Decrease (increase) in short-term investment assets, net		(116,622)	1,981,435
Decrease in loans and other receivables		19,720	6,523
Increase in loans and other receivables		(2,216,137)	(38,209)
Proceeds from disposal of long-term investment assets		381	4,091
Acquisitions of long-term investment assets		(67,200)	(75,341)
Proceeds from disposal of property, plant and equipment		250,941	212,792
Acquisitions of property, plant and equipment		(6,836,880)	(8,821,230)
Proceeds from disposal of intangible assets		691	170
Acquisitions of intangible assets		(778,443)	(623,781)
Decrease in subsidiaries(MMT), net		8,923	2,098,289
Acquisitions of investments in subsidiaries		(45,542)	(402,870)
Acquisitions of investments in associates		(382,755)	(114,470)
Net cash outflow from investing activities		<u>(10,212,923)</u>	<u>(5,552,601)</u>
Cash flows from financing activities			
Proceeds from borrowings	35	3,511,577	5,107,104
Repayments of borrowings	35	(2,690,161)	(3,178,745)
Repayments of lease liabilities	35	(236,168)	(267,998)
Dividends paid		(684,002)	(1,026,003)
Net cash inflow (outflow) from financing activities		<u>(98,754)</u>	<u>634,358</u>
Effect of exchange rate changes on cash and cash equivalents		<u>(48,886)</u>	<u>(7,617)</u>
Net increase(decrease) in cash and cash equivalents		529,646	(68,779)
Cash and cash equivalents at the beginning of the year		1,672,492	1,741,271
Cash and cash equivalents at the end of the year		<u>₩ 2,202,138</u>	<u>₩ 1,672,492</u>

The above separate statements of cash flows should be read in conjunction with the accompanying notes.

SK hynix Inc.
Notes to the Separate Financial Statements
December 31, 2020 and 2019

1. General Information

General information about SK hynix Inc. (the “Company”) is as follows:

The Company manufactures, distributes and sells semiconductor products. The Company was established on October 15, 1949 and its shares have been listed on the Korea Exchange since 1996. The Company’s headquarter is located at 2091, Gyeongchung-daero, Bubal-eup, Icheon-si, Gyeonggi-do, South Korea, and the Company has manufacturing facilities in Icheon-si and Cheongju-si, the Republic of Korea.

As of December 31, 2020, 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	79,883,313	10.97
Other investors	458,018,482	62.92
Treasury shares	44,000,570	6.04
	<u>728,002,365</u>	<u>100.00</u>

The Company’s ordinary shares and depositary receipts (DRs) are listed on the Stock Market of Korea Exchange and the Luxembourg Stock Exchange, respectively.

SK hynix Inc.
Notes to the Separate Financial Statements
December 31, 2020 and 2019

2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The 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*.

2.1 Basis of measurement

The Company maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangul) in accordance with International Financial Reporting Standards as adopted by the Republic of Korea ("Korean IFRS"). The accompanying separate financial statements have been condensed, restructured, and translated into English from the Korean language separate financial statements.

The financial statements have been prepared on the historical cost basis, except for the following material items in the statements 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
- 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

Korean IFRS permits the use of critical accounting estimates in the preparation of the financial statements and requires management judgments in applying accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the separate financial statements, are disclosed in Note 3.

2.2 Changes in Accounting Policies and Disclosure

(A) New and amended standards adopted by the Company

The following new standards and amendments to standards are effective for accounting periods beginning on or after January 1, 2020.

The Company has applied the following standards and interpretations for the first time for their annual reporting period commencing January 1, 2020.

① Amendments to Korean IFRS 1001 *Presentation of Financial Statements* and Korean IFRS 1008 *Accounting policies, changes in accounting estimates and errors – Definition of Material*

The amendments clarify the definition of material. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general-purpose financial statements make on the basis of those financial statements. The amendments do not have a significant impact on the separate financial statements.

SK hynix Inc.
Notes to the Separate Financial Statements
December 31, 2020 and 2019

2. Significant Accounting Policies, Continued

2.2 Changes in Accounting Policies and Disclosure, Continued

② Amendments to Korean IFRS 1103 *Business Combination – Definition of a Business*

To consider the integration of the required activities and assets as a business, the amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs and excludes economic benefits from the lower costs. An entity can apply a concentration test, an optional test, where substantially all of the fair value of gross assets acquired is concentrated in a single asset or a group of similar assets, the assets acquired would not represent a business. The amendment does not have a significant impact on the financial statements.

③ Amendments to Korean IFRS 1109 *Financial Instruments*, Korean IFRS 1039 *Financial Instruments: Recognition and Measurement* and Korean IFRS 1107 *Financial Instruments: Disclosure – Interest Rate Benchmark Reform*

The amendments allow to apply the exceptions when forward-looking analysis is performed in relation the application of hedge accounting while uncertainties arising from interest rate benchmark reform exist. The exceptions require the Company assumes that the interest rate benchmark on which the hedged items and the hedging instruments are based on is not altered as a result of interest rate benchmark reform, when determining whether the expected cash flows are highly probable, whether an economic relationship between the hedged item and the hedging instrument exists, and when assessing the hedging relationship is highly effective. The amendments do not have a significant impact on the financial statements.

(B) New and amended standards not yet adopted by the Company

The following new accounting standards and interpretations have been published that are not mandatory for December 31, 2020 reporting periods and have not been early adopted by the Company.

(a) Amendments to Korean IFRS 1116 *Lease – Practical expedient for COVID-19-Related Rent Exemption, Concessions, Suspension*

As a practical expedient, a lessee may elect not to assess whether a rent concession occurring as a direct consequence of the COVID-19 pandemic is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the rent concession and disclose the amount recognized in profit or loss. These amendments should be applied for annual periods beginning on or after June 1, 2020, and earlier application of permitted. The amendments do not have a significant impact on the financial statements.

(b) Amendments to Korean IFRS 1109 *Financial Instruments*, Korean IFRS 1039 *Financial Instruments: Recognition and Measurement* and Korean IFRS 1107 *Financial Instruments: Disclosure – Interest Rate Benchmark Reform* Korean IFRS 1104 *Insurance Contract* Korean IFRS 1116 *Lease*

SK hynix Inc.
Notes to the Separate Financial Statements
December 31, 2020 and 2019

2. Significant Accounting Policies, Continued

2.2 Changes in Accounting Policies and Disclosure, Continued

The exception to the interest rate benchmark reform includes the adjustment of the effective interest rate rather than the carrying amount of the instrument measured at amortised cost, and the continuation of hedge accounting in the event of an interest rate indicator replacement in a hedging relationship. This amendment will take effect for annual periods beginning on or after 1 January 2021. Early application is permitted. The company expects the amendment to have no significant impact on its financial statements.

(c) Amendments to Korean IFRS 1103 Business Combination – Reference to the Conceptual Framework

The amendments update a reference of definition of assets and liabilities qualify for recognition in revised Conceptual Framework for Financial Reporting. However, the amendments add an exception for the recognition of liabilities and contingent liabilities within the scope of Korea IFRS 1037 Provisions, Contingent Liabilities and Contingent Assets, and Korean IFRS 2121 Levies. The amendments also confirm that contingent assets should not be recognized at the acquisition date. The amendments should be applied for annual periods beginning on or after January 1, 2022, and earlier application is permitted. The Group does not expect that these amendments have a significant impact on the financial statements.

(d) Amendments to Korean IFRS 1016 Property, Plant and Equipment - Proceeds before intended use

The Company requires revenue from the sale of items produced before the asset is used in its intended manner to be recognized in profit or loss along with production costs and prohibits the reduction of acquisition costs of property, plant and equipment. This amendment will be applied for annual periods beginning on or after January 1, 2022, and early application is permitted. The company is reviewing the impact of the financial statements due to the amendment.

(e) Amendments to Korean IFRS 1037 Provisions, Contingent Liabilities and Contingent Assets - Onerous Contracts : Cost of Fulfilling a Contract

When identifying a loss-bearing contract, it was clarified that the scope of the contract's implementation costs is the allocation of incremental costs for contract execution and other costs directly related to contract performance. This amendment will be applied for annual periods beginning on or after January 1, 2022, and early application is permitted. The company expects the amendment to have no significant impact on its financial statements.

SK hynix Inc.
Notes to the Separate Financial Statements
December 31, 2020 and 2019

2. Significant Accounting Policies, Continued

2.2 Changes in Accounting Policies and Disclosure, Continued

(f) Annual Improvements to IFRS 2018-2020

Annual improvements of Korean IFRS 2018-2020 Cycle should be applied for annual periods beginning on or after January 1, 2022, and earlier application is permitted. The Company does not expect that these amendments have a significant impact on the financial statements.

- I Korean IFRS 1101 First time Adoption of Korean International Financial Reporting Standards – Subsidiaries that are first-time adopters
- Korean IFRS 1109 Financial Instruments – Fees related to the 10% test for derecognition of financial liabilities
- Korean IFRS 1116 Leases – Lease incentives
- Korean IFRS 1041 Agriculture – Measuring fair value

(g) Amendments to Korean IFRS 1001 *Classification of Current Liability and Non-current Liability*

It is classified as current or non-current according to the actual rights existing as of the end of the reporting period, and does not consider the exercise of the right to defer payment of the liability or the expectations of management. In addition, the payment of a liability includes the transfer of its own equity instrument, except if the option to settle from a compound financial instrument meets the definition of an equity instrument and is recognised separately from the liability. This amendment applies retrospectively after the commencement date of the first fiscal year beginning on or after 1 January 2023 and is permitted for early application. The Company is reviewing the impact of the financial statements due to the amendment.

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2. Significant Accounting Policies, Continued

2.3 Operating Segments

In accordance with IFRS 1108, the Company discloses disclosures relating to its operating segments in its financial statements, which are not otherwise disclosed.

2.4 Subsidiary and equity method Equity of an investee

The Company's financial statements are separate financial statements in accordance with IAS 27. The Company selected and accounted for the cost method in accordance with IAS 27 for investments in subsidiaries and associates. On the other hand, dividends received from subsidiaries and associates are recognised in profit or loss when the right to receive dividends is established.

2.5 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.

2.6 Inventories

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. 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.

Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses. The amount of any write-down of inventories to net realizable value and all losses of inventories shall be recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, shall be recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

2.7 Trade Receivables

Trade receivables are initially recognized at fair value if it does not include a significant financing component, such as unconditional consideration if it includes a significant financing component. The trade receivables are subsequently measured by subtracting the loss allowance from the amortized cost applied with the effective interest method. (See footnote 7 for additional information on the accounting for the Company's trade receivables, and 5.1 for accounting for impairment)

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2. Significant Accounting Policies, Continued

2.8 Non-derivative financial assets

(a) Initial recognition and measurement

Trade and other receivables, and debt investment are initially recognized when they are originated. Other financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instruments.

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

(b) Classification and subsequent measurements

On initial recognition, a financial asset is classified as measured at: amortized cost; fair value through other comprehensive income (FVOCI) - debt investment; FVOCI - equity investment; or FVTPL. The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. In case of changing its business model, all affected financial asset are reclassified on the first day of the first reporting period after the change in the business model.

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

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

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

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

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis and irrevocable election can be made at initial recognition.

SK hynix Inc.
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2. Significant Accounting Policies, Continued

2.8 Non-derivative financial assets, Continued

(b) Classification and subsequent measurements, Continued

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

The Company makes an assessment of the objective of the business model in which, financial assets is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice;
- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed;
- how managers of the business are compensated (e.g. whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected); and
- the frequency, volume and timing of sales of financial assets in prior periods, the reason for those sales and expectation about future sales activity for financial asset.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Company's continuing recognition of the assets.

A financial asset is measured at a fair value that is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or on initial recognition is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking

For the purpose of this assessment, 'principal' is defined as the fair value of the financial assets on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

SK hynix Inc.
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2. Significant Accounting Policies, Continued

2.8 Non-derivative financial assets, Continued

(b) Classification and subsequent measurements, Continued

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

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

(c) De-recognition

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 in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company enters into transactions whereby it transfers assets recognized in its statement of financial position, but retain either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

SK hynix Inc.
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2. Significant Accounting Policies, Continued

2.8 Non-derivative financial assets, Continued

(d) 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.

2.9 Derivative financial instruments

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value at the end of each reporting period, and changes in the fair value of derivatives therein are accounted for as described below.

(a) Hedge accounting

The Company enters into a fixed-to-fixed cross currency swap contract and a floating-to-fixed cross currency interest rate swap contract to hedge interest rate risk and currency risk.

On initial designation of the hedge, the Company formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction. In addition, the document includes hedging instruments; hedged items; initial commencement date of those hedge relationship; fair value of hedged items based on hedged risk during the subsequent period; and the method of valuation on hedging instruments offsetting changes in cash flow.

- Cash flow hedge

When a derivative is designated to hedge the variability in cash flows attributable to a particular risk associated with a recognized asset or liability, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income, net of tax, and presented in accumulated other comprehensive income. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income is reclassified to profit or loss in the periods which the forecasted transaction occurs.

(b) Other derivative financial instruments

Other derivative financial instrument not designated as a hedging instrument are measured at fair value, and the changes in fair value of the derivative financial instrument is recognized immediately in profit or loss.

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2. Significant Accounting Policies, Continued

2.10 Impairment of financial assets

(a) Recognition of impairment on financial assets

The Company recognizes loss allowances for expected credit losses (ECLs) on:

- financial assets measured at amortized costs; and
- contract assets.

The Company measures impairment losses at an amount equal to lifetime ECLs except for the below assets, which are measured at 12-month ECLs.

- credit risk of debt instruments is low at the end of reporting date
- credit risk has not increased significantly since the initial recognition of debt investment (lifetime ECL: ECL that resulted from all possible default events over the expected life of a financial instrument)

The Company adopted an accounting policy to recognize loss allowances at an amount equal to lifetime expected credit losses for trade receivables and contract assets.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition and estimating expected credit loss, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from all default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

(b) Measurement of expected credit loss

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

(c) Credit-impaired financial instrument

A debt instrument carried at amortized cost and fair value through other comprehensive income (FVOCI) is assessed at the end of each reporting period to determine whether there is objective evidence that it is impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred.

Objective evidence that a financial asset is impaired includes:

- significant financial difficulty of the issuer or borrower;
- a breach of contract, such as default or delinquency in interest or principal payments;
- the Company, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Company would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganization; or the disappearance of an active market for the financial asset because of financial difficulties.

SK hynix Inc.
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2. Significant Accounting Policies, Continued

2.10 Impairment of financial assets, Continued

(d) Presentation of credit loss allowance on financial position

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

(e) Write-off

The Company writes off a financial asset when it has no reasonable expectations of recovering the contractual cash flows on a financial asset in its entirety or a portion thereof. For corporate customers, the Company individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. However financial assets that are written off could still be subject to collection activities according to the Company's past due collection process.

2.11 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.

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:

	<u>Useful lives (years)</u>
Buildings	10 - 50
Structures	10 - 20
Machinery	5 - 15
Vehicles	5 - 10
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.

SK hynix Inc.
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2. Significant Accounting Policies, Continued

2.12 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.

2.13 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:

	<u>Useful lives (years)</u>
Industrial rights	5 - 10
Development costs	2
Other intangible assets	4 - 20

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.

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2. Significant Accounting Policies, Continued

2.13 Intangible assets, continued

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.

2.14 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.

(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.

2.15 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 is depreciated on a straight-line basis over 40 years.

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.

2.16 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.

SK hynix Inc.
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2. Significant Accounting Policies, Continued

2.16 Impairment of non-financial assets, continued

The value in use is estimated by applying a pre-tax discount rate that reflects 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 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.

2.17 Trade payables and other payables

Trade payables and other payables are liabilities that the Company has received but have not been paid for goods or services before the end of the reporting period. The liability is unsecured and it usually paid within 30 days of recognition. Trade payables and other payables were marked current unless the due date was 12 months after the reporting period. Those liabilities are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method.

2.18 Leases

The Company assesses whether a contract is or contains a lease at inception of a contract. Under K-IFRS No. 1116, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

(i) As a lessee

The Company recognizes for a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, the initial amount of the lease liability, adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove of the underlying asset, or to restore the underlying asset or the site on which the underlying asset is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In case that ownership of the right-of-use asset is transferred at the end of the lease term, or the cost of the right-of-use asset includes the exercise price of a purchase option, the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset may be reduced by an impairment loss or adjusted for remeasurements of the lease liability.

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2. Significant Accounting Policies, Continued

2.18 Leases, Continued

(i) As a lessee, Continued

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The Company generally uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability consist of the following:

- fixed payments (including in-substance fixed payments)
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable under a residual value guarantee
- the exercise price under a purchase option that the Company is reasonably certain to exercise
- lease payments in an optional renewal period, if the Company is reasonably certain to exercise extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is subsequently increased by the interest expense recognized for the lease liability and decreased by reflecting the payment of the lease. The lease liability is remeasured when there is a change in future lease payments arising from changes in an index or a rate (interest rate), if there's a change in the Company's estimate of the amount expected to be paid under a residual value guarantee, or if the Company changes in the assessment of whether the option to buy or extend is reasonably certain to be exercised or not to exercise the termination option.

When the lease liabilities are remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

A lessee shall remeasure the lease liability as an adjustment to the right-of-use asset, if either:

- a change in the lease term or a change in circumstances or significant events that result in a change in the assessment of the exercise of the purchase option. In such cases, the lease liability is remeasured by discounting the modified lease payment at the revised discount rate;
- the lease payment changes due to changes in the index or rate (interest rate) or the amount expected to be paid according to the residual value guarantee. In such cases, the lease liability measures the modified lease fee again by discounting it at an unchanged discount rate. However, if a change in the variable interest rate causes a change in the lease payments, the revised discount rate that reflects the change in interest rates is used; or
- the lease agreement changes and is not accounted for as a separate lease. In such cases, the lease liability is remeasured by discounting the modified lease payment at the revised discount rate as of the effective date of the lease change, based on the lease term of the modified lease.

The Company has elected not to recognize right-of-use assets and lease liabilities for some leases of low-value assets and short-term leases. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

SK hynix Inc.
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2. Significant Accounting Policies, Continued

2.18 Leases, Continued

(i) As a lessee, Continued

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for certain agreements, the Company has elected practical expedient not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company separately presents right-of-use assets that do not meet the definition of investment property in the statement of financial position.

Subsequently, the right-of-use asset is accounted for consistently with the accounting policies applicable to the asset.

(ii) As a lessor

As a lessor, the Company determines whether the lease is a finance lease or an operating lease at the inception of the lease.

To classify each lease, the Company generally determines whether the lease transfers most of the risks and rewards of ownership of the underlying asset. If most of the risks and rewards of ownership of the underlying asset are transferred to the lessee, the lease is classified as a finance lease, otherwise the lease is classified as an operating lease. As part of this assessment, the Company considers whether the lease term represents a significant portion of the economic life of the underlying asset.

When the Company is an intermediate lessor, it accounts for its interests in the head lease and the sublease separately. In addition, the classification of a lease is determined by the right-of-use asset arising from the head lease, not the underlying asset. If a head lease is a short-term lease to which the Company applies the recognition exemption, then the sub-lease is classified as an operating lease.

The Company has applied K-IFRS No. 1115 *'Revenue from Contracts with Customers'* to allocate consideration in the contract to each lease and non-lease components.

The Company recognizes the lease payments received from operating leases on a straight-line basis over the lease term as revenue in 'other revenue'.

The accounting policies that the Company has applied to the comparative period as lessors are not different from those in K-IFRS No. 1116.

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2. Significant Accounting Policies, Continued

2.19 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 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.

(c) Derecognition of financial liability

The Company derecognizes financial liability when its contractual obligations are discharged, cancelled or expire. The Company also derecognizes a financial liability, when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value. On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

2.20 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. Remeasurements are recognized in profit or loss in the period in which they arise.

(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.

SK hynix Inc.
Notes to the Separate Financial Statements
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2. Significant Accounting Policies, Continued

2.20 Employee benefits, Continued

(c) Retirement benefits: defined benefit plans, Continued

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 benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Company recognizes gains or losses on a settlement of defined benefit plan when the settlement 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.

2.21 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.

SK hynix Inc.
Notes to the Separate Financial Statements
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2. Significant Accounting Policies, Continued

2.22 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* in Korea.

(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 are classified as intangible asset and are 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.

SK hynix Inc.
Notes to the Separate Financial Statements
December 31, 2020 and 2019

2. Significant Accounting Policies, Continued

2.23 Foreign currencies

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which each entity operates (the "functional currency"). The consolidated financial statements are presented in Korean won, which is the Parent Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in profit or loss. They are deferred in other comprehensive income if they relate to qualifying cash flow hedges and qualifying effective portion of net investment hedges, or are attributable to monetary part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of comprehensive income, within finance costs. All other foreign exchange gains and losses are presented in the statement of comprehensive income within 'other income or other expenses'.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities held at fair value through other comprehensive income are recognized in other comprehensive income.

2.24 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 disposes treasury shares, the consideration paid or received is directly recognized in equity.

2.25 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.

The Company accounts for share-based payment, with options to choose either cash-settled or equity-settled share-based payment, in accordance with the substance of transactions.

SK hynix Inc.
Notes to the Separate Financial Statements
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2. Significant Accounting Policies, Continued

2.26 Revenue from contracts with customers

Revenue is measured based on the promised consideration specified in a contract with a customer. The Company recognizes revenue when the Company transfers a promised good or service to a customer.

Revenue is recognized when the customer obtains control of that asset, which is typically upon delivery or shipment depending on the terms of the contract.

When the good is defective, the customer is granted the right to return the defective goods in exchange for a functioning product or cash.

Revenue is measured at the amount of consideration for the sale of goods, reflecting the expected amount of return estimated through historical information. The Company's right to recover products from customers and refund liability are recognized.

Refund liability is initially measured at the former carrying amount of the product less any expected costs to recover those products. Refund liability is included in other current liabilities (See note 18) and right to recover products from customers is included in other current assets (See note 9). The Company reviews its estimate of expected returns at the end of each reporting period and updates the amounts of the asset and liabilities accordingly.

2.27 Finance income and finance expenses

The Company's finance income and finance expenses include:

- Interest income;
- Interest expense;
- Dividend income;
- The net gain or loss on financial assets at fair value through profit or loss;
- Gain or loss on foreign exchange(currency) translation for financial asset and liabilities;
- Impairment losses and reversals on investment in debt securities carried at amortized cost method; and
- The gain on the remeasurement to fair value of any pre-existing interest in an acquire in a business combination

The Company uses effective interest rate method for recognizing interest income and expense. Dividend income is recognized in profit or loss on the date that the Company's right to receive dividend is established.

The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- The gross carrying amount of the financial asset; or
- The amortized cost of the financial liability

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

SK hynix Inc.
Notes to the Separate Financial Statements
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2. Significant Accounting Policies, Continued

2.28 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 income 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 amount of current tax payable or receivable is the best estimate of tax amount expected to be paid or received that reflects uncertainty related to income taxes. The taxable income 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.

(b) Deferred tax, Continued

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 the 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.
Notes to the Separate Financial Statements
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2. Significant Accounting Policies, Continued

2.29 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 Parent 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 stock options.

2.30 Changes in accounting policies

From January 1, 2020, the Company has changed its accounting policy by adopting accounting treatments in accordance with agenda decisions for 'Lease Term and Useful Life of Leasehold Improvements' issued by IFRS Interpretations Committee on December 16, 2019. The Company determines the lease term as the non-cancellable period of a lease, together with both (a) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and (b) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. When the lessee and the lessor each has the right to terminate the lease without permission from the other party, the Company has considered a termination penalty in determining the period for which the contract is enforceable.

The Company has adopted the above decisions made by the Interpretations Committee of International Accounting Standards as a change in accounting policies, and the main effects of such changes for the relevant periods are as follows:

SK hynix Inc.
Notes to the Separate Financial Statements
December 31, 2020 and 2019

2. Significant Accounting Policies, Continued

2.30 Changes in accounting policies, Continued

- Back-end Process Service Contracts and Machinery Rental Contracts

For the determination of lease terms of certain back-end process service contracts and machinery rental contracts, the Company identified the contract period as the enforceable lease period during the year ended December 31, 2019 since the leaseholder's consent was required to extend such contracts. However, upon adoption of aforementioned accounting policy, considering the economic loss the Company would incur if the contract was not extended, more extended period was identified as lease period. Due to this change of accounting policies, the lease period has been extended and related lease liabilities and right-of-use assets have increased.

The effects of the above changes in accounting policies have been restated on the statements of financial position, the statement of comprehensive income, and the cash flow statement as of the beginning and the end of the years ended December 31, 2020 and 2019 and the impacts are as follows:

(In millions of Korean won)

	January 1, 2019		
	Before restatement	Effects of restatement	Total
Current assets	₩ 15,897,819	₩ -	₩ 15,897,819
Non-current assets	45,772,848	435,423	46,208,271
Right-of-use assets, net	761,758	435,423	1,197,181
Total Assets	61,670,667	435,423	62,106,090
Current liabilities	11,858,743	100,315	11,959,058
Lease liabilities	196,332	100,315	296,647
Non-current liabilities	4,151,031	335,108	4,486,139
Lease liabilities	569,186	335,108	904,294
Total Liabilities	16,009,774	435,423	16,445,197
Total Equity	₩ 45,660,893	₩ -	₩ 45,660,893

SK hynix Inc.
Notes to the Separate Financial Statements
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2. Significant Accounting Policies, Continued

2.30 Changes in accounting policies, Continued

(In millions of Korean won)

	December 31, 2019		
	Before restatement	Effects of restatement	Total
Current assets	₩ 11,725,531	₩ -	₩ 11,725,531
Non-current assets	45,984,539	458,856	46,443,395
Right-of-use assets, net	608,253	456,082	1,064,335
Deferred tax assets	278,162	2,774	280,936
Total Assets	<u>57,710,070</u>	<u>458,856</u>	<u>58,168,926</u>
Current liabilities	6,258,882	87,933	6,346,815
Lease liabilities	141,217	87,933	229,150
Non-current liabilities	5,406,967	378,236	5,785,203
Lease liabilities	478,947	378,236	857,183
Total Liabilities	<u>11,665,849</u>	<u>466,169</u>	<u>12,132,018</u>
Total Equity	<u>₩ 46,044,221</u>	<u>₩ (7,313)</u>	<u>₩ 46,036,908</u>

(In millions of Korean won)

	December 31, 2020		
	Amount based on previous policy	Adjustment	Reported amount
Current assets	₩ 13,310,241	₩ -	₩ 13,310,241
Non-current assets	50,367,346	393,418	50,760,764
Right-of-use assets, net	608,445	393,418	1,001,863
Total Assets	<u>63,677,587</u>	<u>393,418</u>	<u>64,071,005</u>
Current liabilities	7,369,995	118,371	7,488,366
Lease liabilities	126,344	118,371	244,715
Non-current liabilities	6,741,123	267,212	7,008,335
Deferred tax liabilities	199,339	2,972	202,311
Lease liabilities	483,924	264,240	748,164
Total Liabilities	<u>14,111,118</u>	<u>385,583</u>	<u>14,496,701</u>
Total Equity	<u>₩ 49,566,469</u>	<u>₩ 7,835</u>	<u>₩ 49,574,304</u>

SK hynix Inc.
Notes to the Separate Financial Statements
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2. Significant Accounting Policies, Continued

2.30 Changes in accounting policies, Continued

(In millions of Korean won)

	Year ended December 31, 2019		
	Before restatement	Effects of restatement	Total
Revenue	₩ 25,320,755	₩ -	₩ 25,320,755
Cost of sales	18,387,763	(6,461)	18,381,302
Gross profit	6,932,992	6,461	6,939,453
Selling and administrative expenses	4,949,753	-	4,949,753
Operating profit	1,983,239	6,461	1,989,700
Finance income	902,300	-	902,300
Finance expenses	1,003,573	16,548	1,020,121
Other income	108,735	-	108,735
Other expenses	177,100	-	177,100
Profit before income tax	1,813,601	(10,087)	1,803,514
Income tax expense	329,307	(2,774)	326,533
Profit for the year	1,484,294	(7,313)	1,476,981
Other comprehensive income (loss)	(76,701)	-	(76,701)
Basic earnings per share (in won)	2,170	(11)	2,159
Diluted earnings per share (in won)	2,170	(11)	2,159

(In millions of Korean won)

	Year ended December 31, 2020		
	Amount based on previous policy	Adjustment	Reported amount
Revenue	₩ 30,524,987	₩ -	₩ 30,524,987
Cost of sales	20,762,615	(9,203)	20,753,412
Gross profit	9,762,372	9,203	9,771,575
Selling and administrative expenses	5,225,698	-	5,225,698
Operating profit	4,536,674	9,203	4,545,877
Finance income	2,574,509	-	2,574,509
Finance expenses	1,416,934	(11,691)	1,405,243
Other income	83,023	-	83,023
Other expenses	148,132	-	148,132
Profit before income tax	5,629,140	20,894	5,650,034
Income tax expense	1,429,221	2,972	1,432,193
Profit for the year	4,199,919	17,922	4,217,841
Other comprehensive income (loss)	1,966	-	1,966
Basic earnings per share (in won)	6,140	26	6,166
Diluted earnings per share (in won)	6,139	26	6,165

SK hynix Inc.
Notes to the Separate Financial Statements
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2. Significant Accounting Policies, Continued

2.30 Changes in accounting policies, Continued

(In millions of Korean won)

	Year ended December 31, 2019		
	Before restatement	Effects of restatement	Total
Cash flows from operating activities	₩ 4,790,532	₩ 66,549	₩ 4,857,081
Cash flows from investing activities	(5,552,601)	-	(5,552,601)
Cash flows from financing activities	700,907	(66,549)	634,358

2.31 Approval of the Separate Financial Statements

The separate financial statements were authorized for issuance by the board of directors on January 28, 2021, which will be submitted for approval at the shareholders' meeting to be held on March 30, 2021.

3. Critical Accounting Estimates and Assumptions

The preparation of financial statements requires the Group to make estimates and assumptions concerning the future. Management also needs to exercise judgement in applying the Group's accounting policies. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. As the resulting accounting estimates will, by definition, seldom equal the related actual results, it can contain a significant risk of causing a material adjustment.

During 2020, the spread of Coronavirus disease 2019 ("COVID-19") has a material impact on the global economy. It may have a negative impact; such as, decrease in productivity, decrease or delay in sales, collection of existing receivables and others. Accordingly, it may have a negative impact on the financial position and financial performance of the Company.

Critical accounting estimates and assumptions used in preparing financial statements can be adjusted according to changes in uncertainty caused by COVID-19, and the ultimate impact on business, financial position and business performance is currently unpredictable.

The following are estimates and assumptions about management decisions and significant risks that may affect the adjustment of the carrying amount of assets and liabilities in the following financial years: Additional information on significant judgements and estimates for some items is included in the separate footnotes.

(1) Fair value of financial instruments

In principle, the fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The company is making judgments on the selection and assumptions of various valuation techniques based on important market conditions as of the end of the reporting period. (see footnote 5)

SK hynix Inc.
Notes to the Separate Financial Statements
December 31, 2020 and 2019

3. Critical Accounting Estimates and Assumptions, Continued

(2) Corporate income tax

There is uncertainty in determining the final tax effect as corporate tax on the Company's taxable income is calculated by applying various national tax laws and tax authorities' decisions. The Company recognized the corporate tax effect, which is expected to be borne in the future as a result of business activities until the end of the reporting period, as current tax and deferred tax after the best estimation process. However, the actual future final corporate tax burden may not be consistent with the assets and liabilities recognized, and this difference may affect current and deferred tax assets and liabilities when the final tax effect is confirmed.

The Company will pay additional corporate taxes calculated by the method prescribed by the tax law when a certain amount of taxable income is not used for investment, salary increase, etc. for a certain period of time. Therefore, when measuring current and deferred taxes during the period, the tax effects should be reflected, and the corporate tax to be borne by the Company depends on the level of investment and salary growth in each year, so there is uncertainty in calculating the final tax effect.

In accordance with K-IFRS No.1012, the Company reviews uncertainty in its tax treatment and reflects the impact of uncertainty in its financial statements if the tax authorities conclude that uncertainty is unlikely to be accepted, using a method that expects better prediction of uncertainty:

- (a) Most likely: the single most likely amount within the range of possible outcomes
- (b) Expected value: the sum of all amounts in the range of possible outcomes multiplied by each probability;

(3) Provisions

The company calculates provisions related to litigation costs as of the end of the reporting period, which are determined by estimates based on past experience (see footnote 19).

(4) Net defined benefit liabilities

The present value of the net defined benefit liability is affected by various factors determined by the actuarial method, especially changes in the discount rate (see footnote 20).

(5) Inventories

Estimating the net realizable value of inventories is based on the most reliable evidence available as of the estimated date for the amount feasible from inventories. In addition, if the Company confirms the circumstances in which an event exists at the end of the reporting period, it shall estimate the change in price or cost directly related to the event.

(6) Revenue recognition

A refund liability and a right to the returned goods are recognized for the products expected to be returned once they are sold. Accumulated experience is used to estimate such returns at the time of sale at a portfolio level (expected value method), and the Group's revenue is affected by changes in expected return rate.

Sales of goods are recognized based on considerations specified in the contract, net of sales incentives, when control of the products has transferred. The sales deduction, which affects the Company's revenue, is reasonably estimated based on historical experience and past contracts.

(7) Development cost

The recoverable amounts of development cost have been determined based on value-in-use calculations, and those calculations are based on estimates.

SK hynix Inc.
Notes to the Separate Financial Statements
December 31, 2020 and 2019

3. Critical Accounting Estimates and Assumptions, Continued

(8) Depreciation of property, plant and equipment and intangible assets

The depreciation method, residual values and useful lives of property, plant and equipment and intangible assets are reviewed, and adjusted if appropriate, at the end of each reporting period. If the resulting estimates differ from previous estimates, the difference is accounted for as a change in accounting estimates in accordance with K-IFRS 1008 'Accounting Policies, Changes in Accounting Estimates and Errors'.

(9) Goodwill

The recoverable amount of cash-generating units to review goodwill for impairment is determined on the basis of their net fair value.

(10) Lease

In determining the lease term, the Company considers all relevant facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For warehouses, retail stores, and equipment leases, the most relevant factors are generally as follows:

- If a significant penalty is to be paid to terminate (not to extend), generally the Company exercises the option to extend (not to extend).
- It is generally fairly certain that the Company exercises the option to extend (not exercise the option to terminate) if the lease is expected to have significant residual value.
- In other cases than the above, the Company will consider other factors, including the lease period and costs, and the discontinuation required to replace the leased asset.

Most extension options in office and vehicle transport leases are not included in lease liabilities because the Company can replace the asset without significant cost or business interruption.

Potential future cash outflows were not included in the lease liability as the lessee's exercise of extension options (or non-exercise of exit options) was not quite clear as of the end of the prior term.

Reevaluate the lease term if the option is actually exercised (or not exercised) or the Company is liable to exercise (not exercised) the option. Only when significant events occur or there are significant changes in the circumstances that affect the lessee's control of the lease term, the consolidator changes its judgment to ensure that the option to extend (or will not be exercised) is significant.

SK hynix Inc.
Notes to the Separate Financial Statements
December 31, 2020 and 2019

4. Carrying Amounts of Financial Instruments by Categories

(1) Carrying amounts of financial assets by categories as of December 31, 2020 and 2019 are as follows:

(In millions of Korean won)

	December 31, 2020	
	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income or loss
Cash and cash equivalents	₩ -	₩ -
Short-term financial instruments	227,500	-
Short-term investment assets	1,110,955	-
Trade receivables ¹	-	11,500
Loans and other receivables	-	-
Other financial assets	-	-
Long-term investment assets	6,024,478	-
	₩ 7,362,933	₩ 11,500

(In millions of Korean won)

	December 31, 2020	
	Financial assets at amortized cost	Total
Cash and cash equivalents	₩ 2,202,138	₩ 2,202,138
Short-term financial instruments	80,000	307,500
Short-term investment assets	-	1,110,955
Trade receivables ¹	4,173,600	4,185,100
Loans and other receivables	2,124,855	2,124,855
Other financial assets	11	11
Long-term investment assets	-	6,024,478
	₩ 8,580,604	₩ 15,955,037

¹ The Company transferred some of the trade receivables and majority of the risks and rewards to the customer. Accordingly, the Company derecognized trade receivables from the financial statement on the date of assets transfer and recognized gain or loss on disposal of trade receivables.

(In millions of Korean won)

	December 31, 2019		
	Financial assets at fair value through profit or loss	Financial assets at amortized cost	Total
Cash and cash equivalents	₩ -	₩ 1,672,492	₩ 1,672,492
Short-term financial instruments	-	257,500	257,500
Short-term investment assets	973,513	-	973,513
Trade receivables	-	3,646,659	3,646,659
Loans and other receivables	-	89,806	89,806
Other financial assets	-	11	11
Long-term investment assets	4,295,661	-	4,295,661
	₩ 5,269,174	₩ 5,666,468	₩ 10,935,642

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4. Carrying Amounts of Financial Instruments by Categories, Continued

(2) Carrying amounts of financial liabilities by categories as of December 31, 2020 and 2019 are as follows:

(In millions of Korean won)

	December 31, 2020		
	Financial liabilities at amortized cost	Other financial liabilities	Total
Trade payables	₩ 1,570,339	₩ -	₩ 1,570,339
Other payables	2,356,309	-	2,356,309
Other non-trade payables ¹	1,191,824	-	1,191,824
Borrowings	7,197,189	-	7,197,189
Other financial liabilities	-	82,496	82,496
Lease liabilities	992,879	-	992,879
	<u>₩ 13,308,540</u>	<u>₩ 82,496</u>	<u>₩ 13,391,036</u>

(In millions of Korean won)

	December 31, 2019		
	Financial liabilities at fair value through profit or loss	Financial liabilities at amortized cost	Total
Trade payables	₩ -	₩ 1,158,561	₩ 1,158,561
Other payables	-	1,926,383	1,926,383
Other non-trade payables	-	1,103,453	1,103,453
Borrowings	-	6,463,781	6,463,781
Other financial liabilities	15,532	-	15,532
Lease liabilities	-	1,086,333	1,086,333
	<u>₩ 15,532</u>	<u>₩ 11,738,511</u>	<u>₩ 11,754,043</u>

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, 2020 and 2019 are as follows:

(In millions of Korean won)

	<u>2020</u>	<u>2019</u>
Financial assets at amortized cost		
Interest income	₩ 30,828	21,945
Foreign exchange differences	(701,130)	188,815
Reversal of impairment	2	3
	<u>(670,300)</u>	<u>210,763</u>
Financial assets at fair value through profit or loss		
Dividend income	1,060	358
Gain on disposal	18,550	31,428
Gain (loss) on valuation	1,727,982	(230,005)
Foreign exchange differences	(40,222)	209,563
	<u>1,707,370</u>	<u>11,344</u>
Financial liabilities measured at amortized cost		
Interest expenses	(119,875)	(131,983)
Foreign exchange differences	220,055	(234,413)
	<u>100,180</u>	<u>(366,396)</u>
	<u>₩ 1,137,250</u>	<u>(144,289)</u>

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 separate financial statements do not include all the financial risk management policies and disclosures that are required in the separate annual financial statements; therefore, see the separate annual financial statements for full disclosure. There were no significant changes in risk management department and risk management policies subsequent to December 31, 2019.

(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, Japanese yen and Chinese yuan. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities in foreign currencies.

Monetary foreign currency assets and liabilities as of December 31, 2020 are as follows:

(In millions of Korean won and millions of foreign currencies)

	Assets		Liabilities	
	Foreign currencies	Korean won equivalent	Foreign currencies	Korean won equivalent
USD	7,304 ₩	7,947,286	3,611 ₩	3,928,774
EUR	-	-	23	31,389
JPY	347	3,656	120,851	1,274,081
CNY	1,776	296,557	-	22

Also, as described in note 22, the Company entered into a fixed-to-fixed cross currency swap and a floating-to-fixed cross currency interest rate swap to hedge foreign currency rate risk relating to bonds and borrowings denominated in foreign currencies

When the exchange rate of the functional currency for each foreign currency fluctuates by 10% as of December 31, 2020, the impact of the change in the exchange rate on profit before income tax expenses are as follows:

(In millions of Korean won)

		<u>If increased by 10%</u>	<u>If decreased by 10%</u>
USD	₩	510,088 ₩	(510,088)
EUR		(3,139)	3,139
JPY		(127,043)	127,043
CNY		29,653	(29,653)

SK hynix Inc.
Notes to the Separate Financial Statements
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5. Financial Risk Management, Continued

(1) Financial risk management, Continued

(a) Market risk, 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 due to changes in future market interest rate. The interest rate risk mainly arises through floating rate borrowings, and is partially offset by interests received from floating rate financial assets.

The Company has signed a currency interest rate swap contract on floating interest rate borrowings of ₩544,000 million. Therefore, the changes in interest costs subject to fluctuation of floating interest rates do not have an impact on the profit before income tax for the year ended December 31, 2020.

As of December 31, 2020, if interest rates on borrowings had been 100 basis points higher/lower with all other variables held constant, profit before income tax would have been ₩13,882 million (2019 : ₩15,455 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, 2020.

Equity investments that the Group owns are all unlisted equities and the effect of the equity investments on the Group's profit for the year and other comprehensive income are explained in note 11.

(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 its 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 continuously managing trade and other receivables by reevaluating the customer's credit worthiness and securing collaterals in order to limit its credit risk exposure.

The 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, 2020 is the carrying amount of trade and other receivables.

SK hynix Inc.
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5. Financial Risk Management, Continued

(1) Financial risk management, Continued

(b) Credit risk, Continued

(ii) Other financial assets

Credit risk also arises from other financial assets such as cash and cash equivalents, short-term financial instruments, long-term and short-term investment assets, and 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, 2020 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.

(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 basis 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, 2020 and 2019 are as follows:

(In millions of Korean won)

		December 31, 2020				
		Less than 1 year	1 - 2 years	2 - 5 years	More than 5 years	Total
Borrowings ¹	₩	1,739,891	1,165,123	3,673,115	1,120,967	7,699,096
Lease liabilities		248,593	153,665	242,129	465,723	1,110,110
Trade payables		1,570,339	-	-	-	1,570,339
Other payables		2,083,920	56,902	160,480	78,336	2,379,638
Other non-trade payables		1,149,229	14,554	9,669	-	1,173,452
Other financial liabilities		(4,527)	(4,824)	77,332	13,460	81,441
Financial guarantee contract		87,040	-	-	-	87,040
	₩	<u>6,874,485</u>	<u>1,385,420</u>	<u>4,162,725</u>	<u>1,678,486</u>	<u>14,101,116</u>

¹ The cash flow includes payment of interest under terms and condition of borrowing contracts.

SK hynix Inc.
Notes to the Separate Financial Statements
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5. Financial Risk Management, Continued

(1) Financial risk management, Continued

(c) Liquidity risk, Continued

(In millions of Korean won)

		December 31, 2019				
		Less than 1 year	1 - 2 years	2 - 5 years	More than 5 years	Total
Borrowings ¹	₩	1,819,175	1,729,285	2,568,355	794,297	6,911,112
Lease liabilities		231,704	242,212	303,831	432,902	1,210,649
Trade payables		1,158,561	-	-	-	1,158,561
Other payables		1,926,383	-	-	-	1,926,383
Other non-trade payables		1,088,225	15,228	-	-	1,103,453
Other financial liabilities		(15,826)	(13,862)	(16,732)	5,522	(40,898)
Financial guarantee contract		69,468	-	-	-	69,468
	₩	<u>6,277,690</u>	<u>1,972,863</u>	<u>2,855,454</u>	<u>1,232,721</u>	<u>12,338,728</u>

¹ The cash flow includes payment of interest under terms and conditions of borrowing contracts.

The table above analyzes the Company's 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, return capital to shareholders and proceeds and repayments of borrowings, and issue new shares or sell assets to reduce debt.

The debt-to-equity ratio and net borrowing ratio as of December 31, 2020 and 2019 are as follows:

(In millions of Korean won)

	December 31, 2020	December 31, 2019
Total liabilities (A)	₩ 14,496,701	₩ 12,132,018
Total equity (B)	49,574,304	46,036,908
Cash and cash equivalents and others ¹ (C)	3,620,593	2,903,505
Total borrowings (D)	7,197,189	6,463,781
Debt-to-equity ratio (A/B)	29.24%	26.35%
Net borrowing ratio (D-C)/B	7.21%	7.73%

¹ Total amount of cash and cash equivalents, short-term investment assets and short-term financial instruments.

SK hynix Inc.
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5. Financial Risk Management, Continued

(3) Fair value

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

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

(a) The following table presents the Company's carrying amounts and fair values of financial instruments by categories, including their levels in the fair value hierarchy, as of December 31, 2020 and 2019:

(In millions of Korean won)

	Carrying amounts	December 31, 2020			
		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Short-term financial instruments	₩ 227,500	-	-	227,500	227,500
Short-term investment assets	1,110,955	-	1,110,955	-	1,110,955
Trade receivables ¹	11,500	-	11,500	-	11,500
Long-term investment assets	6,024,478	-	-	6,024,478	6,024,478
	<u>7,374,433</u>	<u>-</u>	<u>1,122,455</u>	<u>6,251,978</u>	<u>7,374,433</u>
Financial assets not measured at fair value					
Cash and cash equivalents ²	2,202,138	-	-	-	-
Short-term financial instruments ²	80,000	-	-	-	-
Trade receivables ²	4,173,600	-	-	-	-
Loans and other receivables ²	2,124,855	-	-	-	-
Other financial assets ²	11	-	-	-	-
	<u>8,580,604</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>15,955,037</u>	<u>-</u>	<u>1,122,455</u>	<u>6,251,978</u>	<u>7,374,433</u>
Financial liabilities measured at fair value					
Other financial liabilities	82,496	-	82,496	-	82,496
Financial liabilities not measured at fair value					
Trade payables ²	1,570,339	-	-	-	-
Other payables ²	2,356,309	-	-	-	-
Other non-trade payables ²	1,191,824	-	-	-	-
Borrowings	7,197,189	-	7,318,525	-	7,318,525
Lease liabilities ²	992,879	-	-	-	-
	<u>13,308,540</u>	<u>-</u>	<u>7,318,525</u>	<u>-</u>	<u>7,318,525</u>
₩	<u>13,391,036</u>	<u>-</u>	<u>7,401,021</u>	<u>-</u>	<u>7,401,021</u>

¹ The Company transferred some of the trade receivables and majority of the risks and rewards to the customer. Accordingly, the Company derecognized trade receivables from the financial statement on the date of assets transfer and recognized gain or loss on disposal of trade receivables.

² The Company did not present fair values of financial assets and liabilities of which carrying amounts are considered to be a reasonable approximation of fair values.

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5. Financial Risk Management, Continued

(3) Fair value, Continued

(In millions of Korean won)

	Carrying amounts	December 31, 2019			
		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Short-term investment asset	₩ 973,513	-	973,513	-	973,513
Long-term investment asset	4,295,661	-	-	4,295,661	4,295,661
	<u>5,269,174</u>	<u>-</u>	<u>973,513</u>	<u>4,295,661</u>	<u>5,269,174</u>
Financial assets not measured at fair value					
Cash and cash equivalents ¹	1,672,492	-	-	-	-
Short-term financial instruments ¹	257,500	-	-	-	-
Trade receivables ¹	3,646,659	-	-	-	-
Loans and other receivables ¹	89,806	-	-	-	-
Other financial assets ¹	11	-	-	-	-
	<u>5,666,468</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>10,935,642</u>	<u>-</u>	<u>973,513</u>	<u>4,295,661</u>	<u>5,269,174</u>
Financial liabilities measured at fair value					
Other financial liabilities	15,532	-	15,532	-	15,532
Financial liabilities not measured at fair value					
Trade payables ¹	1,158,561	-	-	-	-
Other payables ¹	1,926,383	-	-	-	-
Other non-trade payables ¹	1,103,453	-	-	-	-
Borrowings	6,463,781	-	6,525,654	-	6,525,654
Lease liabilities ¹	1,086,333	-	-	-	-
	<u>11,738,511</u>	<u>-</u>	<u>6,525,654</u>	<u>-</u>	<u>6,525,654</u>
	<u>₩ 11,754,043</u>	<u>-</u>	<u>6,541,186</u>	<u>-</u>	<u>6,541,186</u>

¹ The Company did not present fair values of financial assets and liabilities of which carrying amounts are considered to be a reasonable approximation of fair values.

SK hynix Inc.
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5. Financial Risk Management, Continued

(3) Fair value, Continued

(b) Valuation Techniques

The valuation techniques of recurring and non-recurring fair value measurements and quoted prices classified as level 2 or level 3 are as follows:

(Millions of Korean won)

	<u>Fair value</u>	<u>Level</u>	<u>Valuation Techniques</u>
Financial assets at fair value through profit or loss:			
Short-term financial instruments	₩ 227,500	3	Present value technique
Short-term investment assets	1,110,955	2	Present value technique
Long-term investment assets	6,024,478	3	Present value technique and others
Financial assets at fair value through other comprehensive income or loss:			
Trade receivables	₩ 11,500	2	Present value technique
Financial liabilities at fair value through other comprehensive income or loss:			
Other financial liabilities	₩ 82,496	2	Present value technique

Long-term investments measured at level 3 in the fair value hierarchy include investments in special purpose companies of BCPE Pangea Intermediate Holdings Cayman, L.P. ("SPC1") amounting to ₩3,595,494 million and BCPE Pangea Cayman2 Limited ("SPC2") amounting to ₩2,351,225 million in connection with the Company's investments in KIOXIA Holdings Corporation ("KIOXIA", formerly, Toshiba Memory Corporation) (see note 11). The fair value of the long-term investments is measured based on the equity value of the underlying asset, KIOXIA estimated utilizing present value discount model.

The fair value of equity investment in SPC1 is measured using an option pricing model allocating the estimated fair value of KIOXIA equity between investors based on distribution priority pursuant to the underlying investment arrangement together with consideration of expected KIOXIA initial public offering and SPC1 liquidation.

The fair value of debt investment in SPC2 convertible bonds is measured based on the estimated KIOXIA's equity value and SPC2' equity ownership in KIOXIA (15.0%).

SK hynix Inc.
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5. Financial Risk Management, Continued

(3) Fair value, Continued

(b) Valuation Techniques, Continued

The valuation techniques and key inputs used in valuation of the equity investment in SPC1 and investment in SPC2 convertible bonds are as follows:

(In millions of Korean won)

	Fair value	Valuation Techniques	Level 3 inputs	Input Range
Equity investment in SPC1	₩ 3,595,494	Present value technique and option-pricing method	Terminal growth rate	0%
			Weighted-average capital cost	7.8%
			Expected expiration(years)	2.92
			Volatility	42.0%
			Risk free rate	-0.13%
SPC2 convertible bonds	2,351,225	Present value technique	Terminal growth rate	0%
			Weighted-average capital cost	7.8%

In these level 3 significant unobservable inputs, the higher in terminal growth rate or the lower in weighted-average capital cost will result the higher fair value of the equity investment in SPC1, while any change in volatility and risk free rate may have either positive or negative impact on the fair value of the investment in SPC1. In addition, the higher in terminal growth rate and the lower in weighted-average capital cost will result in the higher fair value of the investment in SPC2 convertible bonds.

Any positive or negative changes in the above inputs will have a significant and direct impact on the fair value of investments in SPC1 and SPC2, respectively. They are significant, but unobservable. Accordingly, the investments are classified as fair value hierarchy level 3.

The sensitivity analysis results for the effect of changes in each long-term investment input classified as Level 3 under sensitivity analysis on fair value are as follows:

(In millions of Korean won)

	Positive fluctuation	Negative fluctuation
Equity investment in SPC1 ¹	₩ 906,367	₩ (738,474)
SPC2 convertible bonds ¹	590,076	(456,627)

¹ The changes in fair value are calculated by increasing or decreasing the terminal growth rate and weighted-average capital costs, which are major unobservable inputs by 0.5%.

(c) There was no transfer between fair value hierarchy levels during the year ended December 31, 2020 and changes in financial assets classified as level 3 fair value measurements during the year ended December 31, 2020 are as follows:

(In millions of Korean won)

	Short-term financial instruments	Long-term investment assets
Beginning balance	₩ -	₩ 4,295,661
Acquisition	-	68,686
Disposal	-	(381)
Transfer ¹	227,500	(24,980)
Valuation	-	1,725,714
Foreign exchange difference	-	(40,222)
Ending balance	₩ 227,500	₩ 6,024,478

¹ Certain long-term investment assets were transferred to associates and joint ventures.

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6. Restricted Financial Instruments

Details of restricted financial instruments as of December 31, 2020 and 2019 are as follows:

<i>(In millions of Korean won)</i>	December 31, 2020	December 31, 2019	Description
Short-term financial instruments	₩ 227,500	₩ 227,500	Restricted for supporting small business Bank overdraft guarantee deposit
Other financial assets	11	11	
	<u>₩ 227,511</u>	<u>₩ 227,511</u>	

7. Trade Receivables and Loans and Other Receivables

(1) Details of trade receivables as of December 31, 2020 and 2019 are as follows:

<i>(In millions of Korean won)</i>	December 31, 2020	December 31, 2019
Trade receivables	₩ 26,627	₩ 38,602
Trade receivables to be collected from related parties	4,158,473	3,608,057
	<u>4,185,100</u>	<u>3,646,659</u>

(2) Details of loans and other receivables as of December 31, 2020 and 2019 are as follows:

<i>(In millions of Korean won)</i>	December 31, 2020	December 31, 2019
Current		
Other receivables	₩ 32,826	₩ 23,757
Accrued income	9,153	1,389
Short-term loans	408	1,024
Short-term guarantee and other deposits	41,655	-
	<u>84,042</u>	<u>26,170</u>
Non-current		
Long-term loans	2,016,080	1,402
Guarantee deposits	24,733	62,234
	<u>2,040,813</u>	<u>63,636</u>
	<u>₩ 2,124,855</u>	<u>₩ 89,806</u>

(3) Trade receivables and loans and other receivables, net of provision for impairment, as of December 31, 2020 and 2019 are as follows:

<i>(In millions of Korean won)</i>	December 31, 2020		
	Gross amount	Provision for impairment	Carrying amount
Trade receivables	₩ 4,185,100	₩ -	₩ 4,185,100
Current loans and other receivables	85,319	(1,277)	84,042
Non-current loans and other receivables	2,040,915	(102)	2,040,813
	<u>₩ 6,311,334</u>	<u>₩ (1,379)</u>	<u>₩ 6,309,955</u>

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December 31, 2020 and 2019

7. Trade Receivables and Loans and Other Receivables, Continued

(In millions of Korean won)

	December 31, 2019		
	Gross amount	Provision for impairment	Carrying amount
Trade receivables	₩ 3,646,659	₩ -	₩ 3,646,659
Current loans and other receivables	27,450	(1,280)	26,170
Non-current loans and other receivables	63,738	(102)	63,636
	<u>₩ 3,737,847</u>	<u>₩ (1,382)</u>	<u>₩ 3,736,465</u>

(4) Details of provision for impairment

Changes in the provision for impairment of current loans and other receivables for the years ended December 31, 2020 and 2019 are as follows:

(In millions of Korean won)

	2020	2019
Beginning balance	₩ 1,280	₩ 1,282
Reversal	(3)	(2)
Ending balance	<u>₩ 1,277</u>	<u>₩ 1,280</u>

Changes in the provision for impairment of non-current loans and other receivables for the years ended December 31, 2020 and 2019 are as follows:

(In millions of Korean won)

	2020	2019
Beginning balance	₩ 102	₩ 102
Reversal	-	-
Ending balance	<u>₩ 102</u>	<u>₩ 102</u>

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7. Trade Receivables and Loans and Other Receivables, Continued

(5) The aging analysis of trade receivables and loans and other receivables as of December 31, 2020 and 2019 are as follows:

(In millions of Korean won)

		2020					
		Not impaired					
		Overdue					
		Over 3 months					
		and less than					
		6 months					
		Not past	Less than	and less than	Over	Impaired	Total
		due	3 months	6 months	6 months		
Trade receivables	₩	4,185,100	-	-	-	-	4,185,100
Current loans and other receivables		84,042	-	-	-	1,277	85,319
Non-current loans and other receivables		2,040,813	-	-	-	102	2,040,915
	₩	<u>6,309,955</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,379</u>	<u>6,311,334</u>

(In millions of Korean won)

		2019					
		Not impaired					
		Overdue					
		Over 3 months					
		and less than					
		6 months					
		Not past	Less than	and less than	Over	Impaired	Total
		due	3 months	6 months	6 months		
Trade receivables	₩	3,646,659	-	-	-	-	3,646,659
Current loans and other receivables		26,170	-	-	-	1,280	27,450
Non-current loans and other receivables		63,636	-	-	-	102	63,738
	₩	<u>3,736,465</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,382</u>	<u>3,737,847</u>

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8. Inventories

Details of inventories as of December 31, 2020 and December 31, 2019 are as follows:

(In millions of Korean won)

	December 31, 2020		
	Acquisition cost	Inventory valuation allowance	Carrying amount
Finished goods	₩ 1,214,177	₩ (190,837)	₩ 1,023,340
Work-in-process	3,064,011	(125,020)	2,938,991
Raw materials	568,849	(30,764)	538,085
Supplies	361,370	(14,166)	347,204
Goods in transit	132,764	-	132,764
	₩ 5,341,171	₩ (360,787)	₩ 4,980,384

(In millions of Korean won)

	December 31, 2019		
	Acquisition cost	Inventory valuation allowance	Carrying amount
Finished goods	₩ 1,179,702	₩ (174,138)	₩ 1,005,564
Work-in-process	2,862,976	(394,424)	2,468,552
Raw materials	518,158	(33,024)	485,134
Supplies	334,408	(11,437)	322,971
Goods in transit	72,511	-	72,511
	₩ 4,967,755	₩ (613,023)	₩ 4,354,732

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

(In millions of Korean won)

	2020	2019
Inventories recognized as cost of sales	₩ 20,898,044	₩ 17,998,802
Loss on valuation allowance of inventories	(252,236)	268,694

9. Other Current and Non-current Assets

Details of other current and non-current assets as of December 31, 2020 and 2019 are as follows:

(In millions of Korean won)

	December 31, 2020	December 31, 2019
Current		
Advance payments	₩ 46,517	₩ 56,719
Prepaid expenses	113,084	196,069
Value added tax refundable	169,714	258,898
Contract assets	110,790	84,434
Others	17	88
	440,122	596,208
Non-current		
Long-term advance payments	36,951	44,010
Long-term prepaid expenses	3,744	533,604
	40,695	577,614
	₩ 480,817	₩ 1,173,822

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10. Investments in Subsidiaries, Associates and Joint Ventures

(1) Investments in subsidiaries, associates and joint ventures as of December 31, 2020 and December 31, 2019 are as follows:

(In millions of Korean won)

	December 31, 2020	December 31, 2019
Investments in subsidiaries	₩ 5,793,470	₩ 5,747,927
Investments in associates and joint ventures	983,255	575,522
	<u>₩ 6,776,725</u>	<u>₩ 6,323,449</u>

(2) Details of investments in subsidiaries as of December 31, 2020 and December 31, 2019 are as follows:

(In millions of Korean won)

	Location	December 31, 2020		December 31, 2019	
		Percentage of ownership (%)	Book value	Percentage of ownership (%)	Book value
SK hyang Inc.	Korea	100.00	₩ 7,521	100.00	₩ 7,521
SK hystec Inc.	Korea	100.00	6,760	100.00	6,760
Happymore Inc. ¹	Korea	100.00	17,400	100.00	7,400
SK hynix system ic Inc.	Korea	100.00	404,928	100.00	404,928
HappyNarae Co., Ltd.	Korea	100.00	63,147	100.00	63,147
SK hynix America Inc.	U.S.A.	97.74	31	97.74	31
SK hynix Deutschland GmbH	Germany	100.00	22,011	100.00	22,011
SK hynix Asia Pte. Ltd.	Singapore	100.00	52,380	100.00	52,380
SK hynix Semiconductor Hong Kong Ltd.	Hong Kong	100.00	32,623	100.00	32,623
SK hynix U.K. Ltd.	U.K.	100.00	1,775	100.00	1,775
SK hynix Semiconductor Taiwan Inc.	Taiwan	100.00	37,562	100.00	37,562
SK hynix Japan Inc.	Japan	100.00	42,905	100.00	42,905
SK hynix Semiconductor (Shanghai) Co., Ltd.	China	100.00	4,938	100.00	4,938
SK hynix Semiconductor India Private Ltd.	India	1.00	5	1.00	5
SK hynix(Wuxi) Semiconductor Sales Ltd.	China	100.00	237	100.00	237
SK hynix Semiconductor (China) Ltd.	China	100.00	3,868,622	100.00	3,868,622
SK hynix Italy S.r.l	Italy	100.00	18	100.00	18
SK hynix memory solutions America Inc.	U.S.A.	100.00	311,283	100.00	311,283
SK hynix memory solutions Taiwan Ltd.	Taiwan	100.00	7,819	100.00	7,819
SK hynix memory solutions Eastern Europe LLC.	Belarus	99.93	14,579	99.93	14,579
SK APTECH Ltd.	Hong Kong	100.00	440,770	100.00	440,770
SK hynix Ventures Hong Kong Ltd. ²	Hong Kong	100.00	66,100	100.00	60,613
Gauss Labs Inc. ³	U.S.A.	100.00	30,056	-	-
MMT (Money Market Trust) ⁴	Korea	100.00	360,000	100.00	360,000
			<u>₩ 5,793,470</u>		<u>₩ 5,747,927</u>

¹ Additional acquisition of ₩10,000 million occurred due to capital contribution during the year ended December 31, 2020.

² Additional acquisition of ₩5,487 million occurred due to capital contribution during the year ended December 31, 2020.

³ Gauss Labs Inc. has been established during year ended December 31, 2020.

⁴ The Company has disposed certain MMT and acquired new MMT during the year ended December 31, 2020.

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

(3) Details of investments in associates and joint ventures as of December 31, 2020 and 2019 are as follows:
(In millions of Korean won)

Investee	Location	December 31, 2020		December 31, 2019	
		Ownership (%)	Carrying amount	Ownership (%)	Carrying amount
Associate:					
Stratio, Inc. ¹	U.S.A	9.12	₩ 395	9.12	₩ 395
SK China Company Limited ²	China	11.87	257,169	11.87	257,169
SK South East Asia Investment Pte .Ltd.	Singapore	20.00	345,800	20.00	224,350
Prume Social Farm, Co., Ltd. ³	Korea	35.52	2,000	31.95	1,000
Magnus Private Investment Co.,Ltd. ⁴	Korea	49.76	207,344	-	-
L&S (No.10) Early Stage III Investment Association ⁵	Korea	24.39	2,750	-	-
SiFive Inc ⁸ .	U.S.A	7.87	35,709	-	-
Joint venture:					
HITECH Semiconductor (Wuxi) Co., Ltd ⁹ .	China	45.00	92,608	45.00	92,608
Specialized Investment-type Private Equity Investment Trust For Growth Of Semiconductor ⁶	Korea	33.33	24,480	-	-
Specialized Investment-type Private Equity Investment Trust For Win-win System Semiconductor ⁷	Korea	37.50	15,000	-	-
			₩ 983,255		₩ 575,522

¹ The Company is able to exercise significant influence through its right to appoint a director to the Board of Directors of investee. Accordingly, the investment has been classified as an associate.

² Management of the Company is able to exercise significant influence over the entity by participating Board of Directors. Accordingly, the investment in this investee has been classified as an associate.

³ WooYoung Farm Co., Ltd has changed its name to Prume Social Farm, Co., Ltd for the year ended December 31, 2020.

⁴ The Company has acquired 49.76% of the Magnus Private Investment Co., Ltd.'s interest for the year ended December 31, 2020, and the entity has been classified as an associate as the Company has significant influence.

⁵ It has been reclassified from long-term investment assets to associates for the year ended December 31, 2020.

⁶ It has been reclassified from long-term investment assets to a joint venture for the year ended December 31, 2020, as it is stated in the agreement that unanimous vote is required for relevant activities.

⁷ The Company has acquired 37.5% of Specialized Investment-type Private Equity Investment Trust For Win-win System Semiconductor's interest during the year ended December 31, 2020. It has been classified as a joint venture since it is stated in the agreement that unanimous vote is required for relevant activities.

⁸ The Company has acquired 7.87% of ownership in SiFive during the year ended December 31, 2020. It has been classified as an associate since the Company is able to exercise significant influence through its right to appoint a director to the Board of Directors of the investee.

⁹ It has been classified to a joint venture for the year ended December 31, 2020, as it is stated in the agreement that unanimous vote is required for relevant activities.

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11. Long-term Investment Assets

(1) Details of Long-term investment assets as of December 31, 2020 and 2019 are as follows:

(In millions of Korean won)

	December 31, 2020			December 31, 2019
	Ownership (%)/ Type	Acquisition cost	Book value	Book value
ProMOS Technologies Inc.	Equity Securities	₩ 21,847	₩ -	₩ -
Intellectual Discovery, Ltd.	Equity Securities	4,000	2,182	2,392
Keyssa, Inc	Equity Securities	6,174	189	822
China Walden Venture Investments II, L.P.	Certificate	8,496	10,965	9,138
China Walden Venture Investments III, L.P.	Certificate	6,522	7,085	5,790
Impact venture Capital I, LP	Certificate	4,223	5,881	4,010
BCPE Pangea Intermediate Holdings Cayman, L.P. ¹	Certificate	2,738,393	3,595,494	2,780,758
BCPE Pangea Cayman2 Limited ¹	Convertible Bond	1,281,780	2,351,225	1,435,460
FemtoMetrix, Inc.	Convertible Bond	4,387	4,387	4,387
GigaIO Networks, Inc.	Equity Securities	4,066	3,103	4,066
Lion Semiconductor Inc.	Equity Securities	4,077	3,754	3,474
Inpria Corporation	Equity Securities	4,753	4,729	1,214
Others	-	42,448	35,484	44,150
		₩ 4,131,166	₩ 6,024,478	₩ 4,295,661

¹ In 2017, the Company participated in a consortium that includes Bain Capital in connection with acquisition of a stake in Toshiba Memory Corporation ("TMC"). On March 1, 2019, Toshiba Memory Holdings Corporation ("TMCHD") was established as the holding company for TMC. Subsequently TMCHD and TMC were renamed KIOXIA Holdings Corporation ("KIOXIA") and KIOXIA Corporation, respectively. As of December 31, 2020, the Company holds equity interests in SPC1, which holds equity interests in KIOXIA, and convertible bonds issued by SPC2, which may be later convertible to 15% stake in KIOXIA. Management and decision-making rights of the Company for SPC1 and SPC2 are limited. Accordingly, the Company does not control or have any significant influence on SPC1 and SPC2. The investments in SPC1 and SPC2 are classified as financial assets which are debt instruments measured at fair value through profit or loss.

SK hynix Inc.
Notes to the Separate Financial Statements
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11. Long-term Investment Assets, Continued

(2) Changes in the carrying amount of long-term investment assets for the years ended December 31, 2020 and 2019 are as follows:

(In millions of Korean won)

	2020		2019	
Beginning balance	₩	4,295,661	₩	4,249,518
Acquisition		68,686		76,742
Disposal		(381)		(3,717)
Gain(loss) on valuation		1,725,714		(234,760)
Foreign exchange difference		(40,222)		207,878
Transfer ¹		(24,980)		-
Ending balance	₩	<u>6,024,478</u>	₩	<u>4,295,661</u>

¹ Certain long-term investment assets were transferred to associates and joint ventures.

12. Property, Plant and Equipment

(1) Changes in property, plant and equipment for the years ended December 31, 2020 and 2019 are as follows:

(In millions of Korean won)

	2020							Constructio n-in- progress	Total
	Land	Buildings	Structures	Machinery	Vehicles	Others	Others		
Beginning balance	₩	1,000,865	4,718,083	1,108,626	20,770,683	42,322	602,019	3,448,666	₩ 31,691,264
Changes during 2020									
Acquisitions		36,880	450,464	207,392	3,501,591	17	143,030	2,612,818	6,952,192
Disposals		(9,165)	(111)	-	(200,155)	-	(430)	(36,650)	(246,511)
Depreciation		-	(192,518)	(72,745)	(6,103,263)	(3,117)	(211,170)	-	(6,582,813)
Transfers ¹		(97,073)	1,193,112	14,857	952,182	753	36,544	(2,306,597)	(206,222)
Ending balance		<u>931,507</u>	<u>6,169,030</u>	<u>1,258,130</u>	<u>18,921,038</u>	<u>39,975</u>	<u>569,993</u>	<u>3,718,237</u>	<u>31,607,910</u>
Acquisition cost		931,507	7,363,568	1,763,442	56,033,197	46,983	1,652,458	3,718,237	71,509,392
Accumulated depreciation		-	(1,170,839)	(486,208)	(36,952,126)	(7,008)	(1,082,445)	-	(39,698,626)
Accumulated impairment		-	(23,699)	(19,104)	(158,036)	-	(20)	-	(200,859)
Government grants		-	-	-	(1,997)	-	-	-	(1,997)
	₩	<u>931,507</u>	<u>6,169,030</u>	<u>1,258,130</u>	<u>18,921,038</u>	<u>39,975</u>	<u>569,993</u>	<u>3,718,237</u>	₩ <u>31,607,910</u>

¹ Includes transfers between investment property and property, plant and equipment during the year ended December 31, 2020.

SK hynix Inc.
Notes to the Separate Financial Statements
December 31, 2020 and 2019

12. Property, Plant and Equipment, Continued

(1) Changes in property, plant and equipment for the years ended December 31, 2020 and 2019 are as follows:
 Continued

(In millions of Korean won)

	2019							
	Land	Buildings	Structures	Machinery	Vehicles	Others	Construction in-progress	Total
Beginning balance	₩ 980,980	3,958,150	1,001,080	20,161,750	10,679	511,090	3,218,925	₩ 29,842,654
Impacts on transition to K-IFRS No. 1116	-	-	-	(71,699)	-	-	-	(71,699)
Beginning balance after transition adjustments	980,980	3,958,150	1,001,080	20,090,051	10,679	511,090	3,218,925	29,770,955
Changes during 2019								
Acquisitions	16,882	253,705	122,558	4,981,203	1,384	247,162	2,671,404	8,294,298
Disposals	(48)	(2)	-	(243,081)	(3)	(713)	(210)	(244,057)
Depreciation	-	(178,268)	(63,895)	(5,693,262)	(1,922)	(193,690)	-	(6,131,037)
Transfers ¹	3,051	684,498	48,883	1,635,772	32,184	38,170	(2,441,453)	1,105
Ending balance	<u>1,000,865</u>	<u>4,718,083</u>	<u>1,108,626</u>	<u>20,770,683</u>	<u>42,322</u>	<u>602,019</u>	<u>3,448,666</u>	<u>₩ 31,691,264</u>
Acquisition cost	1,000,865	5,759,417	1,546,882	52,447,928	46,225	1,522,794	3,448,666	65,772,777
Accumulated depreciation	-	(1,017,635)	(419,152)	(31,515,358)	(3,903)	(920,754)	-	(33,876,802)
Accumulated impairment	-	(23,699)	(19,104)	(159,060)	-	(21)	-	(201,884)
Government grants	-	-	-	(2,827)	-	-	-	(2,827)
	<u>₩ 1,000,865</u>	<u>4,718,083</u>	<u>1,108,626</u>	<u>20,770,683</u>	<u>42,322</u>	<u>602,019</u>	<u>3,448,666</u>	<u>₩ 31,691,264</u>

¹ Certain investment property was transferred to property, plant and equipment during the year ended December 31, 2019.

(2) Details of depreciation expense allocation for the years ended December 31, 2020 and 2019 are as follows:

(In millions of Korean won)

	2020	2019
Cost of sales	₩ 5,867,483	₩ 5,538,449
Selling and administrative expenses	677,634	534,650
Other expenses	5,339	14,331
Development costs and other	32,357	43,607
	<u>₩ 6,582,813</u>	<u>₩ 6,131,037</u>

(3) Certain machinery are pledged as collaterals for borrowings of the Company as of December 31, 2020 (see note 34).

(4) The Company capitalized borrowing costs amounting to ₩53,257 million (2019: ₩36,302 million) on qualifying assets for the year ended December 31, 2020. Borrowing costs were calculated using a capitalization rate of 1.93% (2019: 2.84%) for the year ended December 31, 2020.

SK hynix Inc.
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December 31, 2020 and 2019

12. Property, Plant and Equipment, Continued

(5) Details of insured assets as of December 31, 2019 are as follows:

(In millions of Korean won)

	<u>Insured assets</u>	<u>Insured amount</u>	<u>Insurance company</u>
Package insurance	Property, plant and equipment; investment property; Inventories; and business interruption	₩ 85,033,405	Hyundai Marine & Fire Insurance Co., Ltd. and others
Erection all risks insurance	Property, plant and equipment	5,448,476	
		<u>₩ 90,481,881</u>	

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

(7) The Company provides certain property, plant, and equipment as operating leases. Rental income from the property, plant and equipment during the year ended December 31, 2020 are ₩92,830 million (2019: ₩94,773 million).

SK hynix Inc.
Notes to the Separate Financial Statements
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13. Leases

(1) Leases as lessee

(a) Changes in right-of-use assets for the years ended December 31, 2020 and 2019 are as follows

(In millions of Korean won)

		2020				
		Properties	Structures	Machinery	Others	Total
Beginning balance	₩	988	443,428	608,145	11,774	₩ 1,064,335
Increase		537	128,594	763	4,412	134,306
Others		1,845	-	16,842	-	18,687
Depreciation		(1,606)	(44,540)	(161,924)	(7,395)	(215,465)
Ending Balance		<u>1,764</u>	<u>527,482</u>	<u>463,826</u>	<u>8,791</u>	<u>1,001,863</u>
Acquisition cost		2,487	627,582	760,425	20,713	1,411,207
Accumulated depreciation		(723)	(100,100)	(296,599)	(11,922)	(409,344)
	₩	<u>1,764</u>	<u>527,482</u>	<u>463,826</u>	<u>8,791</u>	₩ <u>1,001,863</u>

(In millions of Korean won)

		2019				
		Properties	Structures	Machinery	Others	Total
Beginning balance	₩	-	-	-	-	₩ -
Impacts on transition to K-IFRS No. 1116		1,947	476,673	279,952	3,186	761,758
Impacts of changes in accounting policies (Interpretation of lease period)		-	-	435,423	-	435,423
Beginning balance after transition adjustments		1,947	476,673	715,375	3,186	1,197,181
Increase		148	7,124	103,516	-	110,788
Others		405	-	-	13,647	14,052
Depreciation		(1,512)	(40,369)	(210,746)	(5,059)	(257,686)
Ending Balance		<u>988</u>	<u>443,428</u>	<u>608,145</u>	<u>11,774</u>	<u>1,064,335</u>
Acquisition cost		2,019	498,988	754,931	16,302	1,272,240
Accumulated depreciation		(1,031)	(55,560)	(146,786)	(4,528)	(207,905)
	₩	<u>988</u>	<u>443,428</u>	<u>608,145</u>	<u>11,774</u>	₩ <u>1,064,335</u>

SK hynix Inc.
Notes to the Separate Financial Statements
December 31, 2020 and 2019

13. Leases, Continued

(1) Leases as lessee, Continued

(b) Changes in lease liabilities for the years ended December 31, 2020 and 2019 are as follows.

(In millions of Korean won)

	2020
Beginning balance	₩ 1,086,333
Increase	134,306
Others	18,676
Interest expense	21,839
Payments	(241,433)
Foreign exchange difference	(26,842)
Ending balance	₩ 992,879

(In millions of Korean won)

	2019
Beginning balance	₩ -
Impacts on transition to K-IFRS No. 1116	765,518
Impacts of changes in accounting policies (Interpretation of lease period)	435,423
Beginning balance after transition adjustments	1,200,941
Increase	110,788
Others	14,052
Interest expense	22,689
Payments	(277,984)
Foreign exchange difference	15,847
Ending balance	₩ 1,086,333

(c) The details of the minimum lease payment to be paid in the future for each period in connection with lease liabilities, present value and current/non-current classification of lease liabilities as of December 31, 2020 are as follows:

(In millions of Korean won)

	2020
Less than one year	₩ 248,593
One to five years	395,794
More than five years	465,723
Total lease liabilities undiscounted as of December 31, 2020	1,110,110
Present value of lease liabilities recognized as of December 31, 2020	992,879
Current lease liabilities	244,715
Noncurrent lease liabilities	748,164

SK hynix Inc.
Notes to the Separate Financial Statements
December 31, 2020 and 2019

13. Leases, Continued

(1) Leases as lessee, Continued

(d) The amounts recognized in profit or loss in relation to right-of-use assets and lease liabilities for the years ended December 31, 2020 and 2019 are as follows:

(In millions of Korean won)

	2020	2019
Depreciation of right-to-use assets	₩ 215,465	₩ 257,686
Interest expenses of lease liabilities	21,839	22,689
Expenses relating to short-term leases	2,197	2,428
Expenses relating to leases of low-value assets	988	551

The total cash outflow from leases during the year ended December 31, 2020 is ₩ 244,618 million (2019: ₩280,963 million).

(2) Leases as lessor

The Company provides certain property, plant, and equipment and investment property as leases (See note 12, 15). All leases are classified as operating leases.

Details of the undiscounted operating lease payments to be received in the future periods subsequent to December 31, 2020 are as follows:

(In millions of Korean won)

	Property, Plant and Equipment	Investment Property	Total
Less than 1 year	₩ 69,183	11,997	₩ 81,180
1~2 years	9,476	9,763	19,239
2~3 years	3,948	9,763	13,711
3~4 years	-	9,763	9,763
	₩ 82,607	41,286	₩ 123,893

SK hynix Inc.
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14. Intangible Assets

(1) Changes in intangible assets for the years ended December 31, 2020 and 2019 are as follows:

(In millions of Korean won)

	2020				
	<u>Goodwill</u>	<u>Industrial property rights</u>	<u>Development costs</u>	<u>Others¹</u>	<u>Total</u>
Beginning balance	₩ 419,047	85,493	931,787	709,904	₩ 2,146,231
Changes during 2020					
Internal development	-	-	259,020	-	259,020
External acquisition	-	13,655	-	390,276	403,931
Disposals	-	(3,782)	-	(8,432)	(12,214)
Amortization	-	(15,948)	(576,334)	(335,380)	(927,662)
Impairment	-	-	(16,544)	-	(16,544)
Transfer ¹	-	6,473	-	1,145,748	1,152,221
Ending balance	<u>419,047</u>	<u>85,891</u>	<u>597,929</u>	<u>1,902,116</u>	<u>₩ 3,004,983</u>
Acquisition cost	419,047	194,994	3,185,350	2,851,648	6,651,039
Accumulated amortization and impairment	-	(109,103)	(2,587,421)	(949,532)	(3,646,056)
	<u>₩ 419,047</u>	<u>85,891</u>	<u>597,929</u>	<u>1,902,116</u>	<u>₩ 3,004,983</u>

¹ It includes reclassification of license assets and others

(In millions of Korean won)

	2019				
	<u>Goodwill</u>	<u>Industrial property rights</u>	<u>Development costs</u>	<u>Others</u>	<u>Total</u>
Beginning balance	₩ 419,046	95,790	1,153,956	629,857	₩ 2,298,649
Changes during 2019					
Internal development	-	-	332,888	-	332,888
External acquisition	-	9,611	-	281,282	290,893
Disposals	-	(3,957)	-	(6,567)	(10,524)
Amortization	-	(15,951)	(555,056)	(194,597)	(765,604)
Impairment	-	-	-	(71)	(71)
Ending balance	<u>419,046</u>	<u>85,493</u>	<u>931,788</u>	<u>709,904</u>	<u>₩ 2,146,231</u>
Acquisition cost	419,046	184,358	2,926,330	1,326,775	4,856,509
Accumulated amortization and impairment	-	(98,865)	(1,994,542)	(616,871)	(2,710,278)
	<u>₩ 419,046</u>	<u>85,493</u>	<u>931,788</u>	<u>709,904</u>	<u>₩ 2,146,231</u>

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14. Intangible Assets, Continued

(2) Details of amortization expense allocation for the years ended December 31, 2020 and 2019 are as follows:

(In millions of Korean won)

	2020	2019
Cost of sales	₩ 200,071	₩ 71,633
Selling and administrative expenses	726,139	692,630
Development costs	1,452	1,341
	<u>₩ 927,662</u>	<u>₩ 765,604</u>

(3) Goodwill impairment tests

The Company performs goodwill impairment tests annually. For the purpose of impairment tests, goodwill is allocated to CGU. The recoverable amount of the CGU as of December 31, 2020 was determined based on fair value less costs to sell, which was determined using the current stock price as of December 31, 2020. No impairment loss of goodwill was recognized since the recoverable amount is higher than the carrying value of the CGU as of December 31, 2020.

(4) Details of development costs

(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, ₩259,020 million (2019: ₩332,888million) that met capitalization criteria, were capitalized as development cost for the year ended December 31, 2020. In addition, costs associated with research activities and other development expenditures that did not meet the criteria in the amount of ₩3,117,426 million (2019: ₩2,863,473 million) were recognized as expenses for the year ended December 31, 2020.

SK hynix Inc.
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14. Intangible Assets, Continued

(4) Details of development cost, Continued

(c) Details of development costs as of December 31, 2020 and 2019 are as follows:

(In millions of Korean won)

		2020	
		Book value	Residual amortization period
DRAM	₩	46,995	11 months
		60,549	1
NANDI		296,317	18 months
		124,328	1
CIS		43,882	2~12 months
		25,858	1
	₩	<u>597,929</u>	

¹ Amortization has not started as of December 31, 2020.

(In millions of Korean won)

		2019	
		Book value	Residual amortization period
DRAM	₩	263,262	11~23 months
		1,068	1
NAND		203,307	12 months
		351,745	1
CIS		19,613	1~14 months
		92,793	1
	₩	<u>931,788</u>	

¹ Amortization has not started as of December 31, 2019.

(d) The Company recognized ₩16,544 million impairment loss in development costs for the year ended December 31, 2020. There are no accumulated impairment losses in development costs as of December 31, 2020 since impairment loss recognized during the year ended December 31, 2020 was written off with acquisition cost. The Company did not recognize impairment loss in development costs for the year ended December 31, 2019.

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15. Investment Property

(1) Changes in investment property for the years ended December 31, 2020 and 2019 are as follows:

(In millions of Korean won)

	2020	2019
Beginning balance	₩ 258	₩ 1,400
Depreciation	(291)	(37)
Transfer(*)	209,450	(1,105)
Ending balance	<u>209,417</u>	<u>258</u>
Acquisition cost	249,136	511
Accumulated depreciation	(39,719)	(253)
	<u>₩ 209,417</u>	<u>₩ 258</u>

(*) Certain investment property was transferred to property, plant and equipment and certain property, plant and equipment was transferred to investment property during the year ended December 31, 2020. Certain investment property was transferred to property, plant and equipment during the year ended December 31, 2019.

(2) The depreciation expense of ₩291 million was charged to cost of sales for the year ended December 31, 2020 (2019: ₩37 million).

(3) Rental income from certain investment properties during the year ended December 31, 2020 was ₩1,235 million (2019: ₩123 million).

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16. Other Payables

(1) Details of other payables as of December 31, 2020 and 2019 are as follows:

(In millions of Korean won)

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Current		
Accrued expenses	₩ 1,167,602	₩ 1,088,225
Non-current		
Long-term accrued expenses	19,337	14,458
Rent deposits payable	4,885	770
	<u>24,222</u>	<u>15,228</u>
	₩ <u>1,191,824</u>	₩ <u>1,103,453</u>

17. Borrowings

(1) Details of borrowings as of December 31, 2020 and 2019 are as follows:

(In millions of Korean won)

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Current		
Short-term borrowings	₩ -	₩ 784,237
Current portion of long-term borrowings	1,283,808	609,175
Current portion of debentures	329,947	309,823
	<u>1,613,755</u>	<u>1,703,235</u>
Non-current		
Long-term borrowings	1,973,004	2,015,181
Debentures	3,610,430	2,745,365
	<u>5,583,434</u>	<u>4,760,546</u>
	₩ <u>7,197,189</u>	₩ <u>6,463,781</u>

(2) Details of short-term borrowings as of December 31, 2020 and 2019 are as follows:

(In millions of Korean won)

	<u>Financial institutions</u>	<u>Maturity date</u>	<u>Interest rate per annum in 2020 (%)</u>	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Usance	Hana Bank and others	2020.04.20 ~ 2020.05.15	-	₩ -	569,164
General borrowings	Hyundai Card	2020.01.17 ~ 2020.03.18	-	-	215,073
			.	₩ -	<u>784,237</u>

SK hynix Inc.
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17. Borrowings, Continued

(3) Details of long-term borrowings as of December 31, 2020 and 2019 are as follows:

<i>(In millions of Korean won)</i>					December 31,	December 31,
	Financial institutions	Maturity date	Interest rate per annum in 2020 (%)¹		2020	2019
Local currency borrowings:						
Funds for equipment	Korea Development Bank	2021.09.29 ~ 2025.04.14	1.98 ~ 2.50	₩	725,000	500,000
	The Export-Import Bank of Korea	2022.10.23 ~ 2025.05.15	1.31 ~ 2.00		600,000	-
Commercial Paper	Shinhan Bank General Finance Department	2023.11.19	CD(91 days) + 0.67		300,000	-
					<u>1,625,000</u>	<u>500,000</u>
Foreign currency borrowings:						
General borrowings	The Export-Import Bank of Korea	2021.05.31	3M JPY LIBOR + 0.57		843,408	850,776
Funds for equipment	The Export-Import Bank of Korea	2020.10.27 ~ 2022.03.10	3M USD LIBOR + 1.03 ~ 1.40		244,800	607,845
	Woori Bank				-	43,417
	Korea Development Bank	2020.06.30 ~ 2026.10.02	3M USD LIBOR + 0.95 ~ 1.10		544,000	622,318
					<u>1,632,208</u>	<u>2,124,356</u>
					<u>3,257,208</u>	<u>2,624,356</u>
Less: Current portion					(1,283,808)	(609,175)
Less: Discounts on borrowings					(396)	-
				₩	<u>1,973,004</u>	<u>2,015,181</u>

¹ As of December 31, 2020, the benchmark interest rates are as follows:

Type	Interest rate per annum as of December 31, 2020 (%)
3M USD LIBOR	0.24
3M JPY LIBOR	-0.08
CD(91 days)	0.66

SK hynix Inc.
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17. Borrowings, Continued

(4) Details of debentures as of December 31, 2020 and 2019 are as follows:

(In millions of Korean won)

	Maturity date	Interest rate per annum in 2020 (%)	December 31, 2020	December 31, 2019
Unsecured notes in local currency:				
Unsecured corporate bonds 214-1st	2020.08.26	-	₩ -	₩ 210,000
Unsecured corporate bonds 214-2nd	2022.08.26	2.63	140,000	140,000
Unsecured corporate bonds 215-2nd	2020.11.25	-	-	100,000
Unsecured corporate bonds 215-3rd	2022.11.25	2.75	10,000	10,000
Unsecured corporate bonds 216-2nd	2021.02.19	2.22	180,000	180,000
Unsecured corporate bonds 216-3rd	2023.02.19	2.53	80,000	80,000
Unsecured corporate bonds 217-2nd	2021.05.27	2.30	150,000	150,000
Unsecured corporate bonds 218th	2023.03.14	3.01	300,000	300,000
Unsecured corporate bonds 219-1st	2023.08.27	2.48	250,000	250,000
Unsecured corporate bonds 219-2nd	2025.08.27	2.67	90,000	90,000
Unsecured corporate bonds 220-1st	2022.05.09	1.96	410,000	410,000
Unsecured corporate bonds 220-2nd	2024.05.09	1.99	200,000	200,000
Unsecured corporate bonds 220-3rd	2027.05.09	2.17	120,000	120,000
Unsecured corporate bonds 220-4th	2029.05.09	2.54	250,000	250,000
Unsecured corporate bonds 221-1st	2023.02.14	1.61	340,000	-
Unsecured corporate bonds 221-2nd	2025.02.14	1.72	360,000	-
Unsecured corporate bonds 221-3rd	2027.02.14	1.93	130,000	-
Unsecured corporate bonds 221-4th	2030.02.14	2.21	230,000	-
Unsecured corporate bonds 222-1st	2030.11.10	2.33	70,000	-
Unsecured corporate bonds 222-2nd	2035.11.10	2.73	100,000	-
			<u>3,410,000</u>	<u>2,490,000</u>
Unsecured notes in foreign currency:				
Unsecured global bonds 9th	2024.09.17	3.00	544,000	578,900
			<u>3,954,000</u>	<u>3,068,900</u>
Less: Discounts on debentures			(13,623)	(13,712)
Less: Current portion			(329,947)	(309,823)
			<u>₩ 3,610,430</u>	<u>₩ 2,745,365</u>

SK hynix Inc.
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18. Other Current and Non-current Liabilities

Details of other current and non-current liabilities as of December 31, 2020 and 2019 are as follows:

(In millions of Korean won)

	December 31, 2020	December 31, 2019
Current		
Advance receipts	₩ 341	₩ 85
Unearned income	223	32
Withholdings	47,389	41,414
Deposits received	12,130	-
Contract liabilities	178,065	125,211
	<u>238,148</u>	<u>166,742</u>
Non-current		
Other long-term employee benefits	90,419	79,323
Long-term advance receipts	4,900	4,900
	<u>95,319</u>	<u>84,223</u>
	<u>₩ 333,467</u>	<u>₩ 250,965</u>

SK hynix Inc.
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19. Provisions

(1) Changes in provisions for the years ended December 31, 2020 and 2019 are as follows:

(In millions of Korean won)

	2020				
	Beginning Balance	Increase	Utilization	Reversal	Ending Balance
Purchase commitments	₩ 11,499	₩ 8,913	₩ -	₩ -	₩ 20,412
Warranty	3,921	48	(48)	(1,120)	2,801
Emission allowances	6,620	13,070	(8,908)	-	10,782
	<u>₩ 22,040</u>	<u>₩ 22,031</u>	<u>₩ (8,956)</u>	<u>₩ (1,120)</u>	<u>₩ 33,995</u>

(In millions of Korean won)

	2019				
	Beginning Balance	Increase	Utilization	Reversal	Ending Balance
Purchase commitments	₩ 11,345	₩ 154	₩ -	₩ -	₩ 11,499
Warranty	3,912	45	(36)	-	3,921
Legal claims	5,881	-	(5,881)	-	-
Emission allowances	46,335	-	(2,702)	(37,013)	6,620
	<u>₩ 67,473</u>	<u>₩ 199</u>	<u>₩ (8,619)</u>	<u>₩ (37,013)</u>	<u>₩ 22,040</u>

(2) Accrual for loss on purchase commitment

The Company is committed to purchase wafers (semi-finished goods) from its overseas subsidiary, SK hynix Semiconductor (China) Ltd. For the work-in-process which 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. Increase or reversal in the provision for purchase commitments are recognized in the cost of sales.

(3) Provisions for warranty

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

(4) 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.

(5) 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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20. Defined Benefit Liabilities

Under the defined benefit plan, the Company pays employee benefits to retired employees in the form of a lump sum 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 (assets) as of December 31, 2020 and 2019 are as follows:

(In millions of Korean won)

	December 31, 2020	December 31, 2019
Present value of defined benefit obligations	₩ 2,087,474	₩ 1,866,053
Fair value of plan assets	(2,141,343)	(1,813,562)
Net defined benefit liabilities (assets)	₩ (53,869)	₩ 52,491
Defined benefit liabilities	-	52,491
Defined benefit assets ¹	53,869	-

¹ The Company's fair value of plan assets in excess of the present value of defined benefit obligations, presented as employee benefit assets, amounted to ₩53,869 million as of December 31, 2020.

(2) Principal actuarial assumptions as of December 31, 2020 and 2019 are as follows:

	December 31, 2020(%)	December 31, 2019(%)
Discount rate for defined benefit obligations	3.56	3.41
Expected rate of salary increase	5.51	5.55

The discount rate for defined benefit obligations is calculated based on bond yield similar to the expected payment period of defined benefit obligation and the Company's credit rating. The expected rate of salary increase is calculated by considering the Company's empirical promotion index, inflation and wage agreements.

(3) Weighted average durations of defined benefit obligations as of December 31, 2020 and 2019 are 11.87 and 11.52 years, respectively.

(4) Changes in defined benefit obligations for the years ended December 31, 2020 and 2019 are as follows:

(In millions of Korean won)

	2020	2019
Beginning balance	₩ 1,866,053	₩ 1,550,464
Current service cost	234,312	207,858
Past service cost	(714)	-
Interest expense	62,703	57,699
Transfer from associates	(1,160)	1,710
Remeasurements:	(22,863)	97,131
Demographic assumption	38,774	120
Financial assumption	(32,178)	74,371
Adjustment based on experience	(29,459)	22,640
Benefits paid	(50,857)	(48,809)
Ending balance	₩ 2,087,474	₩ 1,866,053

SK hynix Inc.
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December 31, 2020 and 2019

20. Defined Benefit Liabilities, Continued

(5) Changes in plan assets for the years ended December 31, 2020 and 2019 are as follows:

(In millions of Korean won)

	2020	2019
Beginning balance	₩ 1,813,562	₩ 1,555,045
Contributions	340,000	260,000
Interest income	60,640	57,824
Transfer from associates	75	2,517
Benefits paid	(50,310)	(35,571)
Remeasurements	(22,624)	(26,253)
Ending balance	<u>₩ 2,141,343</u>	<u>₩ 1,813,562</u>

(6) The amounts recognized in profit or loss for the years ended December 31, 2020 and 2019 are as follows:

(In millions of Korean won)

	2020	2019
Current service cost	₩ 234,312	207,858
Past service cost	(714)	-
Net interest expense(income)	2,063	(125)
	<u>₩ 235,661</u>	<u>207,733</u>

(7) The amounts in which defined benefit plan related expenses are included for the years ended December 31, 2020 and 2019 are as follows:

(In millions of Korean won)

	2020	2019
Cost of sales	₩ 124,819	111,472
Selling and administrative expenses	110,842	96,261
	<u>₩ 235,661</u>	<u>207,733</u>

(8) Details of plan assets as of December 31, 2020 and 2019 are as follows:

(In millions of Korean won)

	December 31, 2020	December 31, 2019
Deposits	₩ 2,140,162	1,812,335
Others	1,181	1,227
	<u>₩ 2,141,343</u>	<u>1,813,562</u>

Actual return on plan assets for the years ended December 31, 2020 and 2019 amounted to ₩38,016 million and ₩31,571 million, respectively.

SK hynix Inc.
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20. Defined Benefit Liabilities, Continued

(9) As of December 31, 2020, 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, 2021 is ₩316,000 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, 2020 to changes in the principal assumptions is as follows:

(In millions of Korean won)

	Effects on defined benefit obligation	
	Increase of rate	Decrease of rate
Discount rate (if changed by 1%)	₩ (222,002)	262,535
Expected salary increase rate (if changed by 1%)	261,522	(225,256)

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, 2020 is as follows:

(In millions of Korean won)

	₩	Less than	2 - 5 years	6 - 10 years	More than	Total
		1 year			11 years	
Benefits paid		117,947	299,628	611,242	2,283,121	3,311,938

Information about the maturity profile is based on the undiscounted and vested amount of defined benefit obligation as of December 31, 2020 and classified by employee's expected years of remaining services.

(12) The Company adopted defined contribution plan for retirement benefit for employees subject to peak wage system. Contributions to defined contribution plans amounting to ₩907 million (2019: ₩406 million) was expensed for the year ended December 31, 2020.

SK hynix Inc.
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21. Deferred income tax

(1) Changes in deferred income tax assets and liabilities for the years ended December 31, 2020 and 2019, are as follows:

(In millions of Korean won)

	2020					
	<u>Beginning</u>	<u>Adjustment</u>	<u>Profit or loss</u>	<u>Equity</u>	<u>Ending</u>	
Inventories, net	₩ 171,343	₩ -	₩ (62,012)	₩ -	₩ 109,331	
Property, plant and equipment, net	(33,222)	27,189	3,033	-	(3,000)	
Defined benefits liabilities, net	8,638	-	(8,572)	(66)	-	
Short-term investment assets,						
long-term investment assets, and others	(27,575)	-	(463,564)	-	(491,139)	
Employee benefits	45,542	-	11,435	-	56,977	
Provisions	6,061	-	837	-	6,898	
Other assets and other liabilities	11,214	-	7,287	-	18,501	
Accrued expenses	92,408	-	8,306	-	100,714	
Others	6,527	-	(7,120)	-	(593)	
Deferred tax assets recognized	<u>₩ 280,936</u>	<u>₩ 27,189</u>	<u>₩ (510,370)</u>	<u>₩ (66)</u>	<u>₩ (202,311)</u>	

(In millions of Korean won)

	2019					
	<u>Beginning</u>	<u>Profit or loss</u>	<u>Equity</u>	<u>Ending</u>		
Inventories, net	₩ 96,844	₩ 74,499	₩ -	₩ 171,343		
Property, plant and equipment, net	(46,091)	12,869	-	(33,222)		
Defined benefits liabilities, net	-	(25,293)	33,931	8,638		
Short-term investment assets,						
long-term investment assets, and others	(32,985)	5,410	-	(27,575)		
Employee benefits	38,975	6,567	-	45,542		
Provisions	18,555	(12,494)	-	6,061		
Other assets and other liabilities	24,079	(12,865)	-	11,214		
Accrued expenses	48,882	43,526	-	92,408		
Others	8,284	(1,757)	-	6,527		
Deferred tax assets recognized	<u>₩ 156,543</u>	<u>₩ 90,462</u>	<u>₩ 33,931</u>	<u>₩ 280,936</u>		

(2) As of December 31, 2020 and 2019, the temporary differences that are not recognized as deferred tax assets (liabilities) are as follows:

(In millions of Korean won)

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Investments in subsidiaries, associates, and joint ventures and others		
deductible temporary differences	₩ 2,208,472	₩ 2,208,472
taxable temporary differences	(635,896)	(647,608)
	<u>₩ 1,572,576</u>	<u>₩ 1,560,864</u>

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21. Deferred income tax, Continued

(3) Details of period when the deferred income tax assets (liabilities) are recovered (settled) as of December 31, 2020 and 2019 are as follows:

(In millions of Korean won)

	December 31, 2020	December 31, 2019
Deferred income tax assets to be recovered after more than 12 months	₩ 767,975	644,536
Deferred income tax assets to be recovered within 12 months	229,317	276,043
Deferred income tax assets recognized	997,292	920,579
Deferred income tax liabilities to be recovered after more than 12 months	(1,198,936)	(639,261)
Deferred income tax liabilities to be settled within 12 months	(667)	(382)
Deferred income tax liabilities recognized	₩ (1,199,603)	(639,643)
Net income deferred tax assets (liabilities) recognized	(202,311)	280,936

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22. Derivative Financial Instruments

(1) Details of derivative financial instruments applying cash flow hedge accounting for the year ended December 31, 2020 are as follows:

(In thousands of foreign currencies)

Hedged items			Hedging instruments		
Borrowing date	Financial instrument	Hedged risk	Type of contract	Financial institution	Contract period
2019.09.17	Foreign currency denominated bond with fixed rate (Par value: USD 500,000)	Foreign currency risk	Fixed-to-fixed cross currency swap	Kookmin Bank and other	2019.09.17~ 2024.09.17
2019.10.02	Foreign currency denominated borrowing for equipment with floating rate (Par value: USD 500,000)	Foreign currency and interest rate risk	Floating-to-fixed cross currency interest rate swap	Korea Development Bank	2019.10.02~ 2026.10.02

(2) The derivative financial instruments held by the Company are presented in non-current other financial liabilities in the separate financial statements of financial position and the details are as follows:

(In millions of Korean won and thousands of foreign currencies)

Type of contract	Hedged items	Cash flow hedge	Fair value
Fixed-to-fixed cross currency swap	Foreign currency denominated bond with fixed rate (Par value: USD 500,000)	₩ 23,018	23,018
Floating-to-fixed cross currency interest rate swap	Foreign currency denominated borrowing for equipment with floating rate (Par value: USD 500,000)	₩ 59,478	59,478
		₩	<u>82,496</u>

As of December 31, 2020, changes of fair value of the derivative is recognized in other comprehensive income as all of designated hedging instruments are effective for foreign currency risk or foreign currency and interest rate risk.

SK hynix Inc.
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23. 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, 2020. The number of shares issued, common stock, capital surplus and other capital as of December 31, 2020 and 2019, are as follows:

<i>(In millions of Korean won and thousands of shares)</i>	December 31, 2020	December 31, 2019
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	(2,508,427)	(2,508,427)
Share options	5,305	3,714
	<u>₩ (2,503,122) ₩</u>	<u>(2,504,713)</u>
Number of treasury shares	44,001	44,001

¹ As of December 31, 2020, the number of outstanding shares is 728,002 thousand shares, which differs from total issued shares due to share retirement.

(2) The number of outstanding shares, which deducted treasury shares held by the Company from listed shares, is 684,002 thousands as of December 31, 2020 and 2019.

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24. Accumulated Other Comprehensive Income

(1) Details of accumulated other comprehensive income as of December 31, 2020 and 2019 are as follows:

<i>(In millions of Korean won)</i>	December 31, 2020	December 31, 2019
Gain on valuation of derivatives	₩ 14,546	₩ 12,753

(2) Changes in accumulated other comprehensive income (loss) for the years ended December 31, 2020 and 2019 are as follows:

<i>(In millions of Korean won)</i>	December 31, 2020	December 31, 2019
Beginning Balance	₩ 12,753	₩ -
Change	1,793	12,753
Ending Balance	₩ 14,546	₩ 12,753

25. Retained Earnings

(1) Details of retained earnings as of December 31, 2020 and 2019 are as follows:

<i>(In millions of Korean won)</i>	December 31, 2020	December 31, 2019
Legal reserve ¹	₩ 349,954	₩ 281,554
Discretionary reserve ²	235,506	235,506
Unappropriated retained earnings	43,636,204	40,170,502
	₩ 44,221,664	₩ 40,687,652

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

² Discretionary reserve is the reserve for technology development.

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25. Retained Earnings, Continued

(2) Statement of Appropriations of Retained Earnings

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

	2020	2019
Retained earnings before appropriations		
Unappropriated retained earnings carried over from the prior year	₩ 39,418,190	₩ 38,783,065
Remeasurements of defined benefit liability	173	(89,454)
Profit for the year	<u>4,217,841</u>	<u>1,476,981</u>
	<u>43,636,204</u>	<u>40,170,592</u>
Appropriation of retained earnings¹		
Earned surplus reserve	80,028	68,400
Cash dividend (2020: ₩1,170 per share, 23% on par value, 2019: ₩1,500 per share, 30% on par value)	<u>800,282</u>	<u>684,002</u>
	<u>880,310</u>	<u>752,402</u>
Unappropriated retained earnings carried forward to the subsequent year	<u>₩ 42,755,894</u>	<u>₩ 39,418,190</u>

¹ The appropriation of retained earnings for the year ended December 31, 2020, is expected to be appropriated at the shareholders' meeting on March 30, 2021. The appropriation date for the year ended December 31, 2019, was March 20, 2020.

(3) Dividends

(a) Details of dividends for the years ended December 31, 2020 and 2019 are as follows:

(In millions of Korean won and in thousands of shares)

	2020	2019
Type of dividends	Cash dividends	Cash dividends
Outstanding ordinary shares	684,002	684,002
Par value (in won)	₩ 5,000	₩ 5,000
Dividend rate	23%	20%
Total dividends	<u>₩ 800,282</u>	<u>₩ 684,002</u>

(b) Dividend payout ratio for the years ended December 31, 2020 and 2019 is as follows:

(In millions of Korean won)

	2020	2019
Dividends	₩ 800,282	₩ 684,002
Profit for the year	<u>4,217,841</u>	<u>1,476,981</u>
Dividend payout ratio	<u>18.97%</u>	<u>46.31%</u>

(c) Dividend yield ratio for the years ended December 31, 2020 and 2019 is as follows:

(In Korean won)

	2020	2019
Dividends per share	₩ 1,170	₩ 1000
Closing stock price	<u>118,500</u>	<u>94,100</u>
Dividend yield ratio	<u>0.99%</u>	<u>1.06%</u>

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26. Revenue

(1) Details of revenue for the years ended December 31, 2020 and 2019, are as follows:

(In millions of Korean won)

	2020	2019
Sale of goods	₩ 30,314,986	₩ 25,101,668
Providing services	210,001	219,087
	<u>₩ 30,524,987</u>	<u>₩ 25,320,755</u>

(2) Details of revenue by product and service types for the years ended December 31, 2020 and 2019, are as follows:

(In millions of Korean won)

	2020	2019
DRAM	₩ 21,952,006	₩ 19,662,791
NAND Flash	7,414,619	4,935,452
Others	1,158,362	722,512
	<u>₩ 30,524,987</u>	<u>₩ 25,320,755</u>

(3) Details of the Company's revenue by the timing of revenue recognition for the years ended December 31, 2020 and 2019, are as follows:

(In millions of Korean won)

	2020	2019
Performance obligations satisfied at a point in time	₩ 30,314,986	₩ 25,101,668
Performance obligations satisfied over time	210,001	219,087
	<u>₩ 30,524,987</u>	<u>₩ 25,320,755</u>

SK hynix Inc.
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27. Selling and Administrative Expenses

Selling and administrative expenses for the years ended December 31, 2020 and 2019 are as follows:

(In millions of Korean won)

	<u>2020</u>	<u>2019</u>
Selling and administrative expenses:		
Salaries	₩ 397,016 ₩	347,191
Defined benefit plan	36,934	31,056
Employee benefits	114,579	100,002
Commission	284,352	414,222
Depreciation	198,817	167,572
Amortization	707,596	676,105
Freight and custody charges	26,097	20,016
Legal cost	18,961	29,834
Rental	2,609	2,734
Taxes and dues	7,500	8,152
Training	65,094	39,238
Advertising	93,886	92,256
Utilities	8,672	7,595
Supplies	90,347	88,802
Repair	24,633	26,354
Travel and transportation	1,825	9,404
Others	29,354	25,747
	<u>2,108,272</u>	<u>2,086,280</u>
Research and development:		
Expenditure on research and development	3,376,446	3,196,361
Development cost capitalized	(259,020)	(332,888)
	<u>3,117,426</u>	<u>2,863,473</u>
	<u>₩ 5,225,698 ₩</u>	<u>4,949,753</u>

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28. Expenses by Nature

Nature of expenses for the years ended December 31, 2020 and 2019 are as follows:

(In millions of Korean won)

	<u>2020</u>	<u>2019</u>
Changes in finished goods and work-in-process	₩ (488,215) ₩	(427,259)
Raw materials, supplies and consumables	9,561,785	8,108,342
Employee benefit	3,091,442	2,818,751
Depreciation and others	7,720,891	7,140,033
Commission	1,805,568	1,739,308
Utilities	1,129,065	1,085,747
Repair	810,203	775,137
Outsourcing	1,590,830	1,457,583
Other operating expenses	1,066,287	981,212
Transfer: capitalized development cost and others	(308,746)	(347,799)
Total ¹	₩ <u>25,979,110</u> ₩	<u>23,331,055</u>

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

29. Finance Income and Expenses

Finance income and expenses for the years ended December 31, 2020 and 2019 are as follows:

(In millions of Korean won)

	<u>2020</u>	<u>2019</u>
Finance Income:		
Interest income	₩ 30,828 ₩	21,945
Dividend income	33,061	26,737
Foreign exchange differences ¹	762,588	813,993
Gain on valuation of short-term investment assets	2,268	4,755
Gain on valuation of long-term investment assets	1,727,214	2,657
Gain on disposal of short-term investment assets	18,550	31,053
Gain on disposal of long-term investment assets	-	1,160
	<u>2,574,509</u>	<u>902,300</u>
Finance Expenses:		
Interest expense	119,875	131,983
Foreign exchange differences ¹	1,283,868	649,936
Loss on valuation of long-term investment assets	1,500	237,417
Loss on disposal of long-term investment assets	-	786
	<u>1,405,243</u>	<u>1,020,122</u>
Net finance income (expenses)	₩ <u>1,169,266</u> ₩	<u>(117,822)</u>

¹ For the year ended December 31, 2020, the foreign exchange differences gain/loss from long-term investment assets amounting to ₩40,222 million (2019: ₩207,878 million) are included.

SK hynix Inc.
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30. Other Income and Expenses

(1) Other income for the years ended December 31, 2020 and 2019 are as follows:

(In millions of Korean won)

	2020	2019
Gain on disposal of property, plant and equipment	₩ 66,416	₩ 71,340
Gain on disposal of intangible assets	122	-
Gain on disposal of investment in subsidiaries	8,923	31,513
Others	7,562	5,882
	<u>₩ 83,023</u>	<u>₩ 108,735</u>

(2) Other expenses for the years ended December 31, 2020 and 2019 are as follows:

(In millions of Korean won)

	2020	2019
Loss on disposal of property, plant and equipment	₩ 56,061	₩ 97,318
Loss on disposal of intangible assets	4,812	7,653
Loss on disposal of trade receivables	449	1,197
Loss on impairment of intangible assets	16,544	71
Loss on Impairment of investments in associates	-	1,799
Donation	56,359	44,778
Others	13,907	24,284
	<u>₩ 148,132</u>	<u>₩ 177,100</u>

SK hynix Inc.
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31. Income Tax Expense

(1) Income tax expense for the years ended December 31, 2020 and 2019 are as follows:

(In millions of Korean won)

	<u>2020</u>	<u>2019</u>
Current tax:		
Current tax on profits for the year	₩ 947,066	₩ 494,764
Adjustments for the current tax liabilities attributable to prior year, but recognized in current year	(25,243)	(77,769)
	<u>921,823</u>	<u>416,995</u>
Deferred tax:		
Changes in net deferred tax assets	510,370	(90,462)
Income tax expense	<u>₩ 1,432,193</u>	<u>₩ 326,533</u>

(2) The relationship between tax expense and accounting profit for the years ended December 31, 2020 and 2019 are as follows:

(In millions of Korean won)

	<u>2020</u>	<u>2019</u>
Profit before income tax	₩ 5,650,034	₩ 1,803,514
Tax calculated at statutory income tax rates	1,543,397	485,604
Tax effects of:		
Tax-exempt income	(13,050)	(36,604)
Non-deductible expenses	12,259	9,435
Change in unrecognized deferred tax assets	3,221	495
Tax credits	(93,761)	(101,210)
Adjustments for the current tax liabilities attributable to prior year, but recognized in current year	(25,243)	(77,769)
Others	5,370	46,582
Income tax expense	<u>₩ 1,432,193</u>	<u>₩ 326,533</u>

(3) Income taxes recognized in other comprehensive income (loss) for the years ended December 31, 2020 and 2019 are as follows:

(In millions of Korean won)

	<u>2020</u>	<u>2019</u>
Remeasurements of defined benefit liabilities	₩ (66)	33,931
Gain on valuation of derivatives	(680)	(4,837)
	<u>₩ (746)</u>	<u>29,094</u>

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32. 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 for the years ended December 31, 2020 and 2019.

(1) Basic earnings per share for the years ended December 31, 2020 and 2019 are as follows:

(Millions of Korean won, except for shares and per share information)

	2020	2019
Profit attributable to ordinary shareholders	₩ 4,217,841	₩ 1,476,981
Weighted average number of outstanding ordinary shares ¹	684,001,795	684,001,795
Basic earnings per share (in won)	₩ 6,166	₩ 2,159

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

(In shares)

	2020	2019
Outstanding ordinary shares	728,002,365	728,002,365
Acquisition of treasury shares	(44,000,570)	(44,000,570)
Weighted average number of outstanding ordinary shares	684,001,795	684,001,795

(2) Diluted earnings per share for the for the years ended December 31, 2020 and 2019 are as follows:

(Millions of Korean won, except for shares and per share information)

	2020	2019
Profit attributable to ordinary shareholders	₩ 4,217,841	₩ 1,476,981
Weighted average number of diluted outstanding ordinary shares ¹	684,139,222	684,089,944
Diluted earnings per share (in Korean won)	₩ 6,165	₩ 2,159

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

(In shares)

	2020	2019
Weighted average number of outstanding ordinary shares	684,001,795	684,001,795
Stock options	137,427	88,149
Weighted average number of diluted outstanding ordinary shares	684,139,222	684,089,944

SK hynix Inc.
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33. Transactions with Related Parties and Others

(1) Details of related parties as of December 31, 2020 are as follows:

Type	Name of related parties
Subsidiaries	SHAY and other 32 entities ¹
Associates ²	Stratio, Inc., SK China Company Limited, Gemini Partners Pte. Ltd., TCL Fund, SK South East Asia Investment Pte. Ltd., Hushan Xinju (Chengdu) Venture Investment Center(Smartsource), Prume Social Farm, Co., Ltd, Wuxi xinfu IC industry park., Ltd., Magnus Private Investment Co., Ltd., L&S (No.10) Early Stage III Investment Association, SiFive.Inc., YD-SK-KDB Social Value
Joint ventures ³	HITECH Semiconductor(Wuxi) Co., Ltd., Hystars Semiconductor (Wuxi) Co., Ltd., Specialized Investment-type Private Equity Investment Trust For Growth Of Semiconductor, Specialized Investment-type Private Equity Investment Trust For Win-win System Semiconductor
Other related parties	SK Telecom Co., Ltd., which has significant influence over the Company, and its subsidiaries, SK Holdings Co., Ltd., which has control over SK Telecom Co., Ltd., and its subsidiaries

¹ MMT (Money Market Trust) was excluded from related party transactions. Subsidiaries of subsidiaries are included.

² Associates of subsidiaries are included.

³ Joint ventures of subsidiaries are included.

SK hynix Inc.
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December 31, 2020 and 2019

33. Transactions with Related Parties and Others, Continued

(2) Subsidiaries of the Company as of December 31, 2020 are as follows:

Company	Controlling company	Remarks
SK hyeng Inc.	SK hynix, Inc.	Domestic subsidiary
SK hystec Inc.	SK hynix, Inc.	Domestic subsidiary
Happymore Inc.	SK hynix, Inc.	Domestic subsidiary
SK hynix system ic Inc.	SK hynix, Inc.	Domestic subsidiary
HAPPYNARAE Co., Ltd.	SK hynix, Inc.	Domestic subsidiary
SK hynix America Inc.	SK hynix, Inc.	Overseas sales subsidiary
SK hynix Deutschland GmbH	SK hynix, Inc.	Overseas sales subsidiary
SK hynix Asia Pte. Ltd.	SK hynix, Inc.	Overseas sales subsidiary
SK hynix Semiconductor Hong Kong Ltd.	SK hynix, Inc.	Overseas sales subsidiary
SK hynix U.K. Ltd.	SK hynix, Inc.	Overseas sales subsidiary
SK hynix Semiconductor Taiwan Inc.	SK hynix, Inc.	Overseas sales subsidiary
SK hynix Japan Inc.	SK hynix, Inc.	Overseas sales subsidiary
SK hynix Semiconductor (Shanghai) Co., Ltd.	SK hynix, Inc.	Overseas sales subsidiary
SK hynix Semiconductor India Private Ltd.	SK hynix Asia Pte. Ltd.	Overseas sales subsidiary
SK hynix (Wuxi) Semiconductor Sales Ltd.	SK hynix, Inc.	Overseas sales subsidiary
SK hynix Semiconductor (China) Ltd.	SK hynix, Inc.	Overseas manufacturing subsidiary
SK hynix Semiconductor (Chongqing) Ltd.	SK APTECH Ltd.	Overseas manufacturing subsidiary
SK hynix Italy S.r.l	SK hynix, Inc.	Overseas R&D center
SK hynix memory solutions America Inc.	SK hynix, Inc.	Overseas R&D center
SK hynix memory solutions Taiwan Ltd.	SK hynix, Inc.	Overseas R&D center
SK hynix memory solutions Eastern Europe LLC.	SK hynix, Inc.	Overseas R&D center
SK APTECH Ltd.	SK hynix, Inc.	Overseas investing subsidiary
SK hynix Ventures Hong Kong Ltd.	SK hynix, Inc.	Overseas investing subsidiary
SK hynix (Wuxi) Investment Ltd.	SK hynix Semiconductor (China) Ltd.	Overseas investing subsidiary
SK hynix (Wuxi) Industry Development Ltd.	SK hynix (Wuxi) Investment Ltd.	Other overseas subsidiary
SK hynix Happiness (Wuxi) Hospital Management Ltd.	SK hynix (Wuxi) Investment Ltd.	Other overseas subsidiary
SK hynix system ic (Wuxi) Co., Ltd.	SK hynix system ic Inc.	Overseas manufacturing subsidiary
SK hynix happy (Wuxi) cleaning Ltd.	SK hynix (Wuxi) Investment Ltd.	Other overseas subsidiary
SUZHOU HAPPYNARAE Co., Ltd.	HAPPYNARAE Co., Ltd.	Other overseas subsidiary
CHONGQING HAPPYNARAE Co., Ltd.	SUZHOU HAPPYNARAE Co., Ltd.	Other overseas subsidiary
SkyHigh Memory Limited	SK hynix system ic Inc.	Overseas manufacturing subsidiary
SK hynix (Wuxi) Education Technology Co., Ltd.	SK hynix (Wuxi) Investment Ltd.	Other overseas subsidiary
Gauss Labs Inc.	SK hynix, Inc.	Overseas R&D center

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33. Transactions with Related Parties and Others, Continued

(3) Significant transactions with related parties for the for years ended December 31, 2020 and 2019 are as follows:

(In millions of Korean won)

		For the year ended December 31, 2020				
Company		Operating revenue and others ⁵	Operating expense and others	Loans ⁴	Asset acquisition	Dividend received
Subsidiaries ⁵	Domestic subsidiaries	₩ 233,329	₩ 1,199,639	₩ 121,290	₩ 132,710	₩ 8,512
	Overseas sales subsidiaries	30,008,134	291,657	-	730,551	7,933
	Overseas manufacturing subsidiaries ¹	240,803	4,426,588	2,069,710	159,202	-
	Overseas R&D centers	7,008	190,154	-	-	523
Associate	SK China Company Limited	-	8,019	-	-	-
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	1,403	542,288	-	17,131	15,033
Other related parties	SK Telecom Co., Ltd. ²	151	171,880	-	80,391	-
	SK Holdings Co., Ltd. ³	14,854	222,604	-	254,648	-
	SK Engineering & Construction Co., Ltd.	-	8,386	-	1,355,581	-
	SK Energy Co., Ltd.	1,101	80,602	-	-	-
	SK Networks Co., Ltd.	-	8,585	-	-	-
	SKC Solmics Co., Ltd.	-	60,691	-	106	-
	Chungcheong energy service Co., Ltd.	10	27,733	-	-	-
	SK Materials Co., Ltd.	-	92,508	-	-	-
	SK Siltron Co., Ltd.	2,563	221,961	-	-	-
	SK Airgas Co., Ltd.	13,059	75,988	-	110,858	-
	Others	879	405,712	-	23,632	-
		<u>₩ 30,523,294</u>	<u>₩ 8,034,995</u>	<u>₩ 2,191,000</u>	<u>₩ 2,864,810</u>	<u>₩ 32,001</u>

¹ Operating revenue and others for the year ended December 31, 2020 include proceeds from asset disposal that amount to ₩216,645 million.

² Operating expense and others include dividends of ₩146,100 million.

³ For the year ended December 31, 2020, royalty on the use of the SK brand amounted to ₩52,113 million.

⁴ The Company provided loan to SK hynix System IC Inc. and SK hynix semiconductor(China) Ltd. for the year ended December 31, 2020.

⁵ Operating revenue and others for the year ended December 31, 2020 include payment transactions with subsidiaries such as SK Hynix System IC.

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33. Transactions with Related Parties and Others, Continued

(3) Significant transactions with related parties for the for the years ended December 31, 2020 and 2019 are as follows, Continued

(In millions of Korean won)

		For the year ended December 31, 2019			
	Company	Operating revenue and others	Operating expense and others	Asset acquisition	Dividend received
Subsidiaries	Domestic subsidiaries	₩ 238,565	₩ 1,168,531	₩ 162,190	₩ 9,200
	Overseas sales subsidiaries	24,985,704	306,209	1,071,623	2,288
	Overseas manufacturing subsidiaries ¹	171,936	3,447,187	34,397	-
	Overseas R&D centers	732	219,241	-	433
Associate	SK China Company Limited	-	10,954	-	-
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	1,040	656,689	-	14,458
Other related parties	SK Telecom Co., Ltd. ²	255	240,453	6,069	-
	SK Holdings Co., Ltd. ³	15,470	239,987	200,136	-
	SK Engineering & Construction Co., Ltd.	126	1,249	1,597,712	-
	SK Energy Co., Ltd.	1,144	73,301	-	-
	SK Networks Co., Ltd.	-	6,456	-	-
	SKC Solmics Co., Ltd.	-	35,847	160	-
	Chungcheong energy service Co., Ltd.	20	26,991	-	-
	SK Materials Co., Ltd.	4	69,658	-	-
	SK Siltron Co., Ltd.	3,059	218,189	-	-
	SK Airgas Co., Ltd.	-	72,673	-	-
	Others	250	326,416	35,095	-
		₩ <u>25,418,305</u>	₩ <u>7,120,031</u>	₩ <u>3,107,382</u>	₩ <u>26,379</u>

¹ Operating revenue and others for the year ended December 31, 2019 include proceeds from asset disposal that amount to ₩166,166 million.

² Operating expense includes dividend of ₩219,200 million paid.

³ For the year ended December 31, 2019, royalty on the use of the SK brand amounted to ₩80,566 million.

The above related party transactions include transactions executed based on agreements executed in the course of the Company's business activities such as purchase or construction of property, plant and equipment, procurements of gas and raw materials, and system developments and maintenance services.

SK hynix Inc.
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December 31, 2020 and 2019

33. Transactions with Related Parties and Others, Continued

(4) The balances from significant transactions as of December 31, 2020 and 2019 are as follows:

(In millions of Korean won)

		December 31, 2020	
Company		Trade receivables and others	Other payables and others
Subsidiaries	Domestic subsidiaries ¹	₩ 135,848	₩ 203,694
	Overseas sales subsidiaries	4,096,056	214,391
	Overseas manufacturing subsidiaries ¹	1,971,683	827,491
	Overseas R&D centers	122	31,507
Associate	SK China Company Limited	-	8,771
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	-	417,730
Other related parties	SK Telecom Co., Ltd.	-	6,991
	SK Holdings Co., Ltd.	1,359	169,861
	SK Engineering & Construction Co., Ltd.	-	577,813
	SK Energy Co., Ltd.	38	22,328
	SKC Solmics Co., Ltd.	-	21,577
	Chungcheong energy service Co., Ltd.	-	3,295
	SK Materials Co., Ltd.	-	9,628
	SK Siltron Co., Ltd. ²	42,651	14,256
	SK Airgas Co., Ltd.	3	390,967
	Others	496	80,432
		<u>₩ 6,248,256</u>	<u>₩ 3,000,732</u>

¹ Trade receivables and others include loan to SK hynix System IC. and SK hynix semiconductor(China) Ltd. amounting to ₩108,800 million and ₩1,904,000 million, respectively.

² Trade receivable and others include ₩42,432 million of advance paid for the purchase of wafers (Note 34).

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December 31, 2020 and 2019

33. Transactions with Related Parties and Others, Continued

(4) The balances from significant transactions as of December 31, 2020 and 2019 are as follows, Continued

(In millions of Korean won)

		December 31, 2019	
Company		Trade receivables and others	Other payables and others
Subsidiaries	Domestic subsidiaries	₩ 21,646	₩ 187,028
	Overseas sales subsidiaries	3,556,293	247,976
	Overseas manufacturing subsidiaries	45,539	450,126
	Overseas R&D centers	30	17,060
Associate	SK China Company Limited	-	10,883
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	22	520,401
Other related parties	SK Telecom Co., Ltd.	46	5,602
	SK Holdings Co., Ltd.	1,362	141,794
	SK Engineering & Construction Co., Ltd.	-	754,542
	SK Energy Co., Ltd.	37	24,203
	SK Networks Co., Ltd.	-	1,068
	SKC Solmics Co., Ltd.	-	14,951
	Chungcheong energy service Co., Ltd.	-	3,599
	SK Materials Co., Ltd.	-	6,792
	SK Siltron Co., Ltd. ¹	96,438	15,230
SK Airgas Co., Ltd.	-	277,059	
	Others	19	97,594
		₩ 3,721,432	₩ 2,775,908

¹ Trade receivable and others include ₩96,216 million of advance paid for the purchase of wafers.

(5) Key management compensation

The Company considers registered directors who have authority and responsibility for planning, directing and controlling the activities of the Company as key management. The compensation paid to key management for employee services for the years ended December 31, 2020 and 2019 is as follows:

(In millions of Korean won)

Details	2020	2019
Salaries	₩ 5,006	₩ 3,849
Defined benefit plan related expenses	545	406
Share-based payment	1,156	954
	₩ 6,707	₩ 5,209

SK hynix Inc.
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33. Transactions with Related Parties and Others, Continued

(6) The significant transactions between the Company and the entity, which belongs to the Large Enterprise Group to which the Group also belongs in accordance with the Monopoly Regulation and Fair Trade Act, not the related party of the Group in accordance with Korean IFRS 1024, for the years ended December 31, 2020 and 2019, are as follows:

(In millions of Korean won)

Name of entity	2020			
	Operating revenue and others	Operating expense and others	Asset acquisition	Dividend income
SK Chemicals Co., Ltd.	₩ -	₩ 1,465	₩ -	₩ -
SMCore Co., Ltd.	-	621	17,874	-
Others	-	378	-	-
	₩ -	₩ 2,464	₩ 17,874	₩ -

(In millions of Korean won)

Name of entity	2019			
	Operating revenue and others	Operating expense and others	Asset acquisition	Dividend income
SK Chemicals Co., Ltd.	₩ -	₩ 1,507	₩ -	₩ -
SK Bioscience Co., Ltd.	-	68	-	-
	₩ -	₩ 1,575	₩ -	₩ -

(7) The balances of significant transactions between the Company and the companies that are in the same conglomerate group designated by 'Fair Trade Law' as of December 31, 2020 and 2019 are as follows. These entities are not related parties according to Korean IFRS 1024 *Related Party Disclosures*.

(In millions of Korean won)

Name of entity	December 31, 2020	
	Trade receivables and others	Other payables and others
SK Chemicals Co., Ltd.	₩ -	₩ 115
SMCore. Inc.	-	3,436
Others	3	-
	₩ 3	₩ 3,551

(In millions of Korean won)

Name of entity	December 31, 2019
	Other payables and others
SK Chemicals Co., Ltd.	₩ 114

(8) The right-of-use assets and lease liabilities recognized regarding the lease agreements entered with the Joint venture, HITECH Semiconductor (Wuxi) Co., Ltd, for the year ended December 31, 2020 amount to ₩17,051 million and ₩17,051 million, respectively, and lease payments to the related parties amount to ₩90,627 million for the year ended December 31, 2020. The right-of-use assets and lease liabilities recognized regarding the lease agreements entered with SK Air Gas Co., and other related parties for the year ended December 31, 2020 amount to ₩111,260 million and ₩111,260 million, respectively, and lease payments to the related parties amount to ₩33,550 million for the year ended December 31, 2020.

(9) Note 10 explains the establishment of subsidiary and additional investment in associates and joint ventures for the year ended December 31, 2020.

SK hynix Inc.
Notes to the Separate Financial Statements
December 31, 2020 and 2019

34. Commitments and Contingencies

(1) Significant pending litigations and claims of the Company as of December 31, 2020 are as follows:

(a) Lawsuit from Netlist, Inc. ("Netlist")

Netlist filed a lawsuit against the Company and its subsidiaries including SK hynix America Inc. and SK hynix memory solutions America Inc. alleging infringement of multiple patents to the U.S. International Trade Commission ("U.S. ITC"), on September 1, 2016 and on October 31, 2017.

The lawsuit filed to the U.S. ITC on September 1, 2016 was provisionally concluded on January 16, 2018 that the Company and its subsidiaries, SK hynix America Inc. and SK hynix memory solutions America Inc., did not infringe the patents of Netlist. Netlist filed an appeal against the conclusion; however. The U.S. Federal Court of Appeals rejected the petition on December 12, 2019; accordingly, it is finally concluded that the Company and its subsidiaries, SK hynix America Inc. and SK hynix memory solutions America Inc. did not infringe the patents.

Regarding the patent infringement case that was filed on October 31, 2017, the U.S. ITC determined that the Company and its subsidiaries, SK Hynix America Inc. and SK Hynix memory solutions America Inc. did not infringe the patents of Netlist on April 7, 2020. Netlist filed for an appeal on April 29, 2020 and withdrew the appeal on June 23, 2020; accordingly, it is finally concluded that the Company and its subsidiaries, SK hynix America Inc. and SK hynix memory solutions America Inc. did not infringe the patent.

In addition, Netlist filed lawsuits against the Company and its subsidiaries, SK hynix America Inc. and SK hynix memory solutions America Inc., with the U.S. District Court for the Central District of California on August 31, 2016 and June 14, 2017, and filed a lawsuit against the Company and its subsidiary, SK hynix America Inc., with the U.S. District Court for the Western District of Texas on March 17, 2020 and June 15, 2020 for infringement of U.S. patent of Netlist. As of December 31, 2020, the litigation value has not been determined and the final results cannot be predicted.

(b) Price-fixing class action lawsuits in North America

On April 27, 2018, a class action lawsuit against the Company and its subsidiary, SK hynix America Inc., for price fixing by major DRAM companies (period from June 1, 2016 to February 1, 2018) was filed with the U.S. District Court for the Northern District of California. Similar class action lawsuits have been filed with the U.S. District Court for the Northern District of California, the Supreme Court of British Columbia, the Quebec District Court, the Ontario Federal and District Court, and the Israel Court. In December 2020, the U.S. District Court in Northern California ruled against all lawsuits filed by plaintiffs, but due to the possibility of plaintiffs' disobedience, the Company cannot predict the outcome of these lawsuits as of December 31, 2020

(c) The antitrust investigation in China

The State Administration for Market Regulation of China initiated to investigate the violation of the antitrust law regarding on primary DRAM businesses' sales in China in May 2018, and the investigation has been started. The pending case currently is under investigation. As of December 31, 2020, the Company cannot predict the outcome of these investigation.

SK hynix Inc.
Notes to the Separate Financial Statements
December 31, 2020 and 2019

34. Commitments and Contingencies, Continued

(1) Significant pending litigations and claims of the Company as of December 31, 2020 are as follows:
Continued

(d) 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 recognizes liabilities when it represents a present obligation as a result of past event and 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 royalty payables are recognized as intangible assets, and the amount is amortized on a straight-line basis for the patent license agreement period and recognized as amortization expense.

(3) Contract for supply of industrial water

The Company has entered into a renewal contract with Veolia Water Industrial Development Co., Ltd. ("Veolia") under which the Company purchases industrial water from Veolia during the period of June 2018 through May 2023. 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) Back-end process service contract with HITECH Semiconductor (Wuxi) Co., Ltd. ("HITECH")

The Company has entered into an agreement with HITECH to be provided with back-end 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 as the Company has priority to use HITECH's equipment.

(5) Assets provided as collateral

Details of assets provided as collateral as of December 31, 2020 are as follows:

(In millions of Korean won and millions of U.S. dollars)

	Book value	Currency	Pledged amount		Remark
			Amount in USD	Amount in KRW	
Machinery		USD	645	701,760	Borrowings for equipment
	₩ 1,277,492	KRW	-	1,020,000	

SK hynix Inc.
Notes to the Separate Financial Statements
December 31, 2020 and 2019

34. Commitments and Contingencies, Continued

(6) Financing agreements

Details of credit lines with financial institutions as of December 31, 2020 are as follows:

(In millions of Korean won and millions of U.S. dollars)

Financial institution	Commitment	Currency	Amount
Hana Bank and others	Import finance including usance	USD	465
	Comprehensive limit contract for import and export including usance	USD	1,010
	Overdrafts with banks	KRW	20,000
	Accounts receivable factoring contracts which have no right to recourse	KRW	140,000

(7) Details of guarantees provided to others as of December 31, 2020 are as follows:

(In millions of U.S. dollars)

	Currency	Amount	Remark
Taiwan Semiconductor Manufacturing Company, Limited. ¹	USD	80	Guarantees for supply agreement

¹ The Company is provided a deposit of ₩1,000 million as collateral from AD Technology Inc. regarding payment guarantee for Taiwan Semiconductor Manufacturing Company, Limited.

(8) Capital commitments

The Company's unrecorded commitments in relation to the capital expenditures on property, plant and equipment and intangible assets as of December 31, 2020 are ₩3,213,566 million (2019: ₩183,433 million).

(9) 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 a stable supply of wafer with an advanced payment of ₩150,000 million made in 2017. The advanced payment used in connection with the purchase of wafer during the current period is ₩53,784 million, and the balance of the advance payment as of December 31, 2020 is ₩42,432 million. Meanwhile, SK Siltron Co., Ltd. is providing a certain portion of its property, plant and equipment as collateral to secure the advanced payment.

(10) Agreement with SK hynix system ic Inc.

The Company has entered into an agreement of wafer foundry supply with SK hynix system ic Inc., a subsidiary, to receive foundry supply-related services SK hynix system ic Inc. 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, 2020 and 2019

34. Commitments and Contingencies, Continued

(11) Investment in KIOXIA Holdings Corporation ("KIOXIA")

In regard to the Company's interests in KIOXIA through the Company's investments in BCPE Pangea Intermediate Holdings Cayman, L.P. and BCPE Pangea Cayman2 Limited, equity shares in KIOXIA owned, directly or indirectly, by the Company are limited to a certain percentage during certain periods after the date of acquisition. In addition, during the same periods, the Company does not have the right in appointing KIOXIA's directors and is unable to exercise significant influence over decision-making for KIOXIA's operations and management.

(12) Agreement of loan to a subsidiary

Through the resolution of the Board of Directors in the year ended December 31, 2020, the Company decided to provide loan to SK hynix Semiconductor (China) Ltd., a subsidiary, amounting to USD 2,700 million. The loan amount is expected to be determined by dividing within the limit indicated above considering the subsidiary's business progress from April 2020 to 2021. Some of the agreement amount was executed during the year ended December 31, 2020, and the Company recognizes USD 1,750 million as a loan (Note 33).

(13) Acquisition of the entire NAND business division of Intel Corporation

In accordance with the resolution of Board of Directors on October 20, 2020, the Company decided to acquire the entire NAND business division of Intel Corporation excluding the Optane division of Non-Volatile Memory Solutions Group; accordingly, the Company entered into a business transfer agreement with Intel Corporation. The entire business division and assets are expected to be transferred in two separate processes through subsidiaries that will be newly established overseas, and payment will be made in two installments. Total consideration amount of US\$ 9 billion will be paid with the first installment of US\$ 7 billion by the end of 2021 and the second installment of US\$ 2 billion by March 2025. The closing of the business transfer depends on the satisfaction of an agreed upon set of conditions that include regulatory approvals of governmental authorities and the agreed termination fee shall be paid when the contract is terminated under certain circumstances.

SK hynix Inc.
Notes to the Separate Financial Statements
December 31, 2020 and 2019

35. Cash Flows

(1) Reconciliations between profit for the period and cash generated from operations for the years ended December 31, 2020 and 2019 are as follows:

(In millions of Korean won)

	2020		2019
Profit for the period	₩ 4,217,841	₩	1,476,981
Adjustment			
Income tax expense	1,432,193		326,533
Defined benefit plan	235,661		207,733
Depreciation of property, plant and equipment	6,582,813		6,131,037
Depreciation of investment properties	291		37
Amortization	927,662		765,604
Depreciation of right-of-use assets	215,465		257,686
Compensation expenses associated with share options	1,591		1,738
Loss on disposal of property, plant, and equipment	56,061		97,318
Loss on disposal of intangible assets	4,812		7,653
Impairment loss on intangible assets	16,544		71
Loss on valuation of long-term investment assets	1,500		237,417
Loss on disposal of long-term investment assets	-		786
Impairment loss on investments in subsidiaries and associates	-		1,799
Interest expense	119,875		131,983
Loss on foreign currency translation	334,369		148,950
Gain on disposal of investments in subsidiaries and associates	(8,923)		(31,513)
Gain on disposal of property, plant and equipment	(66,416)		(71,340)
Gain on disposal of intangible assets	(122)		-
Gain on disposal of short-term investment assets	(18,550)		(31,053)
Gain on valuation of short-term investment assets	(2,268)		(4,755)
Gain on disposal of long-term investment assets	-		(1,160)
Gain on valuation of long-term investment assets	(1,727,214)		(2,657)
Interest income	(30,828)		(21,945)
Gain on foreign currency translation	(158,227)		(239,451)
Dividend income	(33,061)		(26,737)
Others	881		1,001
Changes in operating assets and liabilities			
Decrease (increase) in trade receivables	(591,404)		2,743,621
Increase in loans and other receivables	(3,419)		(2,838)
Increase in inventories	(625,653)		(633,211)
Decrease in other assets	24,065		30,839
Increase (decrease) in trade payables	430,958		(336,234)
Increase (decrease) in other payables	38,511		(192,406)
Increase (decrease) in other non-trade payables	133,718		(637,048)
Increase (decrease) in provisions	20,863		(42,711)
Increase in other liabilities	69,616		14,948
Payment of defined benefit liabilities	(599)		(3,442)
Contribution to plan assets	(340,000)		(260,000)
Cash generated from operations	₩ 11,258,606	₩	10,045,234

SK hynix Inc.
Notes to the Separate Financial Statements
December 31, 2020 and 2019

35. Cash Flows, Continued

(2) Details of significant transactions without inflows and outflows of cash for the years ended December 31, 2020 and 2019 are as follows:

(In millions of Korean won)

	<u>2020</u>	<u>2019</u>
Increase in other payables related to acquisition of property, plant and equipment	₩ 1,627,920 ₩	1,570,013
Transfer of investment property to property, plant and equipment	-	1,105
Transfer of property, plant and equipment to investment property	209,450	-

(3) Changes in liabilities arising from financial activities during the years ended December 31, 2020 and 2019 are as follows:

(In millions of Korean won)

	<u>2020</u>	<u>2019</u>
Beginning balance	₩ 7,550,114 ₩	4,574,311
Adjustment due to the transition to Korean IFRS 1116 ¹	-	698,761
Impacts of changes in accounting policies ²	-	435,423
Beginning balance after transition adjustments	7,550,114	5,708,495
Cash flows from financing activities		
- Proceeds from borrowings	3,511,577	5,107,104
- Repayments of borrowings	(2,690,161)	(3,178,745)
- Repayments of lease liabilities	(236,169)	(267,998)
Increase of lease liabilities	152,982	110,788
Foreign currency differences and others	(119,353)	55,290
Present value discount (interest expense)	26,342	25,167
Interest paid	(5,264)	(9,987)
Ending Balance	₩ <u>8,190,068 ₩</u>	<u>7,550,114</u>

¹ Lease liabilities are recognized upon adoption of K-IFRS 1116 as of January 1, 2019.

² Lease liabilities are adjusted considering the enforceable period of lease contracts upon adoption of K-IFRS 1116 interpretation.

SK hynix Inc.
Notes to the Separate Financial Statements
December 31, 2020 and 2019

36. Share-based Payment

(1) The Company granted equity-settled share options to the Company's key management during the year ended December 31, 2020 and the details of the share options as of December 31, 2020 are as follows:

(In shares)

	Total numbers of share option granted	Forfeited or Cancelled	Exercised	Outstanding at December 31, 2020
1 st	99,600	-	-	99,600
2 nd	99,600	-	-	99,600
3 rd	99,600	-	-	99,600
4 th	7,747	-	-	7,747
5 th	7,223	-	-	7,223
6 th	8,171	8,171	-	-
7 th	61,487	-	-	61,487
8 th	61,487	-	-	61,487
9 th	61,487	-	-	61,487
10 th	54,020	-	-	54,020
11 th	6,397	-	-	6,397
	566,819	8,171	-	558,648

	Grant date	Service Period for Vesting	Exercisable Period	Exercise price (in Korean won)
1 st	March 24, 2017	March 24, 2017 - March 24, 2019	March 25, 2019 - March 24, 2022	48,400
2 nd	March 24, 2017	March 24, 2017 - March 24, 2020	March 25, 2020 - March 24, 2023	52,280
3 rd	March 24, 2017	March 24, 2017 - March 24, 2021	March 25, 2021 - March 24, 2024	56,460
4 th	January 1, 2018	January 1, 2018 - December 31, 2019	January 1, 2020 - December 31, 2022	77,440
5 th	March 28, 2018	March 28, 2018 - March 28, 2020	March 29, 2020 - March 28, 2023	83,060
6 th	February 28, 2019	February 28, 2019 - February 28, 2021	March 1, 2021 - February 29, 2024	73,430
7 th	March 22, 2019	March 22, 2019 - March 22, 2021	March 23, 2021 - March 22, 2024	71,560
8 th	March 22, 2019	March 22, 2019 - March 22, 2022	March 23, 2022 - March 22, 2025	77,290
9 th	March 22, 2019	March 22, 2019 - March 22, 2023	March 23, 2023 - March 22, 2026	83,470
10 th	March 20, 2020	March 20, 2020 - March 20, 2023	March 21, 2023 - March 20, 2027	84,730
11 th	March 20, 2020	March 20, 2020 - March 20, 2023	March 21, 2023 - March 20, 2027	84,730

SK hynix Inc.
Notes to the Separate Financial Statements
December 31, 2020 and 2019

36. Share-based Payment, Continued

(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 each grant date. The inputs used are as follows:

	1 st	2 nd	3 rd	4 th	5 th	6 th	7 th	8 th	9 th	10 th	11 th
Expected volatility	23.23%	23.23%	23.23%	22.50%	25.30%	25.60%	26.17%	26.17%	26.17%	26.15%	26.15%
Estimated fair value of share option (in Korean won)	10,026	9,613	9,296	16,687	18,362	16,505	17,744	16,888	16,093	11,786	11,786
Dividend yield ratio	1.20%	1.20%	1.20%	0.78%	1.23%	1.36%	1.98%	1.98%	1.98%	2.10%	2.10%
Risk free ratio	1.86%	1.95%	2.07%	2.38%	2.46%	1.89%	1.82%	1.88%	1.91%	1.59%	1.59%

(3) The compensation expense for the year ended December 31, 2020 was ₩1,591 million (2019: ₩1,738 million).

**Report on Independent Auditor's
Audit of Internal Control over Financial Reporting**
(English Translation of a Report Originally Issued in Korean)

To the Shareholders and Board of Directors of

SK hynix Inc.

Opinion on Internal Control over Financial Reporting

We have audited SK hynix Inc.'s (the Company) Internal Control over Financial Reporting as at December 31, 2020, based on Conceptual Framework for Designing and Operating Internal Control over Financial Reporting.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as at December 31, 2020, based on Conceptual Framework for Designing and Operating Internal Control over Financial Reporting.

We also have audited, in accordance with Korean Standards on Auditing, the separate financial statements of the Company, which comprise the separate statement of financial position as at December 31, 2020, and the separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flow for the year then ended, and notes to the separate financial statements including a summary of significant accounting policies, and our report dated March 2, 2021 expressed an unqualified opinion.

Basis for Opinion on Internal Control over Financial Reporting

We conducted our audit in accordance with Korean Standards on Auditing. Our responsibility under these standards are further described in the Auditor's Responsibilities for the Audit of Internal Control over Financial Reporting section of our report. We are independent of the Company in accordance with the ethical requirements of the Republic of Korea that are relevant to our audit of internal control over financial reporting and we have fulfilled our other ethical responsibilities in accordance with the ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management and Those Charged with Governance for Internal Control over Financial Reporting

Management is responsible for designing, implementing and maintaining effective internal control over financial reporting, and for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying Report on the Effectiveness of Internal Control over Financial Reporting.

Those charged with governance have the responsibilities for overseeing internal control over financial reporting.

Auditor's Responsibilities for the Audit of Internal Control over Financial Reporting

Our responsibility is to express opinion on the Company's internal control over financial reporting based on our audit. We conducted the audit in accordance with Korean Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

An audit of internal control over financial reporting involves performing procedures to obtain audit evidence about whether a material weakness exists. The procedures selected depend on the auditor's judgment, including the assessment of the risks that a material weakness exists. An audit includes obtaining an understanding of internal control over financial reporting and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

Definition and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with International Financial Reporting Standards as adopted by the Republic of Korea. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with International Financial

Reporting Standards as adopted by the Republic of Korea, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment 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.

The engagement partner on the audit resulting in this independent auditor's report is Si-Chang, Choi, Certified Public Accountant.

Seoul, Korea

March 2, 2021

This report is effective as at March 2, 2021, 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 Company's internal control over financial reporting thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

Report on the Effectiveness of the Internal Control over Financial Reporting

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

We, as the Chief Executive Officer and the Internal Accounting Manager of SK HYNIX INC. ("the Company"), assessed operating status of the Company's Internal Control over Financial Reporting ("ICFR") for the year ending December 31, 2020.

Design and operation of ICFR is the responsibility of the Company's management, including the Chief Executive Officer and the Internal Accounting Manager. We evaluated whether the Company effectively designed and operated its ICFR to prevent and detect errors or frauds which may cause a misstatement in financial statements to ensure preparation and disclosure of reliable financial information

We used the 'Conceptual Framework for Designing and Operating Internal Control over Financial Reporting' established by the Operating Committee of Internal Control over Financial Reporting in Korea (the "ICFR Committee") as the criteria for design and operation of the Company's ICFR. And we conducted an evaluation of ICFR based on the 'Management Guideline for Evaluating and Reporting Effectiveness of Internal Control over Financial Reporting' established by the ICFR Committee

Based on our assessment, we concluded that the Company's ICFR is designed and operated effectively as of December 31, 2020, in all material respects, in accordance with the 'Conceptual Framework for Designing and Operating Internal Control over Financial Reporting.

We certify that this report does not contain any untrue statement of a fact, or omit to state a fact necessary to be presented herein. We also certify that this report does not contain or present any statements which might cause material misunderstandings of the readers, and we have reviewed and verified this report with sufficient care.

Jan 18, 2021

Seok Hee Lee Chief Executive Officer



Hyuk Joon Chang, Internal Accounting Manager

