

IMPORTANT NOTICE

IMPORTANT: You must read the following before continuing. If you are not the intended recipient of this message, please do not distribute or copy the information contained in this e-mail, but instead, delete and destroy all copies of this e-mail including all attachments. The following applies to the Offering Circular following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Offering Circular. In accessing the Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from SK hynix Inc. (the "Company") as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND SUBJECT TO CERTAIN EXCEPTIONS, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES. THE SECURITIES ARE BEING OFFERED AND SOLD OUTSIDE THE UNITED STATES TO NON-U.S. PERSONS IN RELIANCE ON REGULATION S AND WITHIN THE UNITED STATES TO "QUALIFIED INSTITUTIONAL BUYERS" IN RELIANCE ON RULE 144A UNDER THE SECURITIES ACT ("RULE 144A"). PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT SELLERS OF THE SECURITIES MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A. FOR A DESCRIPTION OF THESE AND CERTAIN FURTHER RESTRICTIONS ON OFFERS, SALES AND TRANSFERS OF THE SECURITIES AND DISTRIBUTION OF THIS OFFERING CIRCULAR, SEE "PLAN OF DISTRIBUTION" AND "TRANSFER RESTRICTIONS."

THE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF THE SECURITIES OR THE ACCURACY OR ADEQUACY OF THIS OFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE IN THE UNITED STATES.

THE FOLLOWING OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. ANY INVESTMENT DECISION SHOULD BE MADE ON THE BASIS OF THE FINAL TERMS AND CONDITIONS OF THE RELEVANT SECURITIES. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORIZED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

Confirmation of your representation: In order to be eligible to view the Offering Circular or make an investment decision with respect to the securities, an investor must be either (I) a non-U.S. person within the meaning of Regulation S under the Securities Act and the securities are purchased pursuant to Regulation S or (II) a qualified institutional buyer within the meaning of Rule 144A ("QIB"). The Offering Circular is being sent at your request and by accepting the e-mail and accessing the Offering Circular, you shall be deemed to have represented to the Company that (1) you and any customers you represent are either (a) a QIB or (b) a non-U.S. person and that the e-mail address that you gave to the Company and to which this e-mail has been delivered is not located in the United States and, to the extent you purchase the securities, you will be doing so pursuant to Regulation S and (2) you consent to the delivery of the Offering Circular and any amendments and supplements thereto by electronic transmission.

You are reminded that the following Offering Circular has been delivered to you on the basis that you are a person into whose possession the following Offering Circular may be lawfully delivered in accordance with the laws of jurisdiction in which you are located and you may not, nor are you authorized to, deliver or disclose the contents of the following Offering Circular to any other person. If this is not the case, you must return this Offering Circular to the Company immediately.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the initial purchasers or any affiliate of the initial purchasers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the initial purchasers or such affiliate on behalf of the issuer in such jurisdiction.

The following Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently, none of BNP Paribas, Citigroup Global Markets Inc., Crédit Agricole Corporate and Investment Bank, The Hongkong and Shanghai Banking Corporation Limited, J.P. Morgan Securities plc, The Korea Development Bank, Mizuho Securities Asia Limited and MUFG Securities Asia Limited (collectively, the "Initial Purchasers") nor any person who controls any of them nor any director, officer, employee nor agent of any of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Initial Purchasers.

You should not reply by e-mail to this announcement, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected. You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.



SK hynix Inc.

(a corporation organized under the laws of the Republic of Korea)

US\$500,000,000 5.500% Notes due 2027

US\$1,000,000,000 5.500% Notes due 2029

SK hynix Inc. (the “Company”) is offering US\$500,000,000 aggregate principal amount of 5.500% Notes due 2027 (the “2027 Notes”) and US\$1,000,000,000 aggregate principal amount of 5.500% Notes due 2029 (the “2029 Notes,” and together with the 2027 Notes, the “Notes”). The 2027 Notes will mature on January 16, 2027 and will bear interest at the rate of 5.500% per annum from, and including, January 16, 2024 to, but excluding, January 16, 2027. The 2029 Notes will mature on January 16, 2029 and will bear interest at the rate of 5.500% per annum from, and including, January 16, 2024 to, but excluding, January 16, 2029. Interest on each of the Notes will be payable semi-annually in arrears on January 16 and July 16 of each year, commencing July 16, 2024.

The Company may, at its option, redeem all, but not some only, of the Notes at any time at their principal amount plus accrued interest in the event of certain changes in tax law as described under “Terms and Conditions of the Notes – Redemption and Purchase – Redemption for Taxation Reasons.”

The Notes will be unsecured and will be the direct, unconditional and unsubordinated general obligations of the Company and will rank *pari passu* among themselves and at least equally with all other outstanding unsecured and unsubordinated general obligations of the Company, except as may be required by mandatory provisions of law.

Approval in-principle has been received from the Singapore Exchange Securities Trading Limited (the “SGX-ST”) for the listing and quotation of the Notes on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained in this Offering Circular. Approval in-principle from, admission to the Official List of, and the listing and quotation of the Notes on, the SGX-ST are not to be taken as an indication of the merits of the Company or the Notes.

The Notes are each expected to be rated “Baa2” by Moody’s Investors Service, Inc. (“Moody’s”), “BBB-” by S&P Global Ratings, a division of S&P Global, Inc. (“S&P”), and “BBB” by Fitch Ratings, Inc. (“Fitch”). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organization.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”), and subject to certain exceptions, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act (“Regulation S”). The Notes are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S and within the United States to “qualified institutional buyers” in reliance on Rule 144A under the Securities Act (“Rule 144A”). Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of these and certain further restrictions on offers, sales and transfers of the Notes and distribution of this Offering Circular, see “Plan of Distribution” and “Transfer Restrictions.”

The Notes have not been approved or disapproved by the U.S. Securities and Exchange Commission, any State securities commission in the United States or any other U.S. regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the Notes or the accuracy or adequacy of this Offering Circular. Any representation to the contrary is a criminal offense in the United States.

Investing in the Notes involves risks. See “Risk Factors” beginning on page 12 to read about certain risk factors you should consider before investing in the Notes.

Issue Price:

2027 Notes: 99.894%

2029 Notes: 99.548%

(in each case, plus accrued interest, if any, from January 16, 2024)

Delivery of the Notes in book-entry form will be made on or about January 16, 2024.

Joint Bookrunners and Lead Managers

BNP PARIBAS
J.P. Morgan

Citigroup
Korea Development Bank

Crédit Agricole CIB
Mizuho

HSBC
MUFG

The date of this Offering Circular is January 8, 2024.

TABLE OF CONTENTS

	Page
CERTAIN DEFINED TERMS AND CONVENTIONS	v
ENFORCEABILITY OF CIVIL LIABILITIES	vi
AVAILABLE INFORMATION	vi
PRESENTATION OF FINANCIAL INFORMATION	vi
SUMMARY	1
THE OFFERING	3
SUMMARY FINANCIAL DATA	8
RISK FACTORS	12
USE OF PROCEEDS	36
EXCHANGE RATE INFORMATION	37
CAPITALIZATION	38
SELECTED FINANCIAL INFORMATION	39
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	43
BUSINESS	68
MANAGEMENT	84
SHARE OWNERSHIP	88
SK GROUP	89
CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS	90
TERMS AND CONDITIONS OF THE NOTES	92
TAXATION	109
PLAN OF DISTRIBUTION	115
TRANSFER RESTRICTIONS	124
LEGAL MATTERS	128
INDEPENDENT ACCOUNTANTS	128
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS	F-1

You should rely only on the information contained in this Offering Circular. The Company has not authorized anyone to provide you with information that is different. This Offering Circular may only be used where it is legal to sell these securities. The information in this Offering Circular may only be accurate as of the date of this Offering Circular.

IN CONNECTION WITH THIS OFFERING, TO THE EXTENT PERMITTED BY, AND IN ACCORDANCE WITH, APPLICABLE LAWS AND REGULATIONS, ANY OF THE INITIAL PURCHASERS APPOINTED AS A STABILIZATION MANAGER (THE “STABILIZATION MANAGER”) (OR PERSONS ACTING ON BEHALF OF THE STABILIZATION MANAGER) MAY OVER-ALLOT OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILIZATION MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILIZATION MANAGER) WILL UNDERTAKE SUCH STABILIZATION. ANY STABILIZATION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES.

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE FINANCIAL INVESTMENT SERVICES AND CAPITAL MARKETS ACT OF KOREA. ACCORDINGLY, THE NOTES MAY NOT BE OFFERED, SOLD OR DELIVERED, DIRECTLY OR INDIRECTLY, IN KOREA OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY RESIDENT OF KOREA (AS SUCH TERM IS DEFINED UNDER THE FOREIGN EXCHANGE TRANSACTIONS ACT OF KOREA AND ITS PRESIDENTIAL DECREE) OR TO OTHERS FOR RE-OFFERING OR RESALE, DIRECTLY OR INDIRECTLY, IN KOREA OR TO ANY RESIDENTS OF KOREA, EXCEPT AS OTHERWISE PERMITTED UNDER APPLICABLE KOREAN LAWS AND REGULATIONS. IN ADDITION, DURING THE FIRST YEAR AFTER THE ISSUANCE OF THE NOTES, THE NOTES MAY NOT BE TRANSFERRED TO ANY RESIDENT OF KOREA OTHER THAN A KOREAN QUALIFIED INSTITUTIONAL BUYER (A “KOREAN QIB,” AS DEFINED IN THE REGULATION ON ISSUANCE AND PUBLIC DISCLOSURE, ETC. OF SECURITIES OF KOREA) WHO IS REGISTERED WITH THE KOREA FINANCIAL INVESTMENT ASSOCIATION AS A KOREAN QIB, PROVIDED THAT THE AMOUNT OF THE NOTES ACQUIRED BY SUCH KOREAN QIBS IN THE PRIMARY MARKET IS LIMITED TO NO MORE THAN 20% OF THE AGGREGATE ISSUE AMOUNT OF THE NOTES.

No person has been authorized in connection with any offering of the Notes to give any information or make any representation other than as contained in this Offering Circular and, if given or made, such information or representation must not be relied upon as having been authorized by the Company, by any Agent (as defined in “Terms and Conditions of the Notes”) or by the Initial Purchasers (as defined in “Plan of Distribution”). This Offering Circular does not constitute an offer to sell or a solicitation of an offer to buy any Notes by any person except in compliance with all applicable laws and regulations. The Initial Purchasers and the Agents have not separately verified the information contained in this Offering Circular. No representation or warranty, express or

implied, is made by the Initial Purchasers or any of their affiliates or advisors, or any Agent, as to the accuracy or completeness of the information contained in this Offering Circular, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise or representation by the Initial Purchasers or their affiliates or advisors, or any Agent. Neither the delivery of this Offering Circular nor any sale made in connection with this Offering Circular shall under any circumstances imply that the information in this Offering Circular is correct as of any date subsequent to the date of this Offering Circular or constitute a representation that there has been no change or development reasonably likely to involve a material adverse change in the Company's affairs since the date of this Offering Circular. To the fullest extent permitted by law, none of the Initial Purchasers or the Agents accept any responsibility for the contents of this Offering Circular or for any other statement, made or purported to be made by the Initial Purchasers or the Agents on their respective behalf in connection with the Company or the issue and offering of the Notes. Each Initial Purchaser and each Agent accordingly disclaims any and all responsibility or liability whether arising in tort or contract or otherwise which it might otherwise have in respect of the information contained in this Offering Circular, any other information provided by the Company in connection with the offering or any other such statement. Each person receiving this Offering Circular acknowledges that such person has not relied on the Initial Purchasers or any of their affiliates or advisors in connection with investigation of the accuracy of such information or such person's investment decisions.

The Notes have not been registered with or approved or disapproved by the U.S. Securities and Exchange Commission, any state securities commission or other regulatory authority, nor has any of the foregoing authorities passed upon or endorsed the merits of this offering or the accuracy or adequacy of this Offering Circular. Any representation to the contrary is a criminal offense.

Notification under Section 309B(1)(c) of the Securities and Futures Act 2001 of Singapore (the "SFA") – The Company has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

This Offering Circular is for distribution only to, and is only directed at, persons who (i) are outside of the United Kingdom, (ii) have professional experience in matters relating to investments and who qualify as investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the "Financial Promotion Order"), (iii) are persons falling within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc.") of the Financial Promotion Order, or (iv) are persons to whom, in connection with the issue or sale of any securities, an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as "relevant persons"). The Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Notes will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this Offering Circular or any of its contents.

This Offering Circular does not constitute, and may not be used for purposes of, an offer, invitation or solicitation by anyone in any jurisdiction or in any circumstances in which such offer, invitation or solicitation is not authorized or to any person to whom it is unlawful to make such offer, invitation or solicitation. The distribution of this Offering Circular and the offering of the Notes in

certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular may come are required by the Company and the Initial Purchasers to inform themselves about and to observe the relevant restrictions. For a description of certain restrictions on offers and sales of the Notes and distribution of this Offering Circular, see “Plan of Distribution – Selling Restrictions” and “Transfer Restrictions.” No action is being taken in any jurisdiction to permit an offering to the general public of Notes or the distribution of this Offering Circular in any jurisdiction where action would be required for those purposes.

In making an investment decision, prospective investors must rely on their own examination of the Company and the terms of the offering of the Notes, including the merits and risks involved. The Company is not and no Agent is making any representation to any purchaser of the Notes regarding the legality of an investment in the Notes by such purchaser under any legal investment or similar laws or regulations. The contents of this Offering Circular should not be construed as providing legal, business, accounting or tax advice.

NOTICE TO CAPITAL MARKET INTERMEDIARIES AND PROSPECTIVE INVESTORS PURSUANT TO PARAGRAPH 21 OF THE HONG KONG SFC CODE OF CONDUCT

Prospective investors should be aware that certain intermediaries in the context of this offering of the Notes, including all Initial Purchasers, are “capital market intermediaries” (together, the “CMI”) subject to Paragraph 21 of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (the “SFC Code”). This notice to prospective investors is a summary of certain obligations the SFC Code imposes on such CMIs, which require the attention and cooperation of prospective investors. Certain CMIs may also be acting as “overall coordinators” (together, the “OCs”) for this offering and are subject to additional requirements under the SFC Code.

Prospective investors who are the directors, employees or major shareholders of the Company (as defined in this Offering Circular), a CMI or its group companies would be considered under the SFC Code as having an association (an “Association”) with the Company, the CMI or the relevant group company (as the case may be). Prospective investors associated with the Company or any CMI (including its group companies) should specifically disclose this when placing an order for the Notes and should disclose, at the same time, if such orders may negatively impact the price discovery process in relation to this offering. Prospective investors who do not disclose their Associations are hereby deemed not to be so associated. Where prospective investors disclose their Associations but do not disclose that such order may negatively impact the price discovery process in relation to this offering, such order is hereby deemed not to negatively impact the price discovery process in relation to this offering.

Prospective investors should ensure, and by placing an order prospective investors are deemed to confirm, that orders placed are bona fide, are not inflated and do not constitute duplicated orders (i.e., two or more corresponding or identical orders placed via two or more CMIs). If a prospective investor is an asset management arm affiliated with any Initial Purchaser, such prospective investor should so indicate when placing an order if it is for a fund or portfolio where the Initial Purchaser or its group company has more than 50% interest, in which case it will be classified as a “proprietary order” and subject to appropriate handling by CMIs in accordance with the SFC Code and should disclose, at the same time, if such “proprietary order” may negatively impact the price discovery process in relation to this offering. Prospective investors who do not indicate this information when

placing an order are hereby deemed to confirm that their order is not a “proprietary order.” If a prospective investor is otherwise affiliated with any Initial Purchaser, such that its order may be considered to be a “proprietary order” (pursuant to the SFC Code), such prospective investor should so indicate to the relevant Initial Purchaser when placing such order. Prospective investors who do not indicate this information when placing an order are hereby deemed to confirm that their order is not a “proprietary order.” Where prospective investors disclose such information but do not disclose that such “proprietary order” may negatively impact the price discovery process in relation to this offering, such “proprietary order” is hereby deemed not to negatively impact the price discovery process in relation to this offering.

Prospective investors should be aware that certain information may be disclosed by CMIs (including private banks) which is personal and/or confidential in nature to the prospective investor. By placing an order, prospective investors are deemed to have understood and consented to the collection, disclosure, use and transfer of such information by the relevant Initial Purchasers and/or any other third parties as may be required by the SFC Code, including to the Company, any OCs, relevant regulators and/or any other third parties as may be required by the SFC Code, it being understood and agreed that such information shall only be used for the purpose of complying with the SFC Code, during the bookbuilding process for this offering. Failure to provide such information may result in that order being rejected.

CERTAIN DEFINED TERMS AND CONVENTIONS

References to “Korea” or the “Republic” are references to The Republic of Korea. References to the “Government” are references to the government of the Republic of Korea. All references to the “United States” and the “U.S.” are to the United States of America. All references to the “Issuer” or the “Company” herein are references to SK hynix Inc. and its subsidiaries, as the context requires.

In this Offering Circular, references to “Won” or “₩” are to the currency of Korea and references to “U.S. dollars,” “USD” or “US\$” are to the currency of the United States of America. This Offering Circular contains a translation of certain Won amounts into U.S. dollars at specified rates solely for the convenience of the reader. These translations should not be construed as representations that the Won amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rates indicated. Unless otherwise specified, all conversions of Won into U.S. dollars were made at the base rate under the market average exchange rate system, announced by Seoul Money Brokerage Services, Ltd. in Seoul, between U.S. dollars and Won, rounded to the nearest tenth of one Won (the “Market Average Exchange Rate”). Unless otherwise specified, all conversions of U.S. dollars into Won have been made at the Market Average Exchange Rate in effect on September 30, 2023, which was ₩1,344.8 to US\$1.00. For a discussion of historical information regarding the rate of exchange between Won and the U.S. dollar, see “Exchange Rate Information.” No representation is made that the Won or U.S. dollar amounts referred to in this Offering Circular could have been or could be converted into U.S. dollars or Won, as the case may be, at any particular rate or at all.

ENFORCEABILITY OF CIVIL LIABILITIES

The Company is a corporation organized under the laws of Korea. A majority of its directors and officers and certain other persons named in this Offering Circular reside in Korea, and a significant portion of the assets of the directors and officers and certain other persons named in this Offering Circular and a substantial majority of the Company's assets are located in Korea. As a result, it may not be possible for investors to effect service of process within the United States upon the Company or such persons or to enforce against any of them in the United States court judgments obtained in U.S. courts, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any State or territory within the United States. There is doubt as to the enforceability in Korea, either in original actions or in actions for enforcement of judgments of U.S. courts, of civil liabilities predicated on the securities laws of the United States or any State or territory within the United States.

AVAILABLE INFORMATION

To permit compliance with Rule 144A under the Securities Act in connection with the sale of the Notes, the Company will be required under the Fiscal Agency Agreement to be entered into as of the closing date of this offering (the "Fiscal Agency Agreement") among the Company, Citicorp International Limited, as the fiscal agent (the "Fiscal Agent") and Citibank, N.A., London Branch, as the paying agent, transfer agent and registrar with respect to the Notes, to furnish, upon request, to a Holder (as defined in "Terms and Conditions of the Notes") of a Note and a prospective investor designated by such Holder, the information required to be delivered under Rule 144A(d)(4) under the Securities Act unless at the time of the request the Company is a reporting company under Section 13 or Section 15(d) of the United States Securities Exchange Act of 1934, as amended (the "Exchange Act"), or the Company is exempt from the registration requirements of Section 12(g) of the Exchange Act (and therefore is required to publish on the Company's website, in English, certain information pursuant to Rule 12g3-2(b) under the Exchange Act). In accordance with the Fiscal Agency Agreement, the Fiscal Agent also will make available for inspection by Holders of the Notes upon prior written notice and satisfaction of proof of holding, at the corporate trust office of the Fiscal Agent or, in certain cases, arrange for the mailing to such Holders, certain reports or communications received from the Company. See "Terms and Conditions of the Notes."

PRESENTATION OF FINANCIAL INFORMATION

The Company's audited consolidated financial statements as of and for the years ended December 31, 2022 and 2021 (the "Annual Financial Statements") included in this Offering Circular have been prepared in accordance with the Korean International Financial Reporting Standards ("K-IFRS"), which may differ in certain respects from generally accepted accounting principles in other countries, including generally accepted accounting principles in the United States and International Financial Reporting Standards applied in other countries. The Company's unaudited condensed consolidated interim financial statements as of September 30, 2023 and for the three and nine months ended September 30, 2023 and 2022 (the "Interim Financial Statements") included in this Offering Circular have been prepared in accordance with K-IFRS No. 1034 "*Interim Financial Reporting*."

In December 2021, the Company completed the first phase of the Intel NAND Business Acquisition (as defined below). However, initial accounting for business combinations was incomplete as of December 31, 2021, and provisional amounts were reported in the consolidated financial statements as of and for the year then ended. During the year ended December 31, 2022, such provisional amounts were adjusted retroactively and related adjustments were made to the Annual Financial Statements and the Interim Financial Statements. See “Summary Financial Data – Consolidated Statements of Comprehensive Income (Loss) Data,” “Selected Financial Data – Consolidated Statements of Comprehensive Income (Loss) Data,” Note 37 of the notes to the Annual Financial Statements and Note 33 of the notes to the Interim Financial Statements appearing elsewhere in this Offering Circular for a description of the nature of such changes and related adjustments to the Company’s consolidated financial statements.

All financial information, descriptions and other information regarding the Company are, unless indicated otherwise, given on a consolidated basis. Any discrepancies in the tables included in this Offering Circular between the listed amounts and totals thereof are due to rounding.

SUMMARY

The following summary highlights information appearing elsewhere in this Offering Circular and does not contain all of the information you should consider in making your investment decision. You should read this summary together with the more detailed information, including the financial statements and the related notes, appearing elsewhere in this Offering Circular. You should carefully consider, among other things, the matters discussed in “Risk Factors.”

The Company is one of the world’s largest memory semiconductor companies and engages in the design, manufacture and sale of advanced memory semiconductors. In the dynamic random access memory (“DRAM”) market, the Company is ranked second globally based on revenue with a market share of 31% in the first nine months of 2023, according to market research conducted by Omdia (“Omdia”). In addition, the Company was the third largest supplier of NAND flash memory in terms of revenue, with a worldwide market share of 17% in the first nine months of 2023, according to Omdia. The Company’s memory products can be used in virtually all electronic devices, including PCs, servers, graphic cards, mobile devices such as smartphones and tablets, and other consumer electronics products. The Company’s product portfolio also includes non-memory semiconductors, including complementary metal oxide semiconductor (“CMOS”) image sensors that are used to perform the role of electronic film in digital photographing devices such as smartphones, tablets, PC laptops and surveillance cameras. The Company has also been engaging in the foundry business through SK hynix system ic Inc. (“SK hynix system ic”), a wholly-owned subsidiary, and Key Foundry Co., Ltd. (“Key Foundry”), a wholly-owned subsidiary acquired by the Company in August 2022.

The Company sells a wide variety of DRAM and NAND flash memory products with various configuration options, architectures and performance characteristics tailored to meet application- and customer-specific needs. The Company believes that it is one of the world’s leading companies in developing DRAM with advanced specifications, particularly those relating to higher density, faster data-processing speed and lower power consumption. The Company is continually developing higher-density modules, solid state drives (“SSDs”) and other customized DRAM and NAND flash memory products that are optimized for use in specific applications. In particular, the Company offers next-generation graphic memory products in a high bandwidth memory (“HBM”) configuration. HBM is designed to meet the greater data-processing speed requirements of graphics applications that incorporate deep learning and artificial intelligence technologies. The Company seeks to strengthen its relationships with leading GPU, PC and game console manufacturers to more effectively meet their needs for customized high-bandwidth graphics memory solutions. The Company believes that offering customized products provides opportunities to mitigate the negative effects of the cyclicity of the memory products market, and its customized products typically command higher prices than commodity DRAM because of their superior performance and specifically-tailored characteristics.

The Company owns and operates wafer fabrication facilities (“fabs”) in Icheon and Cheongju, Korea and Wuxi and Dalian, China. The Company also owns and operates assembly and testing facilities for back-end processing of its products in Icheon and Cheongju, Korea and Chongqing, China. As part of the Company’s efforts to reduce unit manufacturing costs, improve manufacturing yields and enhance its profitability, the Company periodically phases out the operations of its older fabs and also upgrades them to new fabs that implement more advanced processing technologies. In addition to regular maintenance and enhancement of existing fabs, the Company began mass production operations of its M16 fab in Icheon, Korea starting in the first quarter of 2021. In October

2022, the Company began construction of a new extension fab called M15X in Cheongju. As part of its efforts to ensure its long-term competitiveness, the Company has also announced initiatives to construct an integrated industrial complex in Yongin, Korea for its next generation of fabs and research and development facilities.

In order to maintain its technological leadership, as well as to access new markets for its products, the Company engages in strategic initiatives, including entering into joint ventures and joint product development and supply agreements. From time to time, the Company may also acquire equity stakes in other industry players to further strengthen its business relationships as well as acquire complementary businesses that further strengthen the Company's leading position in the industry. In October 2020, the Company agreed to acquire the NAND flash memory and storage business of Intel Corporation ("Intel") (the "Intel NAND Business Acquisition"). In the first phase of such acquisition completed in December 2021, the Company acquired Intel's NAND SSD business (including NAND SSD-related intellectual property and employees), as well as the NAND flash memory manufacturing facility in Dalian, China (the "Dalian Manufacturing Facility"), for US\$6.6 billion. The Company created a subsidiary in the United States called SK hynix NAND Product Solutions Corp. (doing business as "Solidigm") to operate the acquired business. In the second phase, the Company is expected to acquire the remaining assets, including the intellectual property related to the manufacture and design of NAND flash wafers, NAND flash wafers-related research and development employees and NAND flash wafers-related workforce at the Dalian Manufacturing Facility, for US\$2.2 billion by March 2025. See "Business – Strategic Alliances, Investments and Acquisitions."

The Company's revenue was ₩42,998 billion in 2021, ₩44,622 billion in 2022, ₩36,950 billion in the first nine months of 2022 and ₩21,460 billion in the first nine months of 2023. The Company recorded profit for the year of ₩9,616 billion in 2021 and ₩2,242 billion in 2022, and profit for the period of ₩5,976 billion in the first nine months of 2022 and loss for the period of ₩7,758 billion in the first nine months of 2023. The Company had total assets of ₩103,872 billion and total equity of ₩63,291 billion as of December 31, 2022 and total assets of ₩102,049 billion and total equity of ₩55,232 billion as of September 30, 2023.

THE OFFERING

The following is a brief summary of the terms of the offering and is qualified in its entirety by the remainder of this Offering Circular. Words and expressions defined in “Terms and Conditions of the Notes” have the same meanings in this summary.

Issuer	SK hynix Inc.
Offering	US\$500,000,000 aggregate principal amount of 5.500% Notes due 2027 (the “2027 Notes”) and US\$1,000,000,000 aggregate principal amount of 5.500% Notes due 2029 (the “2029 Notes,” and together with the 2027 Notes, the “Notes”).
Issue Price	2027 Notes: 5.500% of the principal amount of the Notes. 2029 Notes: 5.500% of the principal amount of the Notes.
Issue Date	January 16, 2024
Maturity Date	2027 Notes: January 16, 2027 2029 Notes: January 16, 2029
Interest	5.500% per annum for the 2027 Notes and 5.500% per annum for the 2029 Notes, in each case, from, and including, January 16, 2024 to, but excluding, the applicable maturity date. Interest on each of the Notes will be payable semi-annually in arrears on January 16 and July 16 of each year, commencing July 16, 2024. See “Terms and Conditions of the Notes – Interest.”
Ranking of the Notes	The Notes constitute direct, unconditional, unsubordinated and unsecured obligations of the Company and shall at all times rank <i>pari passu</i> and without any preference or priority among themselves and with all other present and future direct, unconditional, unsubordinated and unsecured obligations of the Company, except as may be required by mandatory provisions of law. See “Terms and Conditions of the Notes – Status.”
Certain Covenants	The Notes contain certain limitations on the ability of the Company to create or permit to be outstanding any mortgage, charge, lien, pledge or other security interest upon the whole or any part of its property, assets or revenues, present or future to secure certain types of indebtedness and to engage in a consolidation, merger or sale of all or substantially all of its assets. See “Terms and Conditions of the Notes – Certain Covenants.”

Taxation and Additional

Amounts.....

Payment of principal and interest in respect of the Notes, including payment of any additional amounts, by or on behalf of the Company, shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Relevant Jurisdiction, except as required by applicable law. In that event, the Company will, subject to certain exceptions and limitations, pay to a holder of any Note such additional amounts as may be necessary in order that every net payment by the Company or a paying agent of the principal of and interest on the Notes and any other amounts payable on the Notes after withholding or deduction for or on account of any present or future tax, duty, assessment or governmental charge imposed or levied by a Relevant Jurisdiction will not be less than the amount provided for in the Notes to be then due and payable thereunder. See “Terms and Conditions of the Notes – Taxation” and “Taxation – Korean Taxation.”

Redemption for Taxation

Reasons

Prior to the applicable maturity date, each of the Notes will be redeemable at the option of the Company at any time in whole, but not in part, at 100% of their principal amount plus accrued and unpaid interest, if any, to the date fixed for redemption, in the event of certain changes in the tax law of the Relevant Jurisdiction. See “Terms and Conditions of the Notes – Redemption and Purchase – Redemption for Taxation Reasons.”

Change of Control

Noteholders will have the right to require the Company to redeem all or any part of their Notes at a purchase price equal to 100% of their principal amount plus accrued and unpaid interest, if any, to the date of redemption, upon the occurrence of a Change of Control Triggering Event as described under “Terms and Conditions of the Notes – Redemption and Purchase – Change of Control Put Right.”

Further Issuances The Company may from time to time, without notice to or the consent of the holders of the Notes, create and issue further debt securities ranking *pari passu* with the Notes in all respects so that such further issue shall be consolidated and form a single series with the outstanding Notes. However, any additional debt securities shall be issued under a separate CUSIP, ISIN and/or other identifying number, as applicable, unless the additional debt securities are issued pursuant to a “qualified reopening” of the original series, are otherwise treated as part of the same “issue” of debt instruments as the original series or are issued with less than a de minimis amount of original issue discount, in each case for U.S. federal income tax purposes.

Listing Approval in-principle has been received from the SGX-ST for the listing and quotation of the Notes on the SGX-ST. For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Notes, if traded on the SGX-ST, will be traded in a minimum board lot size of S\$200,000 (or its equivalent in foreign currencies). Accordingly, the Notes, if traded on the SGX-ST, will be traded in a minimum board lot size of US\$200,000. For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, in the event that a global note is exchanged for the Notes in certificated form, the Company will appoint and maintain a paying agent in Singapore, where the Notes may be presented or surrendered for payment or redemption. In addition, in the event that a global note is exchanged for the Notes in certificated form, an announcement of such exchange will be made by or on behalf of the Company through the SGX-ST and such announcement will include all material information with respect to the delivery of the Notes in certificated form, including details of the paying agent in Singapore.

Use of Proceeds..... The net proceeds from the sale of the 2027 Notes are estimated to be US\$496,970,000 and the net proceeds from the sale of the 2029 Notes are estimated to be US\$990,480,000, in each case, after deduction of underwriting commissions but not estimated offering expenses.

The net proceeds from the Notes will be used principally for general corporate purposes, including repayment of outstanding borrowings. See “Use of Proceeds.”

Ratings	The Notes are each expected to be rated “Baa2” by Moody’s, “BBB-” by S&P and “BBB” by Fitch. Such ratings of the Notes do not constitute a recommendation to buy, sell or hold the Notes and may be subject to revision or withdrawal at any time by the rating organizations. Such ratings should be evaluated independently of any other rating of the Notes, of other securities of the Company or of the Company.
Form and Denomination	The Notes will be issued in minimum denomination of US\$200,000 and integral multiples of US\$1,000 in excess thereof. The Notes initially offered and sold outside the United States to non-U.S. persons in reliance on Regulation S (the “Unrestricted Notes”) will originally be represented by one or more unrestricted global notes. Notes initially offered and sold in the United States to qualified institutional buyers (“QIBs”) in reliance on Rule 144A (the “Restricted Notes”) will originally be represented by one or more restricted global notes. The Notes will be issued in the form of one or more fully registered global notes, deposited with a custodian for and registered in the name of a nominee of The Depository Trust Company (“DTC”). Except as described herein, the global notes will not be exchangeable for Notes in definitive registered form and will not be issued in definitive registered form. Any secondary market trading of book-entry interests in the Notes will take place through DTC participants, including Euroclear Bank SA/NV and Clearstream Banking, S.A. The Notes may not be sold or otherwise transferred except in accordance with the restrictions described under “Transfer Restrictions.”
Delivery of the Notes	Delivery of the Notes, against payment in same-day funds, is expected on or about January 16, 2024.
Risk Factors	See “Risk Factors” for a discussion of certain factors that investors should consider in connection with an investment in the Notes.
Fiscal Agent, Paying Agent, Registrar and Transfer Agent	Citicorp International Limited will act as the fiscal agent (the “Fiscal Agent”) and Citibank, N.A., London Branch will act as the paying agent, transfer agent and registrar under the Fiscal Agency Agreement for the Notes.
Governing Law	The Notes and the Fiscal Agency Agreement are governed by, and will be construed in accordance with, the laws of the State of New York.

Security Codes

**Restricted
Notes**

**Unrestricted
Notes**

2027 Notes

CUSIP:

ISIN:

78392B AG2

US78392BAG23

Y8085F BT6

USY8085FBT67

2029 Notes

CUSIP:

ISIN:

78392B AH0

US78392BAH06

Y8085F BU3

USY8085FBU31

LEI 988400XAIK6XISWQV045

SUMMARY FINANCIAL DATA

The following tables present summary financial and other information of the Company. The summary financial information as of and for the years ended December 31, 2022 and 2021 are derived from the Annual Financial Statements of the Company included in this Offering Circular, which have been prepared in accordance with K-IFRS. The summary financial information presented as of September 30, 2023 and for the nine months ended September 30, 2023 and 2022 are derived from the Interim Financial Statements of the Company included in this Offering Circular, which have been prepared in accordance with K-IFRS No. 1034 “*Interim Financial Reporting.*”

The Company’s results of operations for the nine months ended September 30, 2023 may not be indicative of its result of operations for any future interim period or for the full year 2023.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) DATA

	For the Year Ended December 31,		For the Nine Months Ended September 30,	
	2021	2022	2022 ⁽¹⁾	2023
	(In billions of Won)			
Revenue	₩42,998	₩44,622	₩36,950	₩21,460
Cost of sales.	24,046	28,994	21,345	24,219
Gross profit (loss)	18,952	15,628	15,604	(2,759)
Selling and administrative expenses . .	6,542	8,818	6,883	5,317
Operating profit (loss)	12,410	6,809	8,722	(8,076)
Finance income	2,378	3,714	4,179	2,189
Finance expenses	1,470	5,092	4,616	3,656
Share of profit of equity-accounted investees.	162	131	119	19
Other income	116	241	214	260
Other expenses	180	1,802	180	518
Profit (loss) before income tax	13,416	4,003	8,438	(9,783)
Income tax expense (benefit).	3,800	1,761	2,462	(2,025)
Profit (loss) for the period	₩ 9,616	₩ 2,242	₩ 5,976	₩(7,758)

(1) In December 2021, the Company completed the first phase of the Intel NAND Business Acquisition. However, initial accounting for business combinations was incomplete as of December 31, 2021, and provisional amounts were reported in the consolidated financial statements as of and for the year then ended. During the year ended December 31, 2022, such provisional amounts were adjusted retroactively and related adjustments were made to the consolidated statements of comprehensive income in the Interim Financial Statements. See Note 33 of the notes to the Interim Financial Statements appearing elsewhere in this Offering Circular for a description of the nature of such changes and related adjustments to the Company’s consolidated statement of comprehensive income for the first nine months of 2022.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION DATA

	As of December 31,		As of
	2021 ⁽¹⁾	2022	September 30, 2023
	(In billions of Won)		
Assets			
Current assets:			
Cash and cash equivalents	₩ 5,058	₩ 4,977	₩ 7,122
Short-term financial instruments	475	416	515
Short-term investment assets	3,140	1,016	894
Trade receivables, net	8,267	5,186	5,515
Inventories, net	8,950	15,665	14,948
Other current assets	1,017	1,474	1,399
Total current assets	26,907	28,733	30,394
Non-current assets:			
Investments in associates and joint ventures	1,410	1,353	1,416
Long-term investment assets	6,666	5,734	5,486
Loans and other receivables, net	340	354	489
Property, plant and equipment, net	53,226	60,229	54,017
Right-of-use assets, net	1,597	1,780	2,684
Intangible assets, net	4,797	3,512	3,552
Deferred tax assets	590	657	2,369
Other non-current assets	814	1,520	1,642
Total non-current assets	69,439	75,138	71,655
Total assets	96,347	103,872	102,049
Liabilities			
Current liabilities:			
Trade payables	1,359	2,186	1,917
Other payables	4,607	5,445	2,835
Other non-trade payables	2,278	3,025	1,802
Borrowings	2,881	7,423	11,230
Current tax liabilities	3,003	697	30
Lease liabilities	302	281	600
Other current liabilities	306	787	1,836
Total current liabilities	14,735	19,844	20,250
Non-current liabilities:			
Long-term other payables	2,693	2,959	3,268
Other non-trade payables	32	28	85
Borrowings	14,743	15,571	20,329
Deferred tax liabilities	628	382	125
Lease liabilities	1,224	1,516	2,423
Other financial liabilities	5	4	4
Other non-current liabilities	95	276	333
Total non-current liabilities	19,420	20,737	26,568
Total liabilities	34,155	40,581	46,818

	As of December 31,		As of
	2021 ⁽¹⁾	2022	September 30, 2023
	(In billions of Won)		
Equity			
Equity attributable to owners of the parent company:			
Capital stock	3,658	3,658	3,658
Capital surplus	4,335	4,336	4,346
Other equity	(2,295)	(2,311)	(2,286)
Accumulated other comprehensive income	675	899	1,197
Retained earnings	55,784	56,685	48,288
	<u>62,157</u>	<u>63,266</u>	<u>55,202</u>
Non-controlling interests	34	24	29
Total equity	<u>62,191</u>	<u>63,291</u>	<u>55,232</u>
Total liabilities and equity	<u>₩96,347</u>	<u>₩103,872</u>	<u>₩102,049</u>

- (1) In December 2021, the Company completed the first phase of the Intel NAND Business Acquisition. However, initial accounting for business combinations was incomplete as of December 31, 2021, and provisional amounts were reported in the consolidated financial statements as of and for the year then ended. During the year ended December 31, 2022, such provisional amounts were adjusted retroactively and related adjustments were made to the consolidated statements of financial position in the Annual Financial Statements. See Note 37 of the notes to the Annual Financial Statements appearing elsewhere in this Offering Circular for a description of the nature of such changes and related adjustments to the Company's consolidated statement of financial position for the year ended December 31, 2021.

OTHER FINANCIAL DATA

	For the Year Ended December 31,		For the Nine Months Ended September 30,	
	2021	2022	2022	2023
	(In billions of Won)			
Capital expenditures ⁽¹⁾	₩ 12,487	₩ 19,010	₩ 14,873	₩ 6,600
Net cash inflow from operating activities	19,798	14,781	13,596	325
Net cash outflow from investing activities	(22,392)	(17,884)	(14,576)	(5,695)
Net cash inflow from financing activities	4,492	2,822	103	7,398
Adjusted EBITDA ⁽²⁾	23,067	20,961	19,155	2,347

- (1) Capital expenditures represent cash outflows for acquisition of property, plant and equipment.
- (2) "Adjusted EBITDA" for a given period is defined as operating profit (loss) for such period, excluding depreciation and others. Adjusted EBITDA is not a measure defined under K-IFRS and should not be construed as an alternative to operating profit (loss), cash flows from operating activities or profit for the period; however, Adjusted EBITDA is a widely used financial indicator of a company's ability to incur and service debt. Adjusted EBITDA should not be considered in isolation or construed as an alternative to cash flows, profit for the period or any other measure of performance or as an indicator of the Company's operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. Adjusted EBITDA is presented herein because the Company believes Adjusted EBITDA is a useful supplement to cash flows data as a measure of its performance and its ability to generate cash flows from operations to cover debt service and taxes. The Company's Adjusted EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare the Company's Adjusted EBITDA to the Adjusted EBITDA presented by other companies because not all companies use the same definition of Adjusted EBITDA.

A reconciliation of the Company's operating profit (loss) to Adjusted EBITDA is as follows:

	For the Year Ended December 31,		For the Nine Months Ended September 30,	
	2021	2022	2022 ⁽²⁾	2023
	(In billions of Won)			
Operating profit (loss)	₩12,410	₩ 6,809	₩ 8,722	₩(8,076)
Depreciation and others ⁽¹⁾	10,657	14,151	10,433	10,423
Adjusted EBITDA	23,067	20,961	19,155	2,347

(1) "Depreciation and others" consist of (i) depreciation of property, plant and equipment, (ii) depreciation of investment property, (iii) amortization and (iv) depreciation of right-of-use assets.

(2) In December 2021, the Company completed the first phase of the Intel NAND Business Acquisition. However, initial accounting for business combinations was incomplete as of December 31, 2021, and provisional amounts were reported in the consolidated financial statements as of and for the year then ended. During the year ended December 31, 2022, such provisional amounts were adjusted retroactively and related adjustments were made to the consolidated statements of comprehensive income in the Interim Financial Statements. See Note 33 of the notes to the Interim Financial Statements appearing elsewhere in this Offering Circular for a description of the nature of such changes and related adjustments to the Company's consolidated statement of comprehensive income for the first nine months of 2022.

RISK FACTORS

An investment in the Notes is subject to numerous risks, including those listed below. Investors should carefully consider the following risks as well as the other information contained in this Offering Circular before purchasing the Notes. These risks could materially affect the Company's ability to meet its obligations under the Notes. In such case, investors may lose all or part of their investment in, and the expected return on, the Notes.

Risks Relating to the Company

The memory semiconductor industry is subject to cyclical fluctuations, including recurring periods of oversupply, which may result in volatility in the Company's operating results, which in turn may adversely affect its financial position and cash flows.

The Company's DRAM products accounted for 63.1% of its total sales in 2022 and 62.5% in the first nine months of 2023, and the Company's NAND flash memory products accounted for 31.8% of its total sales in 2022 and 29.6% in the first nine months of 2023. Accordingly, the Company's business is affected by market conditions in the highly cyclical memory semiconductor industry. The industry's cyclical nature results primarily from fluctuations in demand for the end products that use memory semiconductors, particularly from the information and technology industry and the consumer electronics industry, which are sensitive to general conditions in the global economy. Uncertainties in the global economy have increased in recent years, with global financial and capital markets experiencing substantial volatility. In particular, the COVID-19 pandemic that began in late 2019 and rapid increases in interest rates globally from the second half of 2021 to combat inflation have materially and adversely affected the global economy and financial markets. See "– The global COVID-19 pandemic and any possible occurrences of other types of widespread infectious diseases could materially and adversely affect the Company's business, results of operations or financial condition." Such uncertainties have been caused by, and continue to be exacerbated by, among other things, deterioration in economic and trade relations between major economies (particularly between the United States and China), the invasion of Ukraine by Russia in February 2022 that has destabilized the global energy sector, difficulties faced by several banks in the United States and Europe in 2022, the slowdown of economic growth in China and other major emerging market economies, adverse economic and political conditions in Europe and Latin America and continuing geopolitical and social instability in North Korea and various parts of the Middle East, including the recent Israel-Hamas war. Any future deterioration in global economic conditions may result in a decline in demand for the Company's memory semiconductors.

The long lead times for new facilities to become operational have in some cases resulted in significant increases in the industry's production capacity coinciding with weakening demand, resulting in global oversupply of products and declining prices. Demand growth expectations in the end markets that use memory semiconductors have typically been accompanied by increased capital investment by manufacturers. In addition, semiconductor manufacturers worldwide have migrated to finer line-width processes and advanced stacking technologies, which have increased the number of bits produced per wafer. These capital investments and adoption of new technologies may result in increases in the supply of memory semiconductors that are not matched by commensurate growth in demand in the end markets for such products. From time to time, the memory semiconductor industry has experienced significant and sometimes prolonged periods of oversupply and weak prices.

As a result of such fluctuations in global demand as well as in the manufacturing capacity available to produce memory semiconductors, the Company's results of operations may be volatile from period to period. Following a period of strong global demand for memory semiconductors in 2021 and the first half of 2022, the global prices of memory products meaningfully decreased starting in the third quarter of 2022, reflecting weakening demand and a general oversupply in the market, which in turn negatively impacted the Company's results of operations. The decrease in the global price of memory semiconductors stabilized in the second quarter of 2023, and the global price of DRAM started to recover in the third quarter of 2023 (while the global price of NAND flash remained stagnant during such period). Reflecting such trends, the Company's revenue decreased by 41.9%, or ₩15,489 billion, from ₩36,950 billion in the first nine months of 2022 to ₩21,460 billion in the first nine months of 2023, and the Company recorded profit for the period of ₩5,976 billion in the first nine months of 2022 compared to loss for the period of ₩7,758 billion in the first nine months of 2023. In addition, the Company's net cash inflow from operating activities decreased from ₩13,596 billion in the first nine months of 2022 to ₩325 billion in the first nine months of 2023, primarily reflecting a significant decrease in gross cash flow from its sales activities. In part to offset such decrease in net cash inflow from operating activities, the Company significantly decreased its capital expenditures and increased its borrowings in the first nine months of 2023. The Company's cash outflows for acquisition of property, plant and equipment decreased from ₩14,873 billion in the first nine months of 2022 to ₩6,600 billion in the first nine months of 2023, and the Company's net proceeds from borrowings increased from ₩1,781 billion in the first nine months of 2022 to ₩8,302 billion in the first nine months of 2023.

Actual or anticipated deterioration in market conditions may result in a decline in demand for the Company's products that may have a negative impact on the prices at which they can be sold. In such a case, the Company will likely face pressure to reduce prices and may need to rationalize its production capacity and reduce fixed costs. In general, the Company's ability to significantly reduce expenditures for production facilities and research and development during an industry downturn is limited because of the need to maintain its competitive position. If the Company is unable to reduce its expenses sufficiently to offset reductions in prices and sales volume, the Company's margins will deteriorate and its business, financial condition and results of operations may be materially and adversely affected.

The memory semiconductor industry is highly competitive and the Company's failure to successfully compete would adversely affect its business.

The Company operates in an intensely competitive market, which has been characterized by erosion of selling prices, frequent product enhancements from changes in technology and relatively short product life cycles. During the past decade, the memory semiconductor industry has experienced consolidation as well as the formation of strategic alliances, such as a joint venture between Kioxia Holdings Corporation ("Kioxia" and formerly Toshiba Memory Corporation) and Western Digital Corporation ("Western Digital") targeting the NAND flash memory market. The Company's major competitors in the DRAM market include Samsung Electronics Co., Ltd. ("Samsung Electronics") and Micron Technology, Inc. ("Micron Technology"). The Company's major competitors in the NAND flash memory market include Samsung Electronics, Kioxia, Micron Technology and Western Digital.

The Company competes in its principal product lines based on the following factors:

- pricing;
- manufacturing costs, yields and product availability;
- product performance, quality and reliability;
- successful and timely development of new products and manufacturing processes;
- ability to deliver in large volumes on a timely basis and the ability to meet changes in the customers' demands;
- marketing and distribution capability;
- customer service, including technical support; and
- brand recognition and financial strength.

Entry into memory semiconductor manufacturing requires substantial capital expenditures and significant technological and manufacturing expertise. Although the Company believes that its existing investment, experience and technological expertise provide “time to market” and economies of scale advantages, the Company faces increasing competition from emerging companies that may significantly expand the scale of their operations, as well as from potential repositioning and expansion by storage solution companies and existing customers that develop memory solutions in-house. In addition, in recent years, various industrialized nations have taken measures to promote high-technology industries, which may intensify the competitive landscape of the semiconductor industry. For example, in August 2022, the U.S. Government enacted the CHIPS and Science Act of 2022, which provides federal aid to promote emerging industries in the United States, including strengthening its domestic semiconductor manufacturing capabilities. Such efforts may incentivize U.S. semiconductor companies to invest in the expansion of their production capabilities. As part of its efforts to promote a robust semiconductor supply chain, the U.S. Government also initiated the Chip 4 Alliance, a new U.S.-Asian semiconductor partnership among the United States, Korea, Japan and Taiwan. Such alliance may lead China and other nations to take measures to more actively develop their semiconductor manufacturing capabilities, which may further intensify competition in the global semiconductor industry.

Some of the Company's existing and new competitors may have greater financial, marketing, technical or other resources than the Company. Greater resources may allow such competitors to respond to changes in market demand more quickly and produce, market and distribute advanced products, as well as withstand downturns in the memory semiconductor markets in which the Company competes. There is no assurance that the Company will be able to continue to compete successfully, and its failure to do so could have a material adverse effect on its business, financial condition and results of operations.

The Company's future long-term growth depends to a significant extent on its ability to increase production capacity.

The Company's future long-term growth will be dependent on its ability to continue to expand its production capacity and total output beyond current levels. As part of the Company's efforts to reduce unit manufacturing costs, improve manufacturing yields and enhance its profitability, the Company periodically phases out the operations of its older fabs and also upgrades them to new fabs that implement more advanced processing technologies. In addition to regular maintenance and enhancement of existing fabs, the Company began mass production operations of its M16 fab in Icheon, Korea starting in the first quarter of 2021. In December 2021, the Company also completed the first phase of its acquisition of the Dalian Manufacturing Facility from Intel. See "Business – Strategic Alliances, Investments and Acquisitions." In October 2022, the Company began construction of a new extension fab called M15X in Cheongju. As part of its efforts to ensure its long-term competitiveness, the Company has also announced initiatives to construct an integrated industrial complex in Yongin, Korea for its next generation of fabs and research and development facilities.

The Company's ability to expand and successfully operate additional production facilities and increase output is subject to significant risks and uncertainties, including:

- its ability to secure adequate purchase orders from customers to maintain optimal production capacity;
- its ability to raise sufficient funds to build and operate new production facilities, including securing adequate working capital for labor costs and the purchase of raw materials and other supplies;
- delays and cost overruns associated with the build-out of additional facilities due to factors, many of which may be beyond the Company's control, such as delays in government approvals, problems with equipment vendors or raw material suppliers and equipment malfunctions and breakdowns; and
- diversion of significant management attention and other resources.

The Company's cash outflows for acquisition of property, plant and equipment amounted to ₩12,487 billion in 2021, ₩19,010 billion in 2022 and ₩6,600 billion in the first nine months of 2023. The Company currently expects its capital expenditures in 2023 to be approximately half of its capital expenditures amount in 2022. In 2024, the Company plans to increase its capital expenditures compared to 2023, but minimize such increase taking into consideration market conditions and the Company's financial condition at the time. The Company periodically adjusts its capital expenditure plans on an ongoing basis subject to market demand for the Company's products, the production outlook of the global memory semiconductor industry as well as global economic conditions in general. The Company may delay or not implement some of its announced capital expenditure plans based on its assessment of such market conditions. If the Company is unable to expand its production capacity and ramp up its operations within its anticipated timeframe and budgeted costs, the Company may not be able to meet customer demand and pursue additional economies of scale and growth, which could have a material adverse effect on the Company's business, financial condition and results of operations.

The global COVID-19 pandemic and any possible occurrences of other types of widespread infectious diseases could materially and adversely affect the Company's business, results of operations or financial condition.

COVID-19, an infectious disease caused by severe acute respiratory syndrome coronavirus 2, was declared a “pandemic” by the World Health Organization in March 2020. The global outbreak of COVID-19 had led to global economic and financial disruptions and had adversely affected the Company's business operations. Risks associated with COVID-19 or other types of widespread infectious diseases include:

- disruption in the normal operations of the Company's business resulting from contraction of infectious diseases by the Company's employees, which may necessitate its employees to be quarantined and/or its manufacturing facilities or offices to be temporarily shut down;
- fluctuations of the Won against major foreign currencies (see “– Fluctuations in exchange rates may result in foreign exchange losses”);
- an increase in unemployment among, and/or decrease in disposable income of, consumers who purchase the products manufactured by the Company's customers and a decline in overall consumer confidence and spending levels, which in turn may decrease demand for the Company's products;
- disruption in the normal operations of the businesses of the Company's customers, which in turn may decrease demand for the Company's products;
- disruption in the supply of raw materials, components and equipment from the Company's suppliers and vendors;
- disruption in the delivery of the Company's products to its customers;
- unstable global and Korean financial markets, which may adversely affect the Company's ability to meet its funding needs on a timely and cost-effective basis; and
- decreases in the fair value of the Company's investments in companies that may be adversely affected by the pandemic.

In the event that a future recurrence of COVID-19 or an occurrence of other types of widespread infectious diseases cannot be effectively and timely contained, the Company's business, financial condition and results of operations may be materially and adversely affected.

The Company's revenue and profitability may decline if it is unable to obtain adequate supplies of raw materials, fresh water and equipment in a timely manner and at reasonable prices.

The Company requires timely and adequate supplies of raw materials, fresh water and equipment in order to manufacture its products. The Company sources most of its raw materials, including wafers, from suppliers in Korea, Japan and the United States. The Company is not dependent on any one supplier for a substantial portion of its raw material requirements for assembly and testing, and the Company believes that it generally has access to alternative sources of supply for its principal raw materials. However, from time to time, the Company and other semiconductor manufacturers have experienced shortages and increases in lead times for delivery of raw materials, which in turn have resulted in interruptions in production and delivery of products in the past. To minimize the potential for significant interruptions of supplies of principal raw materials, the Company has entered into multi-year supply agreements with its key material suppliers and plans to enter into similar agreements with other major suppliers, as well as diversify the geographic location of key international suppliers and increase sourcing from suppliers in Korea.

Like other memory semiconductor manufacturers, the Company also depends on a limited number of manufacturers in the Netherlands, the United States and Japan for its key equipment. The Company generally seeks to obtain testing equipment with similar functionality from various vendors. However, the Company's purchases of high-end equipment meeting the Company's standards are limited to several manufacturers. In periods of high market demand, the lead times from order to delivery of such equipment can be as long as six to twenty-four months. The Company seeks to manage this process through early reservation of appropriate delivery slots and constant communication with its equipment suppliers. However, unavailability of equipment, delays in delivery of key equipment or failure of equipment to meet the Company's specifications could delay implementation of the Company's expansion plans and impair its ability to timely deliver products to its customers.

It is possible that any of the Company's key supplier relationships could be interrupted or terminated due to events beyond the Company's control, including international supply disruptions caused by geopolitical issues, natural disasters or severe health pandemics such as COVID-19. For example, in October 2022, the Bureau of Industry and Security of the U.S. Department of Commerce (the "BIS") announced export controls to restrict China's ability to obtain advanced computing chips, develop and maintain supercomputers, and manufacture advanced semiconductors. As part of such measures, the BIS added certain semiconductor manufacturing equipment and related items to the Commerce Control List as well as new license requirements for items destined to semiconductor fabrication facilities in China that fabricate certain advanced semiconductors. In October 2022, the Company received permission from the BIS that enables the Company to supply its China-based manufacturing facilities with the equipment and items needed for one year without meeting additional licensing requirements. In October 2023, the Company was designated as a Validated End-User ("VEU") by the BIS, thereby obtaining a general authorization for supplying its China-based manufacturing facilities with necessary equipment and items, subject to certain restrictions, without having to seek multiple individual licenses. However, there can be no assurance that the Company will continue to be designated as a VEU in the future.

There can be no assurance that the Company will be able to secure sufficient supplies of the relevant raw materials that meet its quality standards from alternative suppliers in a timely manner and at reasonable prices to satisfy its long-term needs. Furthermore, in the event that trade restrictions are imposed in the future by foreign governments in countries where the Company's key suppliers are located, the Company's failure to mitigate the impact of such restrictions could materially and adversely affect its operations. If the Company is unable to obtain adequate amounts of key raw materials, fresh water and equipment that meet its quality standards in a timely manner and at a reasonable cost, the production of its products could be disrupted, which would negatively impact the Company's business, financial condition and results of operations.

The complexity of memory semiconductor production makes the Company highly susceptible to potential manufacturing issues.

Manufacturing memory semiconductors is a highly complex and precise process, requiring production in a tightly controlled, clean environment. Even very small impurities in raw materials, flaws in the wafer fabrication process, defects in the masks used to print circuits on a wafer or other factors can cause a substantial percentage of wafers to be rejected or numerous chips on each wafer to be nonfunctional. The Company may experience problems in achieving an acceptable yield rate in the manufacture of chips and memory module products, and the likelihood of facing such difficulties is higher in connection with the transition to new manufacturing methods. From time to time, the Company has experienced minor disruptions in its manufacturing process as a result of temporary power outages. The Company may also experience manufacturing problems in its assembly and test operations as a result of the introduction of new packaging materials. In addition, as technological advances in semiconductors become more rapid, manufacturing activities become more complex and prone to problems. Disruption of operations may also occur due to fire, flood or other natural disasters or calamities, the effects of climate change (such as sea level rise, drought, flooding, wildfires, increased average temperatures and increased storm severity), human error, or acts of terrorism or war. Any interruption of wafer fabrication at any of the Company's facilities resulting in the failure to achieve acceptable manufacturing yields or inability to meet its customers' requirements would adversely affect the Company's business, financial condition and results of operations.

The Company's long-term profitability depends on its ability to respond to rapid technological changes in the manufacturing process in a timely and cost-effective manner.

The average selling prices of memory semiconductors have declined in general and are expected to continually decline with time irrespective of industry-wide cyclical fluctuations, as a result of, among other factors, technological advancements and cost reductions in the memory semiconductor manufacturing process. The Company may be able to take advantage of temporary higher selling prices typically associated with the launch of new products or the emergence of external factors that increase demand, but such prices will likely decline over time, and in certain cases, very rapidly. If the average per-bit selling price for DRAM and NAND flash memory products that the Company produces decreases faster than the pace at which the Company is able to reduce its per-bit manufacturing costs, the Company's gross margins would decrease. Accordingly, the Company's ability to respond to rapid technological changes in the manufacturing process and achieve higher manufacturing yields in a timely and cost-effective manner is critical to its long-term profitability.

Due to the competitive nature of the memory semiconductor market, manufacturers are continually seeking the most optimal production methods. For example, the Company continues to invest in enhancing its 3D NAND technology, which enables NAND flash memory cells to be stacked vertically in multiple layers, and is working toward transitioning its mass production of NAND flash memory products from utilizing 3D 176 layers to 3D 238 layers technology. If the Company does not anticipate enhancements in manufacturing technology and fails to adopt new process technologies in a timely and cost-effective manner, it may not be able to produce products that meet its customers' demands at competitive prices. Although new technologies typically yield more chips per wafer once ramp-up has been successfully completed, yields are typically low during the initial stage of transition where new technologies are applied to existing manufacturing processes. There is no guarantee that the Company will not experience material delays in connection with future migrations to new technologies. If the Company is unable to respond to rapid technological changes in the manufacturing process in a timely and cost-effective manner, it may lose market share, which in turn could have a material adverse effect on its business, financial condition and results of operations.

Requirements of the customers in the information and technology industry and the consumer electronics industry are continually and rapidly evolving, and the Company's success depends on its ability to anticipate and respond to these changes and trends.

Memory semiconductors are becoming increasingly diversified in terms of specifications, with customers demanding solutions that are optimized for their particular needs to manufacture specific electronic devices, including PCs, servers, graphic cards, mobile devices such as smartphones and tablets, and other consumer electronics products. The Company is continually developing higher-density modules, SSDs and other customized DRAM and NAND flash memory products that are optimized for use in specific applications. In particular, the Company offers next-generation graphic memory products in HBM configuration. HBM is designed to meet the greater data-processing speed requirements of graphics applications that incorporate deep learning and artificial intelligence technologies. The Company's continued success will depend on its ability to respond quickly to evolving customer requirements and industry standards in its target markets and to offer its customers a variety of products with reliable quality and advanced features.

If the Company's products do not keep pace with evolving industry standards, the Company could be required to invest significant resources to redesign its products to ensure compatibility with relevant standards. If the Company is slow to anticipate changing trends and respond to such changes in a timely manner, it could miss opportunities to capture potential customers, and it could lose its existing customers. In order for the Company to respond effectively to these and other market trends, it needs to dedicate significant resources to product design, research and development and marketing. There can be no assurance that the Company will have sufficient financial resources to fund all of the required research to develop technical innovations and meet changing industry standards. If the Company is unable to invest sufficient resources to satisfy the diversifying memory needs of its customers, or if it does so in an inefficient or untimely manner, it may lose market share, which in turn could have a material adverse effect on its business, financial condition and results of operations.

The Company sells a substantial portion of its products to a select group of key customers in the United States and China, and any significant decrease in their order levels will negatively affect the Company's business.

A substantial portion of the Company's sales is attributable to a limited number of customers located in the United States and China. In 2022, two of the Company's customers each represented more than 10%, and in the aggregate 23.0%, of the Company's total revenue. The Company cannot provide any assurance that its key customers will continue to place orders with the Company in the future at the same levels as in prior periods, or at all. The Company typically enters into mutually non-binding long-term supply agreements of one to three years with its customers, which usually do not establish fixed pricing and volume commitments. Key customers may reduce quantities purchased, delay or cancel purchase orders or elect to terminate their business relationship with the Company at any time for a number of reasons, including industry consolidation through mergers and acquisitions. Because much of the Company's costs and operating expenses are relatively fixed, termination of business relationships with key customers or significant reductions in sales to any key customers would have a material adverse effect on the Company's business, financial condition and results of operations.

In recent years, the Company has also continued to rely on sales to customers in China and the United States, and prolonged tensions in economic and trade relations between the two countries may have a material adverse effect on demand for the Company's products from key customers in such countries. Revenue of sales subsidiaries located in the United States accounted for 53.7% of the Company's revenue in 2022 and 45.4% in the first nine months of 2023, while revenue of sales subsidiaries located in China accounted for 27.4% of the Company's revenue in 2022 and 30.9% in the first nine months of 2023. Ongoing tensions between the United States and China and tariffs and other trade restrictions imposed by them on each other, including restrictions and penalties imposed by their respective governmental agencies such as the BIS, may lead to a decrease in the volume of products manufactured by the Company's key customers located in such countries, which in turn could decrease demand for the Company's memory semiconductors used as components in their products. In addition, the Company may be prohibited from selling products to certain of its key customers as a result of the ongoing trade tensions. For example, on August 20, 2020, the BIS published a final rule that further tightened restrictions under the Export Administration Regulations on Huawei Technology Co., Ltd. ("Huawei") and its affiliates designated on the Entity List administered by the BIS. Under the final rule, any item produced based on the relevant categories of U.S.-origin technology or software in any meaningful way may no longer be provided to Huawei for use by it or for use in any Huawei product without obtaining a license. Sales of any such items without obtaining the proper license would result in a violation of U.S. law. Starting on September 15, 2020, the Company has suspended sale of its products to Huawei and its affiliates designated on the Entity List administered by the BIS. Huawei had been one of the Company's key customers, and there can be no assurance that the Company will be able to obtain the required license from the BIS in order to resume sales of its products to Huawei or secure sufficient demand for the Company's products at comparable prices from its other customers, the failure of which may have a material adverse effect on the Company's business, financial condition and results of operations.

In addition, in August 2022, the U.S. Government enacted the CHIPS and Science Act of 2022, which provides federal aid to promote emerging industries in the U.S., including strengthening its domestic semiconductor manufacturing capabilities. Such efforts may incentivize U.S. semiconductor companies to invest in the expansion of their production capabilities, which in turn may reduce the Company's sales in the United States. In February 2023, the U.S. Government

announced the requirements for the federal subsidies to be granted under the CHIPS and Science Act of 2022, including (i) a ban on certain new, high-tech investments in China or other “countries of concern” for at least a decade, (ii) provision of affordable child care for the workers, (iii) limitation of stock buybacks, (iv) sharing of certain excess profits with the U.S. Government and (v) the submission of certain information regarding management and technology. Both U.S. and non-U.S. semiconductor companies that choose to invest in the United States and meet such terms are eligible for the federal subsidies. In September 2023, the U.S. Government released the final rules on the guardrails applicable to such federal subsidy program. The final rules prohibit recipients of the federal subsidy from materially expanding their semiconductor manufacturing capacities in foreign countries of concern for ten years and restrict them from certain joint research or technology licensing efforts with foreign entities of concern.

As part of its efforts to promote a robust semiconductor supply chain, the U.S. Government also initiated the Chip 4 Alliance, a new U.S.-Asian semiconductor partnership among the United States, Korea, Japan and Taiwan. Such alliance may lead China and other nations to take measures to more actively develop their semiconductor manufacturing capabilities, which in turn may reduce the Company’s sales in such countries. See “– The memory semiconductor industry is highly competitive and the Company’s failure to successfully compete would adversely affect its business.”

In response to the above measures adopted by the United States, the Cybersecurity Administration of China announced in May 2023 that Micron Technology had failed a security review and banned China’s critical information infrastructure operators from purchasing products from Micron Technology. The Company is unable to predict the duration of tensions in economic and trade relations between the two countries, and prolonged trade restrictions could have a material adverse effect on the Company’s business, financial condition and results of operations.

The Company may not be able to realize the anticipated benefits of its acquisitions, which could harm its business, financial condition and results of operations.

The Company’s success will depend, in part, on its ability to expand its product offerings, and grow its business in response to changing technologies, consumer demands and competitive pressures. In some circumstances, the Company may determine to do so through the acquisition of complementary businesses and technologies rather than through internal development. For example, in October 2020, the Company agreed to acquire the NAND flash memory and storage business of Intel. In the first phase of such acquisition completed in December 2021, the Company acquired Intel’s NAND SSD business (including NAND SSD-related intellectual property and employees), as well as the Dalian Manufacturing Facility, for US\$6.6 billion. The Company created a subsidiary in the United States called Solidigm to operate the acquired business. In the second phase, the Company is expected to acquire the remaining assets, including the intellectual property related to the manufacture and design of NAND flash wafers, NAND flash wafers-related research and development employees and NAND flash wafers-related workforce at the Dalian Manufacturing Facility, for US\$2.2 billion by March 2025. The second closing is subject to governmental approvals as well as other customary closing conditions and customary termination fees, which may be significant, if the transaction is terminated under certain specified circumstances. See “Business – Strategic Alliances, Investments and Acquisitions.” The identification of suitable acquisition candidates can be difficult, time-consuming and costly, and the Company may not be able to successfully complete its identified acquisitions, including the pending second phase of the Intel NAND Business Acquisition. In addition, there is no guarantee that the Company will be able to

realize the anticipated benefits of its acquisitions. Following the first phase of the Intel NAND Business Acquisition and creation of Solidigm, the Company recognized loss on impairment of ₩1,344 billion related to the Solidigm business in 2022. The Company has limited experience acquiring other businesses, and its ability to acquire and integrate other companies and assets, particularly large or complex companies, products or technologies, in a successful manner remains subject to uncertainty.

The risks the Company faces in connection with acquisitions also include:

- diversion of management time and focus from operating the Company's business to addressing acquisition and integration challenges;
- challenges associated with the integration of product development and sales and marketing functions of the acquired business;
- challenges associated with the retention of key employees from the acquired business;
- cultural and operational challenges associated with integrating employees from the acquired business into the Company;
- challenges associated with the integration of the acquired business's accounting, management information, human resources and other administrative systems;
- the need to implement or improve controls, procedures and policies at a business that prior to the acquisition may have lacked effective controls, procedures and policies;
- liability for activities of the acquired business before the acquisition, including intellectual property infringement claims;
- unanticipated impairment of goodwill; and
- litigation or other claims in connection with the acquired company, including claims from terminated employees, customers, former shareholders or other third parties.

The Company's failure to address these risks or other problems encountered in connection with its past or future acquisitions could cause it to fail to realize the anticipated benefits of these acquisitions, cause it to incur unanticipated liabilities, or could otherwise harm its business generally. Future acquisitions could also result in dilutive issuances of its equity securities or the incurrence of debt, contingent liabilities, amortization expenses or incremental operating expenses.

The Company's strategic alliances and investments may not be successful, which may adversely affect its competitive position and impair the Company's ability to achieve its business objectives.

The Company continually seeks out opportunities to further its strategic objectives, including by entering into joint ventures and joint product development and supply agreements, to further solidify its market position as a leading semiconductor company in the world. Cooperation in product design, manufacturing and sales and marketing between partner companies has increased in response to the growing diversity and complexity of memory semiconductors and applications, demand for technological enhancements and increasing costs associated with keeping pace with industry developments. The Company believes that such strategic initiatives will not only assist in maintaining and growing its presence in existing markets but also provide the Company with a cost-effective means of accessing new markets, products and technologies.

As part of the efforts to expand the Company's foundry business, the Company acquired Key Foundry in August 2022. From time to time, the Company has also acquired equity stakes in other industry players to further strengthen its business relationships and may do so again in the future. For example, in June 2018, the Company participated as a member of a consortium led by Bain Capital (the "Bain Consortium") in its purchase of a controlling stake in Kioxia from Toshiba Corporation. As a member of the Bain Consortium, the Company invested ₩2,637 billion for an indirect limited partnership interest in BCPE Pangea Cayman L.P. ("SPC 1"), which in turn holds an equity interest in Kioxia. In addition, the Company invested ₩1,279 billion to acquire a convertible bond issued by a second special purpose company, BCPE Pangea Cayman2 Limited ("SPC 2"), which is convertible into an approximately 15.0% equity interest in SPC 2 upon the occurrence of certain specified events. SPC 2 in turn holds an equity interest in Kioxia. As of December 31, 2021, the book value of the Company's investment in SPC 1 was ₩3,828 billion, and the book value of the Company's investment in the convertible bond issued by SPC 2 was ₩2,519 billion, which are accounted for as debt investments and classified as financial assets measured at fair value through profit or loss. The Company recognized loss on valuation of financial assets with respect to such investments of ₩1,088 billion in 2022 and ₩280 billion in the first nine months of 2023 (including due to fluctuation of the Japanese Yen against the Won). Accordingly, as of September 30, 2023, the book value of the Company's investments in SPC 1 was ₩2,897 billion and the book value of the Company's investment in the convertible bond issued by SPC 2 was ₩2,108 billion. For the year ended December 31, 2023, the Company expects to recognize additional loss on valuation that it expects will be significantly higher than those in 2022 with respect to such investments.

Strategic initiatives involve a number of risks, including potential disagreements with strategic partners, diversion of management attention and, in the case of joint ventures, cultural and operational challenges associated with operation of the joint venture. The Company's strategic, joint venture or consortium partners may have economic or business interests that are inconsistent with those of the Company, take actions contrary to agreed policies or objectives, undergo a change of control, experience financial and other difficulties or be unable or unwilling to fulfill their obligations. The Company's failure to address such risks or other problems encountered in connection with its past or future investments could cause the Company to fail to realize the anticipated benefits of such investments, cause the Company to incur unanticipated liabilities, or could otherwise harm the Company's business relationships and reputation. In addition, the Company's investments may become subject to unanticipated impairment losses (or losses for financial assets measured at fair value through profit or loss) if the value of the invested assets declines. Any such developments could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company may not be able to successfully execute its diversification strategy.

As part of its overall strategy, the Company has been striving to diversify its business to areas other than DRAM and NAND flash memory semiconductors in recent years. The Company has expanded its product portfolio into non-memory semiconductors, including CMOS image sensors that are used to perform the role of electronic film in digital photographing devices such as smartphones, tablets, PC laptops and surveillance cameras, as well as engaging in the foundry business through SK hynix system ic, a wholly-owned subsidiary, and Key Foundry, a wholly-owned subsidiary acquired by the Company in August 2022. The success of the Company's diversification strategy will depend, in part, on its ability to realize on the growth opportunities and anticipated synergies among its diversified businesses, which in turn will be subject to numerous factors, including the recruitment of qualified personnel and establishment of new business relationships, as well as expansion of existing relationships with various customers and suppliers, procurement of necessary technology and know-how and access to investment capital at a reasonable cost. The Company's failure to successfully execute its diversification strategy may adversely affect its business, financial condition and results of operations.

The Company may be unable to adequately protect its intellectual property rights or successfully defend against third-party infringement claims, which could impair the Company's operations and competitiveness and harm its business and future prospects.

Protection of the Company's intellectual property rights is essential to keep others from copying the innovations that are central to the Company's current and future products. As of December 7, 2023, the Company and three of its subsidiaries (SK hynix system ic, SK key foundry Inc. (formerly Key foundry, Inc.) and Solidigm) owned 3,709 patents and 106 trademarks in Korea and 17,012 patents and 337 trademarks outside Korea. As of the same date, the Company and its three subsidiaries had 10,832 patent and trademark applications pending in Korea and abroad. The Company's ability to compete successfully also depends on its ability to operate without infringing the proprietary rights of others. The memory semiconductor industry is characterized by frequent disputes and litigation regarding patent and other intellectual property rights. As is typical in the industry, the Company has from time to time received communications from third parties asserting their patents against its products and alleging the Company's infringement of their intellectual property rights. The Company expects to receive similar communications in the future. For a discussion of the Company's patent infringement claims and litigation matters, see "Business – Litigation and Regulatory Proceedings."

In the event that any third party is adjudicated to have a valid intellectual property claim against the Company, the Company may be required to:

- refrain from selling the affected products in certain markets;
- make royalty payments or pay significant monetary damages, which may exceed the Company's reserves for such matters;
- seek to develop non-infringing technologies, which may be costly or time-consuming or may not be feasible; and
- seek to acquire licenses to the infringed technology, which may not be available on commercially reasonable terms, if at all.

Any of the foregoing, as well as the Company's inability to adequately protect its intellectual property rights, could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company relies on technology provided by third parties, and its business may suffer if it is unable to renew its licensing arrangements with them.

The Company has entered into technology license and cross-license agreements with third parties that give those parties the right to use patents and other technologies developed by the Company, as well as provide the Company with the right to use patents and other technologies developed by them. The Company anticipates that it will continue to enter into various licensing and cross-licensing arrangements in the future, which may increase its payments of licensing fees and royalties. If the Company is unable to enter into or renew technology licensing arrangements on acceptable terms, it may lose the legal right to use certain of the technologies it employs in manufacturing its products, which may prevent the Company from manufacturing and selling key products. In addition, the Company could be disadvantaged if its competitors obtain licenses for important technologies on more favorable terms than the Company. In the future, the Company may also need to obtain additional licenses for new or existing technologies. The Company's failure to secure or renew license agreements on acceptable terms may materially and adversely affect its business, financial condition and results of operations.

Products that do not meet customer specifications, contain or are perceived to contain defects or are otherwise incompatible with their intended uses could impose significant costs on the Company.

The design and production processes for the Company's products, including DRAM, are highly complex. The Company may produce products that do not meet customer specifications, contain or are perceived to contain defects or are otherwise incompatible with their intended uses. Under the Company's general terms and conditions of sale and in accordance with industry practice, the Company provides a one-year warranty that is usually limited to repair or replacement of defective items or return of, or a credit with respect to, amounts paid for such items. From time to time, the Company may provide more extensive warranty coverage to certain customers. The Company may incur substantial costs in remedying defects in its products, which could include material inventory write-downs. Moreover, if actual or perceived problems with nonconforming, defective or incompatible products occur after the Company has shipped its products, the Company may not only have liability for providing replacements or otherwise compensating customers but also suffer damage to its relationship with important customers or to its reputation, which could have a material adverse effect on the Company's business, financial condition and results of operations.

Sanctions against the Company and other memory semiconductor producers for anti-competitive practices may have a direct or indirect material adverse impact on the Company's operations.

From time to time, the Company may become subject to investigations by government authorities as well as legal proceedings related to alleged involvement in anti-competitive practices. In the past, the Company and other DRAM manufacturers have been investigated by the Antitrust Division of the U.S. Department of Justice, and a number of class action lawsuits have been filed against the Company and other DRAM manufacturers in various federal district courts and state courts alleging violation of U.S. antitrust laws, unfair competition laws and other related laws. Generally, such class action cases are filed on behalf of classes of individuals and entities which purchased DRAM directly or indirectly from the various DRAM suppliers. The "indirect purchaser" plaintiffs include purchasers of consumer products, such as computers, in which DRAM is a component, and other purchasers that did not purchase DRAM directly from a DRAM manufacturer.

The Company has resolved a number of the class action lawsuits and other legal proceedings related to its alleged involvement in anti-competitive practices. For a discussion of recent proceedings, see “Business – Litigation and Regulatory Proceedings.” The Company intends to vigorously defend against such claims. However, the Company is unable to predict the outcome of such investigations and legal proceedings. An adverse final resolution of any of the matters described above or any sanctions imposed against the Company for anti-competitive practices could result in liability to the Company, damage to its reputation, loss of experienced personnel or other consequences, any of which may have a material adverse effect on the Company’s business, financial condition and results of operations.

Impositions of anti-dumping duties, safeguard duties, countervailing duties, quotas or tariffs may have an adverse impact on the Company’s export sales.

The Company sells substantially all of its products outside Korea, and it currently is not subject to anti-dumping duties, safeguard duties, countervailing duties, quotas or tariffs in any market. However, as a producer with global sales and operations, the Company may become involved from time to time in trade remedy proceedings in one or more of its markets worldwide. The Company proactively plans for and responds to such proceedings to minimize any adverse effects and associated risks. The Company continues to carefully monitor developments with respect to trade remedy policies in all major markets in which the Company sells its products and, where necessary, vigorously defends its rights through litigation before tribunals such as the U.S. Court of International Trade. However, there can be no assurance that anti-dumping duties, safeguard duties, countervailing duties, quotas or tariffs will not be imposed on the Company’s sales of products abroad in the future, and the imposition of any such measures against the Company may have a material adverse impact on its business and performance.

The Company may be unable to operate its business successfully if it is unable to retain and recruit qualified personnel.

The Company’s success depends to a significant extent on the continued services of its senior management and research and development, engineering and other specialized personnel, and on its ability to continue to attract, retain and motivate such key employees. Generally, the Company’s employees are not bound by employment or non-competition agreements and competition within the memory semiconductor industry for highly qualified employees is intense. There can be no assurance that the Company will not experience difficulty in recruiting and retaining qualified employees. The Company’s business could suffer if it loses the services of any of its key personnel and cannot adequately replace them in a timely manner.

The Company is subject to strict environmental, health and safety regulations, and it may become subject to penalties or restrictions that could cause its operations to be interrupted or result in significant compliance expenses.

The Company has manufacturing facilities in Korea and China. The Company’s operations involve the use of chemicals and generate chemical waste, wastewater and other industrial waste at various stages in the manufacturing process, and the Company is subject to a variety of environmental, health and safety laws and regulations of local or national governments relating to the use, storage, discharge and disposal of such chemical by-products and waste substances. The Company is also subject to restrictions on using certain raw materials in its manufacturing process

in fabs located in certain locations. The Company has installed various types of anti-pollution equipment, consistent with industry standards, for the treatment of chemical waste and equipment for the recycling of treated water and other industrial waste at its various facilities. However, the Company cannot provide assurance that environmental, health and safety claims will not be brought against it or that local or national governments will not take steps toward adopting more stringent standards. Sourcing of raw materials could also present reputational risks if the Company's direct or indirect suppliers are found to be in violation of environmental, health and safety regulations, or of ethical or human rights regulations or standards. Any failure on the Company's part to comply with any present or future environmental, health and safety regulations could result in the assessment of damages or clean-up costs or the imposition of fines or other penalties against it, a suspension of production, cessation of operations or relocation of manufacturing facilities to different locations. In addition, new environmental, health and safety regulations could require the Company to acquire costly equipment or to incur other significant compliance expenses that may materially and negatively affect its business, financial condition and results of operations.

Fluctuations in exchange rates may result in foreign exchange losses.

There has been considerable volatility in exchange rates in recent years, including exchange rates between the Won and the U.S. dollar. To the extent that the Company incurs costs in one currency and makes sales in another, its profit margins may be affected by changes in the exchange rates between the two currencies. In particular, the Company's investments in manufacturing facilities in China have increased the proportion of its expenses that are incurred in Chinese Yuan, while the Company's sales in China are denominated in U.S. dollars. Accordingly, an unhedged increase in the value of the Chinese Yuan would increase the Company's construction and manufacturing costs and adversely impact its profitability. Changes in exchange rates can also affect the Won value of sales proceeds and operating and non-operating costs that are denominated in foreign currencies. The Company is unable to increase the prices of its products to adjust fully for the negative effects of exchange rate movements because prices in the memory semiconductor industry are dictated by worldwide supply and demand. In addition, exchange rate fluctuations can affect the Won value of the Company's equity investments and monetary assets and liabilities denominated in foreign currencies. See "Exchange Rate Information."

Appreciation of the Won may materially and adversely affect the Company's results of operations because, among other things, it reduces the Won value of the Company's export sales, which are primarily denominated in U.S. dollars, and causes the Company's export products to be less competitive by raising their prices in U.S. dollar terms. On the other hand, depreciation of the Won would create foreign exchange translation losses and increase the amount, in Won terms, of interest and principal of the Company's foreign currency-denominated debt, as well as increase in Won terms the cost of raw materials and equipment that the Company purchases from overseas sources. Under the Company's current operating and capital structure, appreciation of the Won generally has a net negative impact on the Company's operating income. Although the impact of exchange rate fluctuations has in the past been partially mitigated by hedging strategies, the Company cannot provide any assurance that it will be able to effectively manage such risks, and its results of operations have historically been affected by exchange rate fluctuations. Volatility in currency exchange rates may lead to losses, which could have a material adverse effect on the Company's financial condition and results of operations.

Related party transactions that the Company engages in are subject to scrutiny by the Korea Fair Trade Commission and the Korean tax authorities.

The Company's business relationships and transactions with its subsidiaries and affiliates are subject to ongoing scrutiny by the Korea Fair Trade Commission as to, among other things, whether such relationships and transactions constitute undue financial support among companies of the same business group. The Company engages in various transactions with its subsidiaries and affiliates on an arm's-length basis. See "Certain Relationships and Related Party Transactions." The Company is also subject to fair trade regulations limiting guarantees of debt and cross-shareholdings among member companies of the SK Group. In addition, the Company's material business transactions with its subsidiaries, affiliates and member companies of the SK Group are subject to approval by its board of directors pursuant to the Korean Commercial Code and the Monopoly Regulation and Fair Trade Act and are subject to public disclosure requirements under the Monopoly Regulation and Fair Trade Act. Any future determinations by the Korea Fair Trade Commission that the Company has engaged in transactions that violate applicable fair trade laws and regulations may result in fines or other punitive measures and may have a material adverse effect on the Company's reputation and its business.

In addition, under Korean tax law, there is an inherent risk that the Company's transactions with its subsidiaries, affiliates or any other person or company that is related to the Company may be challenged by the Korean tax authorities if such transactions are viewed as having been made on terms that were not on an arm's-length basis. If the Korean tax authorities determine that any of the Company's transactions with related parties was not on an arm's-length basis, the Company would not be permitted to deduct the amount equivalent to such undue financial support as expenses, which may have adverse tax consequences for the Company.

Risks Relating to Korea

If economic conditions in Korea deteriorate, the Company's current business and future growth could be materially and adversely affected.

The Company is incorporated in Korea and a significant portion of its assets are located in Korea. As a result, the Company is subject to political, economic, legal and regulatory risks specific to Korea, and the Company's performance and successful execution of its operational strategies are dependent on the overall Korean economy. The economic indicators in Korea in recent years have shown mixed signs of growth and uncertainty, and future growth of the Korean economy is subject to many factors beyond the Company's control, including developments in the global economy.

The economic indicators in Korea in recent years have shown mixed signs of deterioration and recovery. Following a period of deterioration due to the debilitating effects of the COVID-19 pandemic on the Korean economy as well as on the economies of Korea's major trading partners in 2020, the overall Korean economy showed some signs of recovery in 2021. See "– The global COVID-19 pandemic and any possible occurrences of other types of widespread infectious diseases could materially and adversely affect the Company's business, results of operations or financial condition." However, adverse conditions and volatility in the worldwide financial markets, fluctuations in oil and commodity prices, supply chain disruptions and the increasing weakness of the global economy, in particular due to the COVID-19 pandemic, have contributed to the uncertainty of global economic prospects in general and have adversely affected, and may continue to adversely

affect, the Korean economy. The value of the Won relative to major foreign currencies has fluctuated significantly and, as a result of uncertain global and Korean economic conditions, there has been significant volatility in the stock prices of Korean companies recently. Future declines in the Korea Composite Stock Price Index, and large amounts of sales of Korean securities by foreign investors and subsequent repatriation of the proceeds of such sales may adversely affect the value of the Won, the foreign currency reserves held by financial institutions in Korea, and the ability of Korean companies to raise capital. Any future deterioration of the Korean economy could adversely affect the Company's business, financial condition and results of operations and the market price of the Notes.

Other developments that could have an adverse impact on Korea's economy include:

- declines in consumer confidence and a slowdown in consumer spending, including as a result of severe health epidemics;
- hostilities or, political or social tensions involving Russia (including the invasion of Ukraine by Russia and ensuing actions that the United States and other countries have taken and may take in the future) and any resulting adverse effects on the global supply of oil and other natural resources or the global financial markets;
- adverse conditions or developments in the economies of countries and regions that are important export markets for Korea, such as China, the United States, Europe and Japan, or in emerging market economies in Asia or elsewhere, including as a result of the deteriorating economic and trade relations between the United States and China and increased uncertainties in the global financial markets and industry;
- adverse changes or volatility in foreign currency reserve levels, inflation rates, interest rates, commodity prices (including oil prices), exchange rates (including fluctuation of the U.S. dollar, the Euro or the Japanese Yen exchange rates or revaluation of the Chinese Yuan) or stock markets;
- the occurrence of severe health epidemics in Korea or other parts of the world, in addition to the COVID-19 pandemic;
- deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including deterioration resulting from territorial or trade disputes or disagreements in foreign policy;
- increased sovereign default risk in select countries and the resulting adverse effects on the global financial markets;
- deterioration in the financial condition or performance of small- and medium-sized enterprises and other companies in Korea due to the Government's policies to increase minimum wages and limit working hours of employees;
- investigations of large Korean business groups and their senior management for possible misconduct;

- a continuing rise in the level of household debt and increasing delinquencies and credit defaults by retail and small- and medium-sized enterprise borrowers in Korea;
- shortages of imported raw materials, natural resources, rare earth minerals or component parts due to disruptions to the global supply chain;
- the economic impact of any pending or future free trade agreements or of any changes to existing free trade agreements;
- social and labor unrest;
- substantial changes in the market prices of Korean real estate;
- a substantial decrease in tax revenues and a substantial increase in the Government's expenditures for fiscal stimulus measures, unemployment compensation and other economic and social programs, in particular in light of the Government's ongoing efforts to provide emergency relief payments to households and emergency loans to corporations in need of funding in light of COVID-19 as well as interest rate increases, which, together, would likely lead to a national budget deficit as well as an increase in the Government's debt;
- financial problems or lack of progress in the restructuring of Korean business groups, other large, troubled companies, their suppliers or the financial sector;
- loss of investor confidence arising from corporate accounting irregularities or corporate governance issues concerning certain Korean companies;
- increases in social expenditures to support an aging population in Korea or decreases in economic productivity due to the declining population size in Korea;
- geopolitical uncertainty and the risk of further attacks by terrorist groups around the world;
- political uncertainty or increasing strife among or within political parties in Korea;
- hostilities or political or social tensions involving oil-producing countries in the Middle East (including a potential escalation of hostilities between the United States and Iran) and Northern Africa and any material disruption in the global supply of oil or sudden increase in the price of oil;
- natural or man-made disasters that have a significant adverse economic or other impact on Korea or its major trading partners; and
- an increase in the level of tensions or an outbreak of hostilities between North Korea and Korea or the United States.

Escalations in tensions with North Korea could have an adverse effect on the Company.

Relations between Korea and North Korea have been tense throughout Korea's modern history. The level of tension between the two Koreas has fluctuated and may increase abruptly as a result of current and future events. In particular, there have been heightened security concerns in recent years stemming from North Korea's nuclear weapon and ballistic missile programs as well as its hostile military actions against Korea. Some of the significant incidents in recent years include the following:

- North Korea renounced its obligations under the Nuclear Non-Proliferation Treaty in January 2003 and conducted six rounds of nuclear tests since October 2006, including claimed detonations of hydrogen bombs and warheads that can be mounted on ballistic missiles. Over the years, North Korea has also conducted a series of ballistic missile tests, including missiles launched from submarines and intercontinental ballistic missiles that it claims can reach the United States mainland. North Korea has increased the frequency of its missile tests since the beginning of 2022, firing numerous ballistic missiles, including intercontinental ballistic missiles. In response, the Government has repeatedly condemned the provocations and flagrant violations of relevant United Nations Security Council resolutions. In February 2016, the Government also closed the inter-Korea Gaeseong Industrial Complex in response to North Korea's fourth nuclear test in January 2016. Internationally, the United Nations Security Council has passed a series of resolutions condemning North Korea's actions and significantly expanding the scope of sanctions applicable to North Korea. Over the years, the United States and the European Union have also expanded their sanctions applicable to North Korea.
- In March 2010, a Korean naval vessel was destroyed by an underwater explosion, killing many of the crewmen on board. The Government formally accused North Korea of causing the sinking, while North Korea denied responsibility. Moreover, in November 2010, North Korea fired more than one hundred artillery shells that hit Korea's Yeonpyeong Island near the Northern Limit Line, which acts as the de facto maritime boundary between Korea and North Korea on the west coast of the Korean peninsula, causing casualties and significant property damage. The Government condemned North Korea for the attack and vowed stern retaliation should there be further provocation.

North Korea's economy also faces severe challenges, which may further aggravate social and political pressures within North Korea.

Although bilateral summit meetings were held between Korea and North Korea in April, May and September 2018 and between the United States and North Korea in June 2018, February 2019 and June 2019, there can be no assurance that the level of tensions affecting the Korean peninsula will not escalate in the future. Any further increase in tensions, which may occur, for example, if North Korea experiences a leadership crisis, high-level contacts between Korea or the United States and North Korea break down or further military hostilities occur, could have a material adverse effect on the Korean economy and on the Company's business, financial condition and results of operations.

There are special risks involved with investing in securities of Korean companies.

As the Company is a Korean company and operates in a business and cultural environment that is different from that of other countries, there are risks associated with investing in its securities that are not typical for investments in securities of companies in other jurisdictions.

Under the Foreign Exchange Transactions Act of Korea and the decree, rules and regulations promulgated thereunder, if the Government deems that certain emergency circumstances, including sudden fluctuations in interest rates or exchange rates, extreme difficulty in stabilizing the balance of payments or substantial disturbance in the Korean financial and capital markets, are likely to occur, it may impose any necessary restriction such as requiring Korean or foreign investors to obtain prior approval from the Minister of Economy and Finance for the acquisition of Korean securities or for the repatriation of interest, dividends or sales proceeds arising from Korean securities or other types of capital transactions. Moreover, if the Government deems it necessary on account of war, armed conflict, natural disaster or grave and sudden changes in domestic or foreign economic circumstances or similar events or circumstances, the Minister of Economy and Finance may temporarily suspend performance under any or all foreign exchange transactions, in whole or in part, to which the Foreign Exchange Transaction Laws apply (including suspension of payment and receipt of foreign exchange) or impose an obligation to deposit or sell any means of payment to the Bank of Korea, the Foreign Exchange Equalization Fund of Korea, or certain other governmental agencies or financial institutions.

In addition, the Company's condensed consolidated financial statements included in this Offering Circular are presented in accordance with K-IFRS and its future financial statements will be prepared in accordance with K-IFRS, which differ in certain respects from accounting principles applicable to companies in certain other countries. In making an investment decision, investors must rely upon their own examination of the Company, the terms of the offering and the financial and other information contained in this Offering Circular.

Risks Relating to the Notes

The Notes are unsecured obligations.

Because the Notes are unsecured obligations, their repayment may be compromised if:

- the Company enters into bankruptcy, liquidation, reorganization or other winding-up proceedings;
- there is a default in payment under the Company's future secured indebtedness or other unsecured indebtedness; or
- there is an acceleration of any of the Company's indebtedness.

If any of these events occurs, the Company's assets may not be sufficient to pay amounts due on the Notes. In addition, any secured indebtedness incurred by the Company would have priority over its unsecured indebtedness to the extent of the assets securing such indebtedness.

The Notes are subject to transfer restrictions.

The Notes will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States, except to QIBs in reliance on the exemption provided by Rule 144A, to certain persons in offshore transactions in reliance on Regulation S, or if available, pursuant to another exemption from, or in another transaction not subject to, the registration requirements of the Securities Act and, in each case, in accordance with applicable state securities

laws. In addition, subject to the conditions set forth in the Fiscal Agency Agreement (as defined in “Terms and Conditions of the Notes”), a Note may be transferred only if the principal amount of Notes transferred is at least US\$200,000. For a further discussion of the transfer restrictions applicable to the Notes, see “Terms and Conditions of the Notes” and “Transfer Restrictions.”

The Notes have limited liquidity.

The Notes constitute a new issue of securities for which there is no existing market. Approval in-principle has been received from the SGX-ST for the listing and quotation of the Notes on the SGX-ST. The offer and sale of the Notes is not conditioned on obtaining a listing of the Notes on the SGX-ST or any other exchange. Although the Initial Purchasers have advised the Company that they currently intend to make a market in the Notes, they are not obligated to do so, and any market-making activity with respect to the Notes, if commenced, may be discontinued at any time without notice at their sole discretion.

No assurance can be given as to the liquidity of, or the development and continuation of an active trading market for, the Notes. If an active trading market for the Notes does not develop or is not maintained, the liquidity and market price of the Notes may be adversely affected. If an active trading market for the Notes were to develop, the Notes could trade at prices that may be higher or lower than the price at which the Notes are issued depending on many factors, including:

- prevailing interest rates;
- the financial condition, results of operations and future prospects of the Company;
- the rate of exchange between the Won and the U.S. dollar;
- political and economic developments in and affecting Korea and other regions;
- the market conditions for similar securities; and
- the financial condition and operating performance of the global memory semiconductor sector.

The Notes are subject to prescription regulations in Korea.

Failure to exercise a right of action for more than a certain period of time may operate as a bar to exercise of such right. Under Korean laws, claims against the issuer in respect of the payment of principal of notes or bonds are prescribed upon the expiry of 10 years, and claims for payment of interest in respect of notes or bonds are prescribed upon the expiry of five years, in each case, from the relevant due date as adjusted by any acceleration or otherwise, in respect thereof. If the holders of the Notes fail to exercise his or her right of payment for more than the period set forth above, the Korean courts may not enforce a claim for payment for principal or interest in respect of the Notes.

The Notes contain limited restrictive covenants and will not restrict the Company’s ability to make investments, incur unsecured indebtedness or pay dividends.

The Notes contain limited restrictive covenants and will not restrict the Company’s ability to:

- invest in affiliates, associates or subsidiaries;

- repurchase common or preferred shares, make distributions or issue dividends;
- issue preferred securities or incur unsecured indebtedness; or
- make capital expenditures.

The Company taking such actions could adversely affect its ability to pay amounts due on the Notes.

Credit ratings are periodically assigned to the Company and the Notes.

The Company and its debt securities, including the Notes, are subject to periodic review by independent credit rating agencies. Accordingly, increases in the level of the Company's outstanding indebtedness, a deterioration in its operating performance or other events could cause the rating agencies to downgrade the Company's credit ratings generally and the ratings on the Notes, which could adversely impact the trading prices for, or the liquidity of, the Notes. Any such downgrade could also adversely affect the Company's cost of borrowing, limit its access to the capital markets or result in more restrictive covenants in future debt agreements.

The Notes are each expected to be rated "Baa2" by Moody's, "BBB-" by S&P and "BBB" by Fitch. The credit ratings assigned to the Notes are limited in scope, and may not reflect the potential impact of all risks that may affect the value of the Notes. Each agency's rating should be evaluated independently of any other agency's rating. A credit rating is not a recommendation to buy, sell or hold the Notes and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency. There can be no assurance that these ratings will remain in effect for a given period or that these ratings will not be revised or withdrawn by the relevant rating agency if in its judgment circumstances in the future so warrant. None of the Company or the Agents or any of their respective directors, officers, employees, agents, representatives, affiliates or advisers or any person who controls any of them has any obligation to inform holders of the Notes of any such revision, suspension or withdrawal. A revision, suspension or withdrawal at any time of a rating assigned to the Notes may adversely affect the market price of the Notes.

Risks Relating to Forward-Looking Statements

This Offering Circular contains forward-looking statements. The Company cautions you not to rely on the forward-looking statements, which speak only as of the date of this Offering Circular.

In addition to the risks related to the Company's business discussed above, other factors could cause actual results to differ materially from those described in the various forward-looking statements contained in this Offering Circular, including the statements relating to the Company's capital expenditure plans and its use of proceeds from the offering. These factors include, but are not limited to, the following:

- general economic, business and political conditions;
- trends in the global semiconductor industry;
- market conditions and business outlook for the Company's products;

- occurrences of widespread infectious diseases such as COVID-19;
- fluctuations in prices of raw materials;
- adverse trends in regulatory, legislative and judicial developments;
- changes in interest rates and currency exchange rates;
- factors affecting future profitability;
- seasonality;
- the Company's leverage and its ability to meet its debt obligations; and
- conditions in the Korean and the global financial markets.

By their nature, certain disclosures relating to these and other risks are only estimates and should one or more of these uncertainties or risks materialize, actual results may vary materially from those estimated, anticipated or projected, as well as from historical results. Specifically but without limitation, revenues could decrease, costs (including capital costs) could increase, investments could be delayed and anticipated improvements in performance might not be fully realized.

The Company cautions you not to rely on the forward-looking statements, which speak only as of the date of this Offering Circular. Except as required by law, the Company is not under any obligation, and expressly disclaims any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise. All subsequent forward-looking statements attributable to the Company or any person acting on the Company's behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section.

USE OF PROCEEDS

The net proceeds from the sale of the 2027 Notes are estimated to be US\$496,970,000 and the net proceeds from the sale of the 2029 Notes are estimated to be US\$990,480,000, in each case, after deduction of underwriting commissions but not estimated offering expenses.

The net proceeds from the Notes will be used principally for general corporate purposes, including repayment of outstanding borrowings.

EXCHANGE RATE INFORMATION

The table below sets forth, for the periods and dates indicated, information concerning the Market Average Exchange Rate. No representation is made that the Won or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or Won, as the case may be, at any particular rate or at all.

Period	At End of Period	Average Rate ⁽¹⁾	High	Low
		(Won per US\$1.00)		
2019	₩1,157.8	₩1,165.7	₩1,218.9	₩1,111.6
2020	1,088.0	1,180.1	1,280.1	1,082.7
2021	1,185.5	1,144.4	1,199.1	1,083.1
2022	1,267.3	1,292.0	1,436.6	1,185.5
2023	1,289.4	1,305.4	1,360.6	1,219.3
July	1,280.0	1,286.3	1,319.4	1,261.6
August	1,321.4	1,318.5	1,341.6	1,273.8
September	1,344.8	1,329.5	1,344.8	1,319.2
October	1,352.8	1,350.7	1,360.6	1,339.6
November	1,289.0	1,310.4	1,356.9	1,287.7
December	1,289.4	1,304.0	1,322.7	1,289.4
2024 (through January 8)	1,313.7	1,304.3	1,313.7	1,289.4
January (through January 8)	1,313.7	1,304.3	1,313.7	1,289.4

Source: Seoul Money Brokerage Services, Ltd.

(1) The average rate for each period is calculated as the average of the Market Average Exchange Rates on each business day during the relevant period (or portion thereof).

CAPITALIZATION

The following table sets forth the Company’s capitalization as of September 30, 2023 (1) as derived from the Interim Financial Statements included in this Offering Circular and (2) as adjusted to give effect to the issuance of the Notes offered hereby, after deducting the underwriting commission but not estimated offering expenses payable by the Company, and on the assumption that the proceeds from the issuance of the Notes will not be used for the immediate repayment of outstanding borrowings. For additional information, see “Summary Financial Data” and the Interim Financial Statements of the Company and the notes thereto included elsewhere in this Offering Circular.

	As of September 30, 2023	
	Actual	As Adjusted
	(in billions of Won)	
Long-term debt:		
Borrowings	₩20,329	₩20,329
Notes offered hereby ⁽¹⁾	–	2,000
Total long-term debt	20,329	22,329
Equity:		
Equity attributable to owners of the parent company		
Capital stock	3,658	3,658
Capital surplus	4,346	4,346
Other equity	(2,286)	(2,286)
Accumulated other comprehensive income	1,197	1,197
Retained earnings	48,288	48,288
Total equity attributable to owners of the parent company	55,202	55,202
Non-controlling interest	29	29
Total equity	55,232	55,232
Total capitalization	₩75,561	₩77,561

(1) Reflects net proceeds of US\$1,487,450,000 from the offering (after deduction of underwriting commissions but not estimated offering expenses) translated into Won at ₩1,344.8 to US\$1.00, the Market Average Exchange Rate in effect on September 30, 2023.

There has been no material change in the Company’s total capitalization since September 30, 2023.

SELECTED FINANCIAL INFORMATION

The following tables present selected financial and other information of the Company. The selected financial information as of and for the years ended December 31, 2022 and 2021 are derived from the Annual Financial Statements of the Company included in this Offering Circular, which have been prepared in accordance with K-IFRS. The selected financial information presented as of September 30, 2023 and for the nine months ended September 30, 2023 and 2022 are derived from the Interim Financial Statements of the Company included in this Offering Circular, which have been prepared in accordance with K-IFRS No. 1034 “*Interim Financial Reporting.*”

The Company’s results of operations for the nine months ended September 30, 2023 may not be indicative of its result of operations for any future interim period or for the full year 2023.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) DATA

	For the Year Ended December 31,		For the Nine Months Ended September 30,	
	2021	2022	2022 ⁽¹⁾	2023
	(In billions of Won)			
Revenue	₩42,998	₩44,622	₩36,950	₩21,460
Cost of sales	24,046	28,994	21,345	24,219
Gross profit (loss)	18,952	15,628	15,604	(2,759)
Selling and administrative expenses	6,542	8,818	6,883	5,317
Operating profit (loss)	12,410	6,809	8,722	(8,076)
Finance income	2,378	3,714	4,179	2,189
Finance expenses	1,470	5,092	4,616	3,656
Share of profit of equity-accounted investees	162	131	119	19
Other income	116	241	214	260
Other expenses	180	1,802	180	518
Profit (loss) before income tax	13,416	4,003	8,438	(9,783)
Income tax expense (benefit)	3,800	1,761	2,462	(2,025)
Profit (loss) for the period	₩ 9,616	₩ 2,242	₩ 5,976	₩(7,758)

(1) In December 2021, the Company completed the first phase of the Intel NAND Business Acquisition. However, initial accounting for business combinations was incomplete as of December 31, 2021, and provisional amounts were reported in the consolidated financial statements as of and for the year then ended. During the year ended December 31, 2022, such provisional amounts were adjusted retroactively and related adjustments were made to the consolidated statements of comprehensive income in the Interim Financial Statements. See Note 33 of the notes to the Interim Financial Statements appearing elsewhere in this Offering Circular for a description of the nature of such changes and related adjustments to the Company’s consolidated statement of comprehensive income for the first nine months of 2022.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION DATA

	As of December 31,		As of
	2021 ⁽¹⁾	2022	September 30, 2023
(In billions of Won)			
Assets			
Current assets:			
Cash and cash equivalents	₩ 5,058	₩ 4,977	₩ 7,122
Short-term financial instruments	475	416	515
Short-term investment assets	3,140	1,016	894
Trade receivables, net	8,267	5,186	5,515
Inventories, net	8,950	15,665	14,948
Other current assets	1,017	1,474	1,399
Total current assets	26,907	28,733	30,394
Non-current assets:			
Investments in associates and joint ventures	1,410	1,353	1,416
Long-term investment assets	6,666	5,734	5,486
Loans and other receivables, net	340	354	489
Property, plant and equipment, net	53,226	60,229	54,017
Right-of-use assets, net	1,597	1,780	2,684
Intangible assets, net	4,797	3,512	3,552
Deferred tax assets	590	657	2,369
Other non-current assets	814	1,520	1,642
Total non-current assets	69,439	75,138	71,655
Total assets	96,347	103,872	102,049
Liabilities			
Current liabilities:			
Trade payables	1,359	2,186	1,917
Other payables	4,607	5,445	2,835
Other non-trade payables	2,278	3,025	1,802
Borrowings	2,881	7,423	11,230
Current tax liabilities	3,003	697	30
Lease liabilities	302	281	600
Other current liabilities	306	787	1,836
Total current liabilities	14,735	19,844	20,250
Non-current liabilities:			
Long-term other payables	2,693	2,959	3,268
Other non-trade payables	32	28	85
Borrowings	14,743	15,571	20,329
Deferred tax liabilities	628	382	125
Lease liabilities	1,224	1,516	2,423
Other financial liabilities	5	4	4
Other non-current liabilities	95	276	333
Total non-current liabilities	19,420	20,737	26,568
Total liabilities	34,155	40,581	46,818

	As of December 31,		As of
	2021 ⁽¹⁾	2022	September 30, 2023
	(In billions of Won)		
Equity			
Equity attributable to owners of the parent company:			
Capital stock	3,658	3,658	3,658
Capital surplus	4,335	4,336	4,346
Other equity	(2,295)	(2,311)	(2,286)
Accumulated other comprehensive income	675	899	1,197
Retained earnings	55,784	56,685	48,288
	<u>62,157</u>	<u>63,266</u>	<u>55,202</u>
Non-controlling interests	34	24	29
Total equity	<u>62,191</u>	<u>63,291</u>	<u>55,232</u>
Total liabilities and equity	<u>₩96,347</u>	<u>₩103,872</u>	<u>₩102,049</u>

(1) In December 2021, the Company completed the first phase of the Intel NAND Business Acquisition. However, initial accounting for business combinations was incomplete as of December 31, 2021, and provisional amounts were reported in the consolidated financial statements as of and for the year then ended. During the year ended December 31, 2022, such provisional amounts were adjusted retroactively and related adjustments were made to the consolidated statements of financial position in the Annual Financial Statements. See Note 37 of the notes to the Annual Financial Statements appearing elsewhere in this Offering Circular for a description of the nature of such changes and related adjustments to the Company's consolidated statement of financial position for the year ended December 31, 2021.

OTHER FINANCIAL DATA

	For the Year Ended December 31,		For the Nine Months Ended September 30,	
	2021	2022	2022	2023
	(In billions of Won)			
Capital expenditures ⁽¹⁾	₩ 12,487	₩ 19,010	₩ 14,873	₩ 6,600
Net cash inflow from operating activities	19,798	14,781	13,596	325
Net cash outflow from investing activities	(22,392)	(17,884)	(14,576)	(5,695)
Net cash inflow from financing activities	4,492	2,822	103	7,398
Adjusted EBITDA ⁽²⁾	23,067	20,961	19,155	2,347

(1) Capital expenditures represent cash outflows for acquisition of property, plant and equipment.

(2) "Adjusted EBITDA" for a given period is defined as operating profit (loss) for such period, excluding depreciation and others. Adjusted EBITDA is not a measure defined under K-IFRS and should not be construed as an alternative to operating profit (loss), cash flows from operating activities or profit for the period; however, Adjusted EBITDA is a widely used financial indicator of a company's ability to incur and service debt. Adjusted EBITDA should not be considered in isolation or construed as an alternative to cash flows, profit for the period or any other measure of performance or as an indicator of the Company's operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. Adjusted EBITDA is presented herein because the Company believes Adjusted EBITDA is a useful supplement to cash flows data as a measure of its performance and its ability to generate cash flows from operations to cover debt service and taxes. The Company's Adjusted EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare the Company's Adjusted EBITDA to the Adjusted EBITDA presented by other companies because not all companies use the same definition of Adjusted EBITDA.

A reconciliation of the Company's operating profit (loss) to Adjusted EBITDA is as follows:

	For the Year Ended December 31,		For the Nine Months Ended September 30,	
	2021	2022	2022 ⁽²⁾	2023
	(In billions of Won)			
Operating profit (loss)	₩12,410	₩ 6,809	₩ 8,722	₩(8,076)
Depreciation and others ⁽¹⁾	10,657	14,151	10,433	10,423
Adjusted EBITDA	23,067	20,961	19,155	2,347

(1) "Depreciation and others" consist of (i) depreciation of property, plant and equipment, (ii) depreciation of investment property, (iii) amortization and (iv) depreciation of right-of-use assets.

(2) In December 2021, the Company completed the first phase of the Intel NAND Business Acquisition. However, initial accounting for business combinations was incomplete as of December 31, 2021, and provisional amounts were reported in the consolidated financial statements as of and for the year then ended. During the year ended December 31, 2022, such provisional amounts were adjusted retroactively and related adjustments were made to the consolidated statements of comprehensive income in the Interim Financial Statements. See Note 33 of the notes to the Interim Financial Statements appearing elsewhere in this Offering Circular for a description of the nature of such changes and related adjustments to the Company's consolidated statement of comprehensive income for the first nine months of 2022.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with, and is qualified in its entirety by reference to, the Company's financial statements included elsewhere in this Offering Circular. The Company's financial information appearing below is derived from the Company's financial statements prepared in accordance with K-IFRS. K-IFRS differs in certain significant respects from generally accepted accounting principles in other countries, including the United States. The discussion contains forward-looking statements and reflects the Company's current view with respect to future events and financial performance. Actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors such as those set forth under "Risk Factors" and elsewhere in this Offering Circular.

In December 2021, the Company completed the first phase of the Intel NAND Business Acquisition. However, initial accounting for business combinations was incomplete as of December 31, 2021, and provisional amounts were reported in the consolidated financial statements as of and for the year then ended. During the year ended December 31, 2022, such provisional amounts were adjusted retroactively and related adjustments were made to the Annual Financial Statements and the Interim Financial Statements. See Note 37 of the notes to the Annual Financial Statements and Note 33 of the notes to the Interim Financial Statements appearing elsewhere in this Offering Circular for a description of the nature of such changes and related adjustments to the Company's consolidated financial statements.

OVERVIEW

The Company is one of the world's largest memory semiconductor companies and engages in the design, manufacture and sale of advanced memory semiconductors. The Company's memory products, consisting of both DRAM and NAND flash memory products, can be used in virtually all electronic devices, including PCs, servers, graphic cards, mobile devices such as smartphones and tablets, and other consumer electronics products. The Company's product portfolio also includes non-memory semiconductors, including CMOS image sensors that are used to perform the role of electronic film in digital photographing devices such as smartphones, tablets, PC laptops and surveillance cameras. The Company has also been engaging in the foundry business through SK hynix system ic, a wholly-owned subsidiary, and Key Foundry, a wholly-owned subsidiary acquired by the Company in August 2022.

The Company sells a wide variety of DRAM and NAND flash memory products with various configuration options, architectures and performance characteristics tailored to meet application- and customer-specific needs. The Company believes that it is one of the world's leading companies in developing DRAM with advanced specifications, particularly those relating to higher density, faster data-processing speed and lower power consumption. The Company is continually developing higher-density modules, SSDs and other customized DRAM and NAND flash memory products that are optimized for use in specific applications. In particular, the Company offers next-generation graphic memory products in HBM configuration. HBM is designed to meet the greater data-processing speed requirements of graphics applications that incorporate deep learning and artificial intelligence technologies. The Company seeks to strengthen its relationships with leading GPU, PC and game console manufacturers to more effectively meet their needs for customized high-bandwidth graphics memory solutions. The Company believes that offering customized products provides

opportunities to mitigate the negative effects of the cyclical nature of the memory products market, and its customized products typically command higher prices than commodity DRAM because of their superior performance and specifically-tailored characteristics.

The Company owns and operates fabs in Icheon and Cheongju, Korea and Wuxi and Dalian, China. The Company also owns and operates assembly and testing facilities for back-end processing of its products in Icheon and Cheongju, Korea and Chongqing, China. As part of the Company's efforts to reduce unit manufacturing costs, improve manufacturing yields and enhance its profitability, the Company periodically phases out the operations of its older fabs and also upgrades them to new fabs that implement more advanced processing technologies. In addition to regular maintenance and enhancement of existing fabs, the Company began mass production operations of its M16 fab in Icheon, Korea starting in the first quarter of 2021. In October 2022, the Company began construction of a new extension fab called M15X in Cheongju. As part of its efforts to ensure its long-term competitiveness, the Company has also announced initiatives to construct an integrated industrial complex in Yongin, Korea for its next generation of fabs and research and development facilities.

In order to maintain its technological leadership, as well as to access new markets for its products, the Company engages in strategic initiatives, including entering into joint ventures and joint product development and supply agreements. From time to time, the Company may also acquire equity stakes in other industry players to further strengthen its business relationships as well as acquire complementary businesses that further strengthen the Company's leading position in the industry. In October 2020, the Company agreed to acquire the NAND flash memory and storage business of Intel. In the first phase of such acquisition completed in December 2021, the Company acquired Intel's NAND SSD business (including NAND SSD-related intellectual property and employees), as well as the Dalian Manufacturing Facility, for US\$6.6 billion. The Company created a subsidiary in the United States called Solidigm to operate the acquired business. In the second phase, the Company is expected to acquire the remaining assets, including the intellectual property related to the manufacture and design of NAND flash wafers, NAND flash wafers-related research and development employees and NAND flash wafers-related workforce at the Dalian Manufacturing Facility, for US\$2.2 billion by March 2025. The second closing is subject to governmental approvals as well as other customary closing conditions and customary termination fees, which may be significant, if the transaction is terminated under certain specified circumstances. See "Business – Strategic Alliances, Investments and Acquisitions."

FACTORS AFFECTING THE COMPANY'S RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The results of operations and financial condition of the Company, including its operating profit and corresponding changes in its operating profit as a percentage of total revenue (or operating profit margin), have been and will continue to be materially affected by a number of factors and developments, some of which are outside of the Company's control, including:

- cyclical and volatile market conditions of the semiconductor industry;
- fluctuation in exchange rates of major foreign currencies;
- the level of, and returns on, the Company's capital expenditures and production capacity expansion;

- changes in the Company’s product mix reflecting rapidly evolving customer preferences and advancements in technology;
- the level of, and returns on, the Company’s investment in its research and development activities; and
- the Company’s ability to pursue additional operational cost savings.

Cyclical and Volatile Market Conditions of the Semiconductor Industry

The Company’s business is affected by market conditions in the highly cyclical memory semiconductor industry. The industry’s cyclicity results primarily from fluctuations in demand for the end products that use memory semiconductors, particularly from the information and technology industry and the consumer electronics industry, which are sensitive to general conditions in the global economy. Uncertainties in the global economy have increased in recent years, with global financial and capital markets experiencing substantial volatility. In particular, the COVID-19 pandemic that began in late 2019 and rapid increases in interest rates globally from the second half of 2021 to combat inflation have materially and adversely affected the global economy and financial markets. See “Risk Factors – The global COVID-19 pandemic and any possible occurrences of other types of widespread infectious diseases could materially and adversely affect the Company’s business, results of operations or financial condition.” Such uncertainties have been caused by, and continue to be exacerbated by, among other things, deterioration in economic and trade relations between major economies (particularly between the United States and China), the invasion of Ukraine by Russia in February 2022 that has destabilized the global energy sector, the slowdown of economic growth in China and other major emerging market economies, adverse economic and political conditions in Europe and Latin America and continuing geopolitical and social instability in North Korea and various parts of the Middle East, including the recent Israel-Hamas war. Actual or anticipated improvement or deterioration in economic conditions in any of the Company’s major markets may affect customer confidence and spending, resulting in a corresponding fluctuation in consumption that may impact the level of demand for the Company’s products and prices at which they can be sold.

The long lead times for new facilities to become operational have in some cases resulted in significant increases in the industry’s production capacity coinciding with weakening demand, resulting in global oversupply of products and declining prices. Demand growth expectations in the end markets that use memory semiconductors have typically been accompanied by increased capital investment by manufacturers. In addition, semiconductor manufacturers worldwide have migrated to finer line-width process and advanced stacking technologies, which have increased the number of bits produced per wafer. These capital investments and adoption of new technologies may result in increases in the supply of memory semiconductors that are not matched by commensurate growth in demand in the end markets for such products. From time to time, the memory semiconductor industry has experienced significant and sometimes prolonged periods of oversupply and weak prices. As a result of such fluctuations in global demand as well as in the manufacturing capacity available to produce memory semiconductors, the Company’s results of operations may be volatile from period to period.

Fluctuation in Exchange Rates of Major Foreign Currencies

The Company's consolidated financial statements are prepared from the local currency denominated financial results, assets and liabilities of the Company and its subsidiaries around the world, which are then translated into Won. To the extent that the Company incurs costs in one currency and makes sales in another, its profit margins may be affected by changes in the exchange rates between the two currencies. In particular, the Company's investments in manufacturing facilities in China have increased the proportion of its expenses that are incurred in Chinese Yuan, while the Company's sales in China are denominated in U.S. dollars. Accordingly, an unhedged increase in the value of the Chinese Yuan would increase the Company's construction and manufacturing costs and adversely impact its profitability. Changes in exchange rates can also affect the Won value of sales proceeds and operating and non-operating costs that are denominated in foreign currencies. The Company is unable to increase the prices of its products to adjust fully for the negative effects of exchange rate movements because prices in the memory semiconductor industry are dictated by worldwide supply and demand. In addition, exchange rate fluctuations can affect the Won value of the Company's equity investments and monetary assets and liabilities denominated in foreign currencies. See "Exchange Rate Information" and "Risk Factors – Fluctuations in exchange rates may result in foreign exchange losses."

There has been considerable volatility in exchange rates in recent years, including exchange rates between the Won and the U.S. dollar. Appreciation of the Won may materially and adversely affect the Company's results of operations because, among other things, it reduces the Won value of the Company's export sales, which are primarily denominated in U.S. dollars, and causes the Company's export products to be less competitive by raising their prices in U.S. dollar terms. On the other hand, depreciation of the Won would create foreign exchange translation losses and increase the amount, in Won terms, of interest and principal of the Company's foreign currency-denominated debt, as well as increase in Won terms the cost of raw materials and equipment that the Company purchases from overseas sources. Under the Company's current operating and capital structure, appreciation of the Won generally has a net negative impact on the Company's operating income. Although the impact of exchange rate fluctuations has in the past been partially mitigated by hedging strategies, the Company's results of operations have historically been affected by exchange rate fluctuations. See "– Market Risks – Foreign Exchange Risk" for a sensitivity analysis on the Company's foreign currency exposure from foreign exchange rate change against the Korean Won.

Level of the Company's Capital Expenditures and Production Capacity Expansion

The Company makes substantial capital expenditures annually to support its business goals and objectives, and it plans to continue to invest in enhancing and expanding its production facilities and upgrading its equipment and manufacturing processes. The Company operates in an especially capital-intensive industry that requires continual investments for capacity expansions, equipment upgrades and migration to advanced technologies and manufacturing processes. The Company's cash outflows for acquisition of property, plant and equipment amounted to ₩12,487 billion in 2021, ₩19,010 billion in 2022 and ₩6,600 billion in the first nine months of 2023. The Company currently expects its capital expenditures in 2023 to be approximately half of its capital expenditures amount in 2022. In 2024, the Company plans to increase its capital expenditures compared to 2023, but minimize such increase taking into consideration market conditions and the Company's financial condition at the time. In December 2021, the Company also completed the first phase of its acquisition of the Dalian Manufacturing Facility from Intel. See "Business – Strategic Alliances,

Investments and Acquisitions.” As part of its efforts to ensure its long-term competitiveness, the Company has also announced initiatives to construct an integrated industrial complex in Yongin, Korea for its next generation of fabs and research and development facilities. In addition, in the second phase of the Intel NAND Business Acquisition, the Company is expected to acquire the remaining assets, including the intellectual property related to the manufacture and design of NAND flash wafers, NAND flash wafers-related research and development employees and NAND flash wafers-related workforce at the Dalian Manufacturing Facility, for US\$2.2 billion by March 2025.

The Company plans to continue to invest in enhancing and expanding its production facilities and upgrade its equipment and manufacturing processes in order to increase its production capacity, achieve additional economies of scale and enable production of new products. The Company expects that increases in production capacity will have a significant effect on its financial condition and results of operations by enabling it to lower its per-unit manufacturing costs. In addition, the Company expects that its continued efforts to enhance the efficiency and technical capacities of each successive fab it builds will also have a significant effect on its financial condition and results of operations. The Company periodically adjusts its capital expenditure plans on an ongoing basis subject to market demand for the Company’s products, the production outlook of the global memory semiconductor industry as well as global economic conditions in general. The Company may delay or not implement some of its announced capital expenditure plans based on its assessment of such market conditions. Production capacity expansion would increase depreciation and amortization expenses as well as financing costs related to capital expenditures. The level of capital expenditures made by the Company, as well as the returns the Company is able to achieve on its capital expenditure investments, will affect the Company’s financial condition and results of operations.

Changes in the Company’s Product Mix

The Company’s operating results depend greatly on the Company’s ability to anticipate and respond to emerging customer preferences and demands by ensuring continuing and timely development of new, as well as enhancements to existing, products and stimulate customer demand for new and upgraded products. The Company sells a wide variety of DRAM and NAND flash memory products with various configuration options, architectures and performance characteristics tailored to meet application- and customer-specific needs. The Company believes that it is one of the world’s leading companies in developing DRAM with advanced specifications, particularly those relating to higher density, faster data-processing speed and lower power consumption. The Company is continually developing higher-density modules, SSDs and other customized DRAM and NAND flash memory products that are optimized for use in specific applications. In particular, the Company offers next-generation graphic memory products in HBM configuration. HBM is designed to meet the greater data-processing speed requirements of graphics applications that incorporate deep learning and artificial intelligence technologies. The Company seeks to strengthen its relationships with leading GPU, PC and game console manufacturers to more effectively meet their needs for customized high-bandwidth graphics memory solutions. The Company believes that offering customized products provides opportunities to mitigate the negative effects of the cyclicity of the memory products market, and its customized products typically command higher prices than commodity DRAM because of their superior performance and specifically-tailored characteristics.

As part of the Company’s efforts to further strengthen its product portfolio, in December 2021, the Company completed the first phase of its acquisition of the NAND flash memory and storage business of Intel. See “Business – Strategic Alliances, Investments and Acquisitions.” The Company

has also been striving to diversify its business to areas other than DRAM and NAND flash memory semiconductors in recent years. The Company has expanded its product portfolio into non-memory semiconductors, including CMOS image sensors that are used to perform the role of electronic film in digital photographing devices such as smartphones, tablets, PC laptops and surveillance cameras, as well as engaging in the foundry business through SK hynix system ic, a wholly-owned subsidiary, and Key Foundry, a wholly-owned subsidiary acquired by the Company in August 2022. From time to time, the Company adjusts its manufacturing facilities in order to execute changes in the Company's product mix. Changes in the Company's product mix will affect the Company's financial condition and results of operations.

Investment Levels in Research and Development Activities

The Company competes in highly competitive global markets characterized by rapidly changing technologies, evolving industry standards and continual improvements in manufacturing processes and product performance features, which result in short product cycles, frequent introduction of new products and price erosion of existing products. The Company believes that continued and timely development of new technologies and products and enhancements to existing products and manufacturing processes are critical to maintaining and improving the Company's competitive position. Accordingly, the Company has made, and will continue to make, significant investments in research and development relating to new technologies and products. The Company incurred expenditures on research and development of ₩3,914 billion in 2021, ₩4,804 billion in 2022 and ₩3,069 billion in the first nine months of 2023 (including capitalized development costs of ₩363 billion in 2021, ₩329 billion in 2022 and ₩286 billion in the first nine months of 2023 as intangible assets). The amount that the Company spends on its research and development activities, as well as the returns the Company is able to achieve on such investments through successful development of next-generation technologies, will affect the Company's financial condition and results of operations.

The Company's Ability to Pursue Additional Operational Cost Savings

The average selling prices of the Company's DRAM and NAND flash memory products have generally been impacted by global market supply and demand dynamics. The market for the Company's products is highly competitive, and the Company faces intense global competition. The Company's competitors have used aggressive pricing and marketing strategies in order to maintain or gain market share. Accordingly, the success of the Company's business depends, in part, on the Company's continual reduction of manufacturing costs and operating expenses. The Company continually engages in various cost-saving and other initiatives intended to reduce costs and increase productivity, including refinement of its manufacturing processes to increase production yields and reduce production cycle time. The Company's results of operations and profitability will continue to be affected by its ability to improve productivity and enhance the cost efficiency of its operations.

CRITICAL ACCOUNTING POLICIES

The preparation of the Company's financial statements requires the Company to make difficult, complex and subjective judgments in making the appropriate estimates and assumptions that affect the amounts reported in its financial statements. By their nature, these judgments are subject to an inherent degree of uncertainty. These judgments are based on the Company's historical experience, terms of existing contracts, its observation of trends in the relevant industry, information provided by its customers and information available from other outside sources, as appropriate. While the

Company believes its estimates and judgments are reasonable under the circumstances in which they were made, there can be no assurance that the Company's judgments will prove to be correct or that actual results reported in future periods will not differ from the Company's expectations reflected in its accounting treatment of certain items. See Note 3 of the notes to the Annual Financial Statements for the Company's critical accounting policies that apply assumptions and estimates that have a significant risk of resulting in a material adjustment.

RESULTS OF OPERATIONS – FIRST NINE MONTHS OF 2022 COMPARED TO FIRST NINE MONTHS OF 2023

The following table presents selected income statement data and changes therein for the first nine months of 2022 and the first nine months of 2023.

	For the Nine Months Ended September 30,		Changes	
			Nine Months 2022 versus Nine Months 2023	
	2022 ⁽¹⁾	2023	Amount	%
	(In billions of Won)			
Revenue	₩36,950	₩21,460	₩(15,489)	(41.9)%
Cost of sales	21,345	24,219	2,874	13.5
Gross profit (loss)	15,604	(2,759)	(18,363)	N.A. ⁽²⁾
Selling and administrative expenses	6,883	5,317	(1,565)	(22.7)
Operating profit (loss)	8,722	(8,076)	(16,798)	N.A. ⁽²⁾
Finance income	4,179	2,189	(1,990)	(47.6)
Finance expenses	4,616	3,656	(960)	(20.8)
Share of profit of equity-accounted investees	119	19	(100)	(84.2)
Other income	214	260	46	21.5
Other expenses	180	518	338	187.8
Profit (loss) before income tax	8,438	(9,783)	(18,221)	N.A. ⁽²⁾
Income tax expense (benefit)	2,462	(2,025)	(4,487)	N.A. ⁽²⁾
Profit (loss) for the period	₩ 5,976	₩(7,758)	₩(13,734)	N.A. ⁽²⁾

(1) In December 2021, the Company completed the first phase of the Intel NAND Business Acquisition. However, initial accounting for business combinations was incomplete as of December 31, 2021, and provisional amounts were reported in the consolidated financial statements as of and for the year then ended. During the year ended December 31, 2022, such provisional amounts were adjusted retroactively and related adjustments were made to the consolidated statements of comprehensive income in the Interim Financial Statements. See Note 33 of the notes to the Interim Financial Statements appearing elsewhere in this Offering Circular for a description of the nature of such changes and related adjustments to the Company's consolidated statement of comprehensive income for the first nine months of 2022.

(2) N.A. means not applicable.

Revenue

The following table presents a breakdown of the Company's revenue by principal product category and changes therein for the first nine months of 2022 and the first nine months of 2023.

	For the Nine Months Ended September 30,		Changes	
			Nine Months 2022 versus Nine Months 2023	
	2022	2023	Amount	%
	(In billions of Won)			
DRAM	₩23,594	₩13,418	₩(10,175)	(43.1)%
NAND flash	11,819	6,354	(5,465)	(46.2)
Other products ⁽¹⁾	1,536	1,687	151	9.8
Total revenue	₩36,950	₩21,460	₩(15,489)	(41.9)

(1) Includes revenue from CMOS image sensors and foundry products.

The Company's revenue decreased by 41.9%, or ₩15,489 billion, from ₩36,950 billion in the first nine months of 2022 to ₩21,460 billion in the first nine months of 2023, primarily due to decreases in revenue from DRAM sales and NAND flash sales. Specifically:

- Revenue from DRAM sales decreased by 43.1%, or ₩10,175 billion, from ₩23,594 billion in the first nine months of 2022 to ₩13,418 billion in the first nine months of 2023, primarily due to a significant decrease in the average selling price of such products, the impact of which was partially offset by an increase in their shipment volume and depreciation of the average value of the Won against the U.S. dollar from the first nine months of 2022 to the first nine months of 2023 that contributed to an increase in the Company's revenue from DRAM sales in Won terms. The average selling price of DRAM on a U.S. dollar basis decreased by more than 40% from the first nine months of 2022 to the first nine months of 2023, primarily due to a decrease in demand for commodity DRAM products reflecting deterioration in global economic conditions and ongoing inventory adjustments across the DRAM industry. The Company's overall DRAM bit shipment increased slightly from the first nine months of 2022 to the first nine months of 2023, primarily due to an increase in demand for premium products such as DDR5 and HBM products designed to meet the greater data-processing speed requirements of graphics applications that incorporate deep learning and artificial intelligence technologies, which was partially offset by a general decrease in demand for lower-density DRAM products. In terms of the Market Average Exchange Rate, the Won depreciated against the U.S. dollar from an average of ₩1,268.9 to US\$1.00 in the first nine months of 2022 to an average of ₩1,300.3 to US\$1.00 in the first nine months of 2023.
- Revenue from NAND flash sales decreased by 46.2%, or ₩5,465 billion, from ₩11,819 billion in the first nine months of 2022 to ₩6,354 billion in the first nine months of 2023, primarily due to a significant decrease in the average selling price of such products, the impact of which was partially offset by an increase in their shipment volume and depreciation of the average value of the Won against the U.S. dollar from the first nine months of 2022 to the first nine months of 2023 as discussed above. The average selling price of NAND flash memory products on a U.S. dollar basis decreased by more than 50%

from the first nine months of 2022 to the first nine months of 2023, primarily due to a decrease in demand for commodity NAND flash memory products reflecting deterioration in global economic conditions and ongoing inventory adjustments across the NAND flash industry. The Company's overall NAND flash bit shipment increased by more than 20% from the first nine months of 2022 to the first nine months of 2023, primarily due to an increase in demand for high storage and high performance NAND flash products used in advanced smartphones.

- Revenue from the Company's other products increased by 9.8%, or ₩151 billion, from ₩1,536 billion in the first nine months of 2022 to ₩1,687 billion in the first nine months of 2023, primarily due to recognition of the revenue of Key Foundry following the Company's acquisition in August 2022.

Cost of Sales and Gross Profit (Loss)

The Company's cost of sales increased by 13.5%, or ₩2,874 billion, from ₩21,345 billion in the first nine months of 2022 to ₩24,219 billion in the first nine months of 2023, primarily due to the Company's recognition of changes in finished goods and work-in-progress of ₩(4,845) billion in the first nine months of 2022 compared to ₩477 billion in the first nine months of 2023, the impact of which was partially offset by decreases in (i) employee benefit expenses and (ii) expenses related to raw materials and consumables. In the first nine months of 2022, the Company recognized ₩4,845 billion primarily related to buildup of finished goods and work-in-progress during such period reflecting a slowdown in demand for the Company's products. In the first nine months of 2023, the Company recognized ₩477 billion primarily related to valuation loss of finished goods and work-in-progress reflecting a general decrease in the average selling price of the Company's products during such period. The Company's employee benefit expenses decreased primarily due to a decrease in the Company's accrued payments to manufacturing personnel under employee profit-sharing arrangements. In addition, the Company's expenses related to raw materials and consumables decreased in line with decreases in its shipment volumes of DRAM and NAND flash memory products, the impact of which was partially offset by increases in the unit prices of some key raw materials.

The Company recorded gross profit of ₩15,604 billion in the first nine months of 2022 compared to gross loss of ₩2,759 billion in the first nine months of 2023. The Company recorded gross profit margin of 42.2% in the first nine months of 2022 compared to gross loss margin of 12.9% in the first nine months of 2023.

Selling and Administrative Expenses

The following table presents a breakdown of the Company's selling and administrative expenses (including research and development expenses) and changes therein for the first nine months of 2022 and the first nine months of 2023.

	For the Nine Months Ended September 30,		Changes	
			Nine Months 2022 versus Nine Months 2023	
	2022	2023	Amount	%
(In billions of Won)				
Selling and administrative expenses:				
Salaries	₩ 850	₩ 614	₩ (236)	(27.8)%
Defined benefits plan	35	28	(8)	(22.3)
Employee benefits	161	160	(0)	(0.0)
Commission	761	564	(198)	(26.0)
Depreciation	193	225	32	16.5
Amortization	354	225	(129)	(36.4)
Taxes and dues	78	66	(11)	(14.8)
Advertising	75	57	(19)	(24.7)
Supplies	85	81	(5)	(5.4)
Sales promotion expenses	150	82	(68)	(45.2)
Warranty costs	494	141	(353)	(71.5)
Others	283	292	10	3.4
	<u>3,519</u>	<u>2,534</u>	<u>(985)</u>	<u>(28.0)</u>
Research and developments:				
Expenditure on research and developments	3,563	3,069	(493)	(13.8)
Development costs capitalized	(199)	(286)	(87)	43.6
	<u>3,363</u>	<u>2,783</u>	<u>(580)</u>	<u>(17.2)</u>
Total	<u>₩6,883</u>	<u>₩5,317</u>	<u>₩(1,565)</u>	<u>(22.7)</u>

The Company's selling and administrative expenses (including research and development expenses) decreased by 22.7%, or ₩1,565 billion, from ₩6,883 billion in the first nine months of 2022 to ₩5,317 billion in the first nine months of 2023, primarily due to decreases in research and development expenses, warranty costs, salary expenses and commission expenses. Specifically:

- Research and development expenses, after adjusting for capitalized development costs, decreased by 17.2%, or ₩580 billion, from ₩3,363 billion in the first nine months of 2022 to ₩2,783 billion in the first nine months of 2023, reflecting a decrease in the Company's research and development activities.
- Warranty costs (referred to as quality control cost in the first nine months of 2022), which include estimated warranty provisions for the amount expected to be paid for product replacement, decreased by 71.5%, or ₩353 billion, from ₩494 billion in the first nine months of 2022 to ₩141 billion in the first nine months of 2023, primarily reflecting recognition of warranty provisions relating to the Company's DRAM products and CMOS image sensors in 2022, compared to a reduction in warranty provisions in the first nine months of 2023 taking into consideration updated estimates of warranty-related expenses.

- Salary expenses decreased by 27.8%, or ₩236 billion, from ₩850 billion in the first nine months of 2022 to ₩614 billion in the first nine months of 2023, primarily due to a decrease in the Company's accrued payments to its administrative personnel under employee profit-sharing arrangements.
- Commission expenses decreased by 26.0%, or ₩198 billion, from ₩761 billion in the first nine months of 2022 to ₩564 billion in the first nine months of 2023, primarily due to decreases in fees relating to mergers and acquisition activities, and brand commissions.

The Company's selling and administrative expenses as a percentage of total revenue increased from 18.6% in the first nine months of 2022 to 24.8% in the first nine months of 2023.

Operating Profit (Loss)

Primarily due to the factors described above, the Company recorded operating profit of ₩8,722 billion in the first nine months of 2022 compared to operating loss of ₩8,076 billion in the first nine months of 2023. The Company recorded operating profit margin of 23.6% in the first nine months of 2022 compared to operating loss margin of 37.6% in the first nine months of 2023.

Finance Income and Expenses

The following table presents a breakdown of the Company's finance income and expenses and changes therein for the first nine months of 2022 and the first nine months of 2023.

	For the Nine Months Ended		Changes	
	September 30,		Nine Months 2022 versus	
	2022	2023	Amount	%
	(In billions of Won)			
Interest income	₩ 44	₩ 150	₩ 106	238.2%
Dividend income	1	11	9	729.1
Foreign exchange differences	4,080	1,952	(2,128)	(52.2)
Others	54	76	23	42.3
Total finance income	4,179	2,189	(1,990)	(47.6)
Interest expenses	332	1,068	736	221.5%
Foreign exchange differences	4,275	2,528	(1,747)	(40.9)
Loss on derivatives transactions	–	59	59	N.A. ⁽¹⁾
Others	8	1	(8)	(91.3)
Total finance expenses	₩4,616	₩3,656	₩ (960)	(20.8)

(1) N.A. means not applicable.

The Company's net finance expenses increased by 235.8%, or ₩1,031 billion, from ₩437 billion in the first nine months of 2022 to ₩1,468 billion in the first nine months of 2023, primarily due to the following reasons:

- Interest expenses increased by 221.5%, or ₩736 billion, from ₩332 billion in the first nine months of 2022 to ₩1,068 billion in the first nine months of 2023, primarily reflecting an increase in the Company's borrowings as well as a general increase in interest rates from the first nine months of 2022 to the first nine months of 2023.
- Net loss on foreign exchange differences increased by 194.8%, or ₩381 billion, from ₩196 billion in the first nine months of 2022 to ₩577 billion in the first nine months of 2023, as (i) the Won depreciated against the U.S. dollar at the end of the period in the first nine months of 2022 and further depreciated (to a lesser extent) at the end of the period in the first nine months of 2023 and (ii) the average value of the Won against the U.S. dollar depreciated in the first nine months of 2022 and further depreciated (to a lesser extent) in the first nine months of 2023. In terms of the Market Average Exchange Rate, the Won depreciated against the U.S. dollar from ₩1,185.5 to US\$1.00 as of December 31, 2021 to ₩1,434.8 to US\$1.00 as of September 30, 2022, and further depreciated against the U.S. dollar from ₩1,267.3 to US\$1.00 as of December 31, 2022 to ₩1,344.8 to US\$1.00 as of September 30, 2023. The Market Average Exchange Rate, which was ₩1,185.5 to US\$1.00 as of December 31, 2021, depreciated during the first nine months of 2022 to an average of ₩1,268.9 to US\$1.00 in the first nine months of 2022. In addition, the Market Average Exchange Rate, which was ₩1,267.3 to US\$1.00 as of December 31, 2022, depreciated during the first nine months of 2023 to an average of ₩1,300.3 to US\$1.00 in the first nine months of 2023.

Share of Profit of Equity-accounted Investees

The Company's share of profit of equity-accounted investees decreased by 84.2%, or ₩100 billion, from ₩119 billion in the first nine months of 2022 to ₩19 billion in the first nine months of 2023, primarily due to the Company's recognition of proportionate net income in Magnus Private Investment Co., Ltd. of ₩99 billion in the first nine months of 2022 compared to proportionate net loss in Magnus Private Investment Co., Ltd. of ₩3 billion in the first nine months of 2023.

Other Income and Expenses

The following table presents a breakdown of the Company's other income and expenses and changes therein for the first nine months of 2022 and the first nine months of 2023.

	For the Nine Months Ended September 30,		Changes	
			Nine Months 2022 versus Nine Months 2023	
	2022	2023	Amount	%
(In billions of Won)				
Gain on disposal of property, plant and equipment	₩126	₩222	₩ 96	76.4%
Gain on disposal of investment property . . .	64	–	(64)	(100.0)
Others	24	38	14	59.5
Total other income	214	260	46	21.5
Loss on impairment of intangible assets . . .	50	167	117	232.3%
Loss on disposal of property, plant and equipment	4	67	63	1,645.2
Donation	57	42	(16)	(27.3)
Loss on disposal of trade receivables	8	11	2	25.9
Others	60	232	172	285.1
Total other expenses	₩180	₩518	₩338	187.8

The Company's gain on disposal of property, plant and equipment increased by 76.4%, or ₩96 billion, from ₩126 billion in the first nine months of 2022 to ₩222 billion in the first nine months of 2023. In the first nine months of 2022, the Company recognized gain on disposal of property, plant and equipment of ₩126 billion primarily from sales of real estate and idle equipment. In the first nine months of 2023, the Company recognized gain on disposal of property, plant and equipment of ₩222 billion primarily from sales of real estate and idle equipment.

The Company recognized gain on disposal of investment property of ₩64 billion in the first nine months of 2022 related to sale of real estate, compared to no such gain in the first nine months of 2023.

The Company's other expenses increased by 285.1%, or ₩172 billion, from ₩60 billion in the first nine months of 2022 to ₩232 billion in the first nine months of 2023, primarily due to cancellation fees relating to capital expenditures.

The Company's loss on impairment of intangible assets increased by 232.3%, or ₩117 billion, from ₩50 billion in the first nine months of 2022 to ₩167 billion in the first nine months of 2023, primarily due to increases in impairments relating to capitalization of development costs.

The Company's loss on disposal of property, plant and equipment increased by 1,645.2%, or ₩63 billion, from ₩4 billion in the first nine months of 2022 to ₩67 billion in the first nine months of 2023. In the first nine months of 2023, the Company recognized loss on disposal of property, plant and equipment of ₩67 billion primarily from sales of structures, facilities and idle equipment.

Income Tax Expense (Benefit)

The Company recognized income tax expense of ₩2,462 billion in the first nine months of 2022 compared to income tax benefit of ₩2,025 billion in the first nine months of 2023, primarily reflecting the Company's recognition of profit before income tax of ₩8,438 billion in the first nine months of 2022 compared to loss before income tax of ₩9,783 billion in the first nine months of 2023.

Profit (Loss) for the Period

Primarily due to the factors described above, the Company recorded profit for the period of ₩5,976 billion in the first nine months of 2022 compared to loss for the period of ₩7,758 billion in the first nine months of 2023. The Company recorded net income margin of 16.2% in the first nine months of 2022 compared to net loss margin of 36.2% in the first nine months of 2023.

RESULTS OF OPERATIONS – 2021 COMPARED TO 2022

The following table presents selected income statement data and changes therein for 2021 and 2022.

	For the Year Ended December 31,		Changes	
			2021 versus 2022	
	2021	2022	Amount	%
	(In billions of Won)			
Revenue	₩42,998	₩44,622	₩ 1,624	3.8%
Cost of sales	24,046	28,994	4,948	20.6
Gross profit	18,952	15,628	(3,324)	(17.5)
Selling and administrative expenses	6,542	8,818	2,277	34.8
Operating profit	12,410	6,809	(5,601)	(45.1)
Finance income	2,378	3,714	1,337	56.2
Finance expenses	1,470	5,092	3,622	246.4
Share of profit of equity-accounted investees	162	131	(31)	(19.2)
Other income	116	241	125	107.8
Other expenses	180	1,802	1,621	898.7
Profit before income tax	13,416	4,003	(9,413)	(70.2)
Income tax expense	3,800	1,761	(2,039)	(53.7)
Profit for the year	₩ 9,616	₩ 2,242	₩(7,375)	(76.7)

Revenue

The following table presents a breakdown of the Company's revenue by principal product category and changes therein for 2021 and 2022.

	For the Year Ended December 31,		Changes	
			2021 versus 2022	
	2021	2022	Amount	%
	(In billions of Won)			
DRAM	₩30,600	₩28,169	₩(2,431)	(7.9)%
NAND flash	10,529	14,184	3,654	34.7
Other products ⁽¹⁾	1,869	2,269	400	21.4
Total revenue	₩42,998	₩44,622	₩ 1,624	3.8

(1) Includes revenue from CMOS image sensors and foundry products.

The Company's revenue increased by 3.8%, or ₩1,624 billion, from ₩42,998 billion in 2021 to ₩44,622 billion in 2022, primarily due to increases in revenue from NAND flash sales and, to a lesser extent, other products, which were partially offset by a decrease in DRAM sales. Specifically:

- Revenue from NAND flash sales increased by 34.7%, or ₩3,654 billion, from ₩10,529 billion in 2021 to ₩14,184 billion in 2022, primarily due to (i) an increase in the shipment volume of NAND flash memory products and (ii) a depreciation of the average value of the Won against the U.S. dollar from 2021 to 2022 that contributed to an increase in the Company's revenue from NAND flash sales in Won terms, the aggregate impact of which was partially offset by a decrease in the average selling price of such products. The Company's overall NAND flash bit shipment increased by more than 40% from 2021 to 2022, primarily driven by NAND flash bit shipments from Solidigm, which was created in December 2021 upon completion of the first phase of the Intel NAND Business Acquisition. Consolidated revenue of SK hynix NAND Product Solutions, through which the Company operates its Solidigm business, was ₩4,696 billion in 2022. The Market Average Exchange Rate, which was ₩1,088.0 to US\$1.00 as of December 31, 2020, depreciated during 2021 to an average of ₩1,144.4 to US\$1.00 in 2021 and further depreciated during 2022 to an average of ₩1,292.0 to US\$1.00 in 2022. On the other hand, the average selling price of NAND flash memory products on a U.S. dollar basis decreased by more than 20% from 2021 to 2022, reflecting a general decrease in global demand for NAND flash memory products in the second half of 2022.
- Revenue from the Company's other products increased by 21.4%, or ₩400 billion, from ₩1,869 billion in 2021 to ₩2,269 billion in 2022, primarily due to recognition of the revenue of Key Foundry following the Company's acquisition in August 2022 and depreciation of the average value of the Won against the U.S. dollar from 2021 to 2022, as discussed above.
- Revenue from DRAM sales decreased by 7.9%, or ₩2,431 billion, from ₩30,600 billion in 2021 to ₩28,169 billion in 2022, primarily due to a decrease in the average selling price of such products, the impact of which was partially offset by depreciation of the average value of the Won against the U.S. dollar from 2021 to 2022, as discussed above, that contributed to an increase in the Company's revenue from DRAM sales in Won terms and, to a lesser extent, an increase in their shipment volume. The average selling price of DRAM on a U.S. dollar basis decreased by nearly 20% from 2021 to 2022, reflecting a general decrease in global demand for DRAM products starting in the second half of 2022. The Company's overall DRAM bit shipment increased slightly from 2021 to 2022.

Cost of Sales and Gross Profit

The Company's cost of sales increased by 20.6%, or ₩4,948 billion, from ₩24,046 billion in 2021 to ₩28,994 billion in 2022, primarily due to increases in (i) depreciation and amortization related to the Company's production facilities, (ii) expenses related to raw materials, supplies and consumables and (iii) employee benefit expenses, the aggregate impact of which was partially offset by an increase in the Company's recognition of changes in finished goods and work-in-progress from ₩(660) billion in 2021 to ₩(5,884) billion in 2022. Depreciation and amortization related to the Company's production facilities increased as a result of the addition of new facilities, including the Dalian Manufacturing Facility acquired from Intel in December 2021. The Company's expenses related to raw materials, supplies and consumables increased primarily due to increases in its shipment volumes of NAND flash memory and DRAM products. Employee benefit expenses increased primarily due to inclusion of salary expenses of the manufacturing personnel related to the Solidigm business as well as an increase in the Company's accrued payments under employee profit-sharing arrangements. The Company's recognition of costs related to buildup of finished goods and work-in-progress increased from ₩660 billion in 2021 to ₩5,884 billion in 2022, primarily reflecting a slowdown in demand for the Company's products starting in the second half of 2022.

The Company's gross profit decreased by 17.5%, or ₩3,324 billion, from ₩18,952 billion in 2021 to ₩15,628 billion in 2022. The Company's gross profit margin decreased from 44.1% in 2021 to 35.0% in 2022.

Selling and Administrative Expenses

The following table presents a breakdown of the Company's selling and administrative expenses (including research and development expenses) and changes therein for 2021 and 2022.

	For the Year Ended December 31,		Changes	
			2021 versus 2022	
	2021	2022	Amount	%
(In billions of Won)				
Selling and administrative expenses:				
Salaries	₩ 788	₩1,079	₩ 292	37.0%
Defined benefit plan	41	44	3	7.3
Employee benefits	182	238	56	30.8
Commission	519	1,095	576	110.8
Depreciation	219	265	46	21.1
Amortization	526	415	(112)	(21.2)
Freight and custody charges	48	59	10	21.8
Taxes and dues	88	102	14	15.6
Advertising	93	113	20	21.9
Supplies	109	157	48	43.9
Sales promotion expenses	165	173	7	4.4
Quality control cost	32	273	241	753.7
Others	180	332	152	84.7
	2,991	4,344	1,353	45.2

	For the Year Ended December 31,		Changes	
			2021 versus 2022	
	2021	2022	Amount	%
	(In billions of Won)			
Research and development:				
Expenditure on research and development.	3,914	4,804	889	22.7
Development cost capitalized	(363)	(329)	34	(9.3)
	<u>3,551</u>	<u>4,475</u>	<u>923</u>	<u>26.0</u>
Total	<u>₩6,542</u>	<u>₩8,818</u>	<u>₩2,277</u>	<u>34.8</u>

The Company's selling and administrative expenses (including research and development expenses) increased by 34.8%, or ₩2,277 billion, from ₩6,542 billion in 2021 to ₩8,818 billion in 2022, primarily due to increases in research and development expense, commission expenses, salary expenses and quality control cost, which were partially offset by a decrease in amortization expenses. Specifically:

- Research and development expense, after adjusting for capitalized development cost, increased by 26.0%, or ₩923 billion, from ₩3,551 billion in 2021 to ₩4,475 billion in 2022, reflecting inclusion of research and development expense related to the Solidigm business following the first phase of the Intel NAND Business Acquisition in December 2021 as well as an increase in the Company's research and development activities.
- Commission expenses increased by 110.8%, or ₩576 billion, from ₩519 billion in 2021 to ₩1,095 billion in 2022, primarily due to increases in fees relating to authorization of new fabs, mergers and acquisition activities, and non-recurring engineering and brand commissions.
- Salary expenses increased by 37.0%, or ₩292 billion, from ₩788 billion in 2021 to ₩1,079 billion in 2022, primarily due to inclusion of salary expenses of the administrative personnel related to the Solidigm business as well as an increase in the Company's accrued payments under employee profit-sharing arrangements.
- Quality control cost increased by 753.7%, or ₩241 billion, from ₩32 billion in 2021 to ₩273 billion in 2022, primarily due to the Company's decision to separately estimate and record warranty provisions for the amount expected to be paid for product replacement and other customer supporting activities beginning in 2022.
- Amortization expenses decreased by 21.2%, or ₩112 billion, from ₩526 billion in 2021 to ₩415 billion in 2022, primarily due to a decrease in amortization of capitalized development costs related to DRAM, NAND flash and CMOS image sensor production technologies.

The Company's selling and administrative expenses as a percentage of total revenue increased from 15.2% in 2021 to 19.8% in 2022.

Operating Profit

Primarily due to the factors described above, the Company's operating profit decreased by 45.1%, or ₩5,601 billion, from ₩12,410 billion in 2021 to ₩6,809 billion in 2022. The Company's operating profit margin decreased from 28.9% in 2021 to 15.3% in 2022.

Finance Income and Expenses

The following table presents a breakdown of the Company's finance income and expenses and changes therein for 2021 and 2022.

	For the Year Ended December 31,		Changes	
			2021 versus 2022	
	2021	2022	Amount	%
	(In billions of Won)			
Interest income	₩ 22	₩ 90	₩ 67	299.5%
Dividend income	10	2	(8)	(76.1)
Foreign exchange differences	1,693	3,487	1,794	105.9
Others	652	135	(516)	(79.2)
Total finance income	<u>2,378</u>	<u>3,714</u>	<u>1,337</u>	<u>56.2</u>
Interest expenses	260	533	273	105.1%
Foreign exchange differences	1,205	3,892	2,687	223.1
Loss on valuation of long-term investment assets	3	624	621	18,239.9
Others	2	42	41	2,204.0
Total finance expenses	<u>₩1,470</u>	<u>₩5,092</u>	<u>₩3,622</u>	<u>246.4</u>

The Company recognized net finance income of ₩908 billion in 2021 compared to net finance expenses of ₩1,377 billion in 2022, primarily due to the following reasons:

- The Company recognized net gain on foreign exchange differences of ₩489 billion in 2021 compared to net loss on foreign exchange differences of ₩405 billion in 2022, as (i) the Won depreciated against the U.S. dollar at year-end 2021 and further depreciated (to a lesser extent) at year-end 2022 and (ii) the average value of the Won against the U.S. dollar depreciated in 2021 and further depreciated (to a greater extent) in 2022. In terms of the Market Average Exchange Rate, the Won depreciated against the U.S. dollar from ₩1,088.0 to US\$1.00 as of December 31, 2020 to ₩1,185.5 to US\$1.00 as of December 31, 2021, and further depreciated to ₩1,267.3 to US\$1.00 as of December 31, 2022. The Market Average Exchange Rate, which was ₩1,088.0 to US\$1.00 as of December 31, 2020, depreciated during 2021 to an average of ₩1,144.4 to US\$1.00 in 2021 and further depreciated during 2022 to an average of ₩1,292.0 to US\$1.00 in 2022.
- The Company's net loss on valuation of long-term investment assets increased substantially by ₩621 billion, from ₩3 billion in 2021 to ₩624 billion in 2022. Such fluctuation in valuation of investment assets related primarily to the Company's controlling stake in KIOXIA Holdings Corporation. See "Risk Factors – The Company's strategic alliances and investments may not be successful, which may adversely affect its competitive position and impair the Company's ability to achieve its business objectives."
- Interest expenses increased by 105.1%, or ₩273 billion, from ₩260 billion in 2021 to ₩533 billion in 2022, primarily reflecting an increase in the Company's borrowings as well as a general increase in interest rates from 2021 to 2022.

Share of Profit of Equity-accounted Investees

The Company's share of profit of equity-accounted investees decreased by 19.2%, or ₩31 billion, from ₩162 billion in 2021 to ₩131 billion in 2022, primarily due to a decrease in the Company's proportionate net income in SK China Company Limited from ₩111 billion in 2021 to ₩1 billion in 2022, which was offset in part by an increase in the Company's proportionate net income in Magnus Private Investment Co., Ltd. from ₩33 billion in 2021 to ₩99 billion in 2022.

Other Income and Expenses

The following table presents a breakdown of the Company's other income and expenses and changes therein for 2021 and 2022.

	For the Year Ended December 31,		Changes	
			2021 versus 2022	
	2021	2022	Amount	%
(In billions of Won)				
Gain on disposal of property, plant and equipment	₩ 72	₩ 138	₩ 66	91.8%
Gain on disposal of investment property . . .	-	64	64	N.A. ⁽¹⁾
Others	44	39	(5)	(11.3)
Total other income	116	241	125	107.8
Loss on disposal of property, plant and equipment	12	39	27	218.8%
Loss on disposal of trade receivables	5	11	6	107.3
Loss on impairment of intangible assets . . .	44	1,602	1,558	3,558.6
Donation	77	74	(3)	(4.0)
Others	42	75	33	80.5
Total other expenses	₩180	₩1,802	₩1,621	898.7

(1) N.A. means not applicable.

The Company's loss on impairment of intangible assets increased by 3,558.6%, or ₩1,558 billion, from ₩44 billion in 2021 to ₩1,602 billion in 2022. In 2021, the Company recognized loss on impairment of intangible assets of ₩44 billion primarily from capitalization of development costs. In 2022, the Company recognized loss on impairment of ₩1,344 billion related to the Solidigm business. In addition, the Company recognized impairment loss of ₩258 billion for development projects whose recoverable value is less than the book value.

The Company's gain on disposal of property, plant and equipment increased by 91.8%, or ₩66 billion, from ₩72 billion in 2021 to ₩138 billion in 2022. In 2021, the Company recognized gain on disposal of property, plant and equipment of ₩72 billion primarily from sale of idle equipment. In 2022, the Company recognized gain on disposal of property, plant and equipment of ₩138 billion primarily from sales of real estate and idle equipment.

The Company recognized gain on disposal of investment property of ₩64 billion in 2022 related to sale of real estate, compared to no such gain in 2021.

Income Tax Expense

The Company's income tax expense decreased by 53.7%, or ₩2,039 billion, from ₩3,800 billion in 2021 to ₩1,761 billion in 2022, primarily reflecting a 70.2% decrease in profits before income tax, or ₩9,413 billion, from ₩13,416 billion in 2021 to ₩4,003 billion in 2022. The Company's effective tax rate increased from 28.3% in 2021 to 44.0% in 2022. See Note 31 of the notes to the Annual Financial Statements.

Profit for the Year

Primarily due to the factors described above, the Company's profit for the year decreased by 76.7%, or ₩7,375 billion, from ₩9,616 billion in 2021 to ₩2,242 billion in 2022. The Company's net income margin decreased from 22.4% in 2021 to 5.0% in 2022.

LIQUIDITY AND CAPITAL RESOURCES

Capital Resources and Requirements

The Company has traditionally met its working capital and other capital requirements principally from cash provided by operating activities, while raising the remainder of its requirements primarily through long-term and short-term borrowings. The Company expects that these sources will continue to be its principal sources of cash in the future. From time to time, the Company may also generate cash through sale of its holdings in short-term investment assets as well as its treasury shares.

The Company's principal cash requirements or uses have historically been:

- capital expenditures for property, plant and equipment;
- cash required for its operations, including purchases of raw materials, supplies and consumables, research and development expenses, payroll costs and commissions;
- investments and acquisitions, including those in connection with pursuing strategic relationships;
- interest and principal payments on the Company's short-term and long-term borrowings;
- payments of cash dividends to the Company's shareholders; and
- acquisition of treasury shares.

The Company makes substantial capital expenditures annually to support its business goals and objectives, and it plans to continue to invest in enhancing and expanding its production facilities and upgrading its equipment and manufacturing processes. The Company operates in an especially capital-intensive industry that requires continual investments for capacity expansions, equipment upgrades and migration to advanced technologies and manufacturing processes. The Company's cash outflows for acquisition of property, plant and equipment amounted to ₩12,487 billion in 2021, ₩19,010 billion in 2022 and ₩6,600 billion in the first nine months of 2023. The Company currently

expects its capital expenditures in 2023 to be approximately half of its capital expenditures amount in 2022. In 2024, the Company plans to increase its capital expenditures compared to 2023, but minimize such increase taking into consideration market conditions and the Company's financial condition at the time. The Company periodically adjusts its capital expenditure plans on an ongoing basis subject to market demand for the Company's products, the production outlook of the global memory semiconductor industry as well as global economic conditions in general. The Company may delay or not implement some of its announced capital expenditure plans based on its assessment of such market conditions.

Payments of contractual obligations and commitments will also require considerable capital resources. In the ordinary course of its business, the Company routinely enters into commercial commitments for various aspects of its operations, including long-term purchase agreements for raw materials as well as provision of guarantees for indebtedness of its related parties and others. For the Company's contingent liabilities, see Note 30 of the notes to the Interim Financial Statements. The following sets forth the contractual maturities of financial liabilities as of December 31, 2022.

	Payments Due by Period				Total
	Less than 1 year	1 to 2 years	2 to 5 years	More than 5 years	
	(In billions of Won)				
Borrowings ⁽¹⁾	₩ 8,226	₩4,474	₩ 9,530	₩3,172	₩25,401
Lease liabilities	294	264	580	937	2,074
Trade payables	2,186	–	–	–	2,186
Other payables	5,447	96	2,975	–	8,518
Other non-trade payables	1,299	16	11	0	1,326
Other financial liabilities	127	–	–	–	127
Total	<u>₩17,579</u>	<u>₩4,849</u>	<u>₩13,096</u>	<u>₩4,109</u>	<u>₩39,633</u>

(1) Including payments of interest under terms and conditions of borrowing contracts as of December 31, 2022.

From time to time, the Company may make significant investments and acquisitions, including those in connection with pursuing strategic relationships. For example, as described in “Business – Strategic Alliances, Investments and Acquisitions,” the Company participated as a member of the Bain Consortium in its purchase of a controlling stake in Kioxia from Toshiba Corporation in June 2018. As of September 30, 2023, the book value of the Company's investment in SPC 1 was ₩2,897 billion, and the book value of the Company's investment in the convertible bond issued by SPC 2 was ₩2,108 billion, which are accounted for as debt investments and classified as financial assets measured at fair value through profit or loss.

In October 2020, the Company agreed to acquire the NAND flash memory and storage business of Intel. In the first phase of such acquisition completed in December 2021, the Company acquired Intel’s NAND SSD business (including NAND SSD-related intellectual property and employees), as well as the Dalian Manufacturing Facility, for US\$6.6 billion. The Company created a subsidiary in the United States called Solidigm to operate the acquired business. In the second phase, the Company is expected to acquire the remaining assets, including the intellectual property related to the manufacture and design of NAND flash wafers, NAND flash wafers-related research and development employees and NAND flash wafers-related workforce at the Dalian Manufacturing Facility, for US\$2.2 billion by March 2025. See “Business – Strategic Alliances, Investments and Acquisitions.” The Company plans to finance the second closing of the Intel NAND Business Acquisition through cash and borrowings, as well as consider other financing options.

Cash Flow

The following table sets forth the Company’s cash flows for the periods indicated.

	For the Years Ended December 31,		For the Nine Months Ended September 30,	
	2021	2022	2022	2023
	(In billions of Won)			
Net cash inflow from operating activities . .	₩ 19,798	₩ 14,781	₩ 13,596	₩ 325
Net cash outflow from investing activities . .	(22,392)	(17,884)	(14,576)	(5,695)
Net cash inflow from financing activities . .	4,492	2,822	103	7,398
Effects of exchange rate changes on cash and cash equivalents	184	200	538	117
Net increase (decrease) in cash and cash equivalents	2,082	(81)	(339)	2,145
Cash and cash equivalents at beginning of the period	2,976	5,058	5,058	4,977
Cash and cash equivalents at end of the period	5,058	4,977	4,719	7,122

Cash Flows from Operating Activities

The Company’s net cash inflow from operating activities decreased from ₩13,596 billion in the first nine months of 2022 to ₩325 billion in the first nine months of 2023, primarily reflecting a significant decrease in gross cash flow from its sales activities as discussed in “– Results of Operations – First Nine Months of 2022 Compared to First Nine Months of 2023 – Revenue”. Partially offsetting such impact, the Company recorded cash used in buildup of inventories of ₩4,957 billion in the first nine months of 2022 compared to cash inflow from reduction in inventories of ₩939 billion in the first nine months of 2023, reflecting a slowdown in the Company’s production volume during such period. The Company also recorded a decrease in cash outflow related to income tax paid from ₩2,910 billion in the first nine months of 2022 to ₩1,214 billion in the first nine months of 2023.

The Company’s net cash inflow from operating activities decreased from ₩19,798 billion in 2021 to ₩14,781 billion in 2022, primarily due to (i) an increase in cash outflow related to buildup of inventories from ₩697 billion in 2021 to ₩6,572 billion in 2022, reflecting a slowdown in demand for the Company’s products starting in the second half of 2022 and (ii) an increase in cash outflow related to income tax paid from ₩1,015 billion in 2021 to ₩3,979 billion in 2022. Partially offsetting increases in such cash outflows, the Company recorded cash outflow of ₩2,526 billion related to an increase in trade receivables in 2021 compared to cash inflow of ₩3,342 billion related to a decrease in trade receivables in 2022.

Cash Flows from Investing Activities

The Company's net cash outflow from investing activities decreased from ₩14,576 billion in the first nine months of 2022 to ₩5,695 billion in the first nine months of 2023. This decrease was primarily attributable to a decrease in cash used for acquisition of property, plant and equipment from ₩14,873 billion in the first nine months of 2022 to ₩6,600 billion in the first nine months of 2023. In addition, the Company recorded cash outflow related to acquisitions of business of ₩1,028 billion in the first nine months of 2022 compared to no such cash outflow in the first nine months of 2023. Such impact was partially offset by a decrease in the Company's net cash from sale of short-term investment assets from ₩1,267 billion in the first nine months of 2022 to ₩184 billion in the first nine months of 2023.

The Company's net cash outflow from investing activities decreased from ₩22,392 billion in 2021 to ₩17,884 billion in 2022. This decrease was primarily attributable to a decrease in cash outflow related to acquisitions of business from ₩7,250 billion in 2021 to ₩1,028 billion in 2022. In addition, the Company recorded net cash used in acquisition of short-term investment assets of ₩1,548 billion in 2021 compared to net proceeds from sale of short-term investment assets of ₩2,195 billion in 2022. Such impact was partially offset by an increase in cash used for acquisition of property, plant and equipment from ₩12,487 billion in 2021 to ₩19,010 billion in 2022.

Cash Flows from Financing Activities

The Company's net cash inflow from financing activities increased from ₩103 billion in the first nine months of 2022 to ₩7,398 billion in the first nine months of 2023. This increase was primarily attributable to an increase in net proceeds from borrowings from ₩1,781 billion in the first nine months of 2022 to ₩8,302 billion in the first nine months of 2023. In addition, cash used for the Company's dividend payments decreased from ₩1,475 billion in the first nine months of 2022 to ₩619 billion in the first nine months of 2023.

The Company's net cash inflow from financing activities decreased from ₩4,492 billion in 2021 to ₩2,822 billion in 2022. This decrease was primarily attributable to (i) an increase in dividend payments from ₩805 billion in 2021 to ₩1,681 billion in 2022 and (ii) a decrease in net proceeds from borrowings from ₩5,613 billion in 2021 to ₩4,793 billion in 2022.

Liquidity

The Company had a working capital surplus (defined as current assets net of current liabilities) of ₩12,172 billion as of December 31, 2021, ₩8,890 billion as of December 31, 2022 and ₩10,144 billion as of September 30, 2023. The Company manages its liquidity risk to maintain adequate net working capital by constantly managing projected cash flows. The Company also aims to mitigate liquidity risk by contracting with financial institutions with respect to bank overdrafts, cash pooling and banking facility agreements for efficient management of funds. The Company believes that cash from its operations, current and future financing arrangements (including short-term and long-term borrowing facilities and issuances of debentures) and cash and cash equivalents are likely to be sufficient to satisfy its operating cash requirements, capital expenditure needs and debt service requirements for the foreseeable future.

The Company strives to maintain a sound capital structure, and it monitors capital on the basis of its debt-to-equity ratio and net borrowing ratio. The following table sets forth the Company's debt-to-equity ratio and net borrowing ratio as of the dates indicated:

	As of December 31,		As of
	2021	2022	September 30, 2023
	(In billions of Won, except percentages)		
Total liabilities	₩ 34,155	₩ 40,581	₩ 46,818
Total equity	62,191	63,291	55,232
Cash and cash equivalents, short-term financial instruments and short-term investment assets	8,673	6,409	8,531
Total borrowings	17,624	22,995	31,559
Debt-to-equity ratio ⁽¹⁾	54.92%	64.12%	84.77%
Net borrowing ratio ⁽²⁾	14.39%	26.21%	41.69%

(1) Ratio of total liabilities divided by total equity.

(2) Ratio of (i) total borrowings minus cash and cash equivalents, short-term financial instruments and short-term investment assets divided by (ii) total equity.

The Company believes that it has various options to meet its financing needs, including short-term and long-term borrowing facilities and issuances of debentures. However, the ability of the Company to continue to obtain debt financing at a reasonable cost will depend on several factors, some of which may be outside its control, including general economic conditions, the liquidity of the Korean and international capital markets and commercial banking markets and the Government's policies regarding Won and foreign currency borrowings. These policies can affect the Company's ability to borrow and gain access to domestic and foreign capital markets and commercial banking markets or restrict the use of proceeds of any financing, and can require the Company to incur indebtedness from other sources that entail higher interest rates or shorter maturities.

From time to time, the Company may also generate cash from sale of its treasury shares. As of September 30, 2023, the Company held 39,886,176 treasury shares (including 20,126,911 treasury shares potentially subject to conversion into common shares of the Company as of September 30, 2023, pursuant to the terms of the convertible bonds issued by the Company in April 2023), representing approximately 5.5% of the total issued common shares of the Company.

MARKET RISKS

Market risk is the risk of loss related to adverse changes in market prices, including (i) foreign exchange risk, (ii) interest rate risk and (iii) price risk associated with the Company's investments in equity and debt securities. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. Risk management is carried out by the Company's corporate finance division in accordance with policies approved by the board of directors. The Company's corporate finance division identifies, evaluates and hedges financial risks in close cooperation with the Company's operating units. The board of directors provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments and investment of excess liquidity.

Foreign Exchange Risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the U.S. dollar, Chinese Yuan, Euro and Japanese Yen. The foreign exchange risk of the Company primarily arises from future commercial transactions, recognized assets and liabilities in foreign currencies, and net investments in foreign operations. From time to time, the Company also uses derivative instruments to partially hedge its foreign exchange risk. In the past, the Company has selectively entered into fixed-to-fixed cross-currency swaps and floating-to-fixed cross-currency interest rate swaps to partially hedge foreign exchange risk relating to bonds and borrowings.

As of September 30, 2023, the effect on the Company's profit before income tax as a result of strengthening or weakening of the foreign currencies by 10% is as follows:

	If Strengthened by 10%	If Weakened by 10%
	(In billions of Won)	
U.S. dollar	₩(678)	₩678
Japanese Yen	(59)	59
Chinese Yuan	28	(28)
Euro	(17)	17

Interest Rate Risk

Interest rate risk is defined as the risk that the interest expenses arising from borrowings will fluctuate because of changes in future market interest rates. The Company is exposed to interest rate risk on its existing floating rate borrowings and on additional debt financings that the Company may periodically undertake for various reasons, including capital expenditures and refinancing of the Company's existing borrowings. A rise in interest rates will increase the cost of its existing variable rate borrowings.

As of September 30, 2023, if interest rates on borrowings were 100 basis points higher/lower with all other variables held constant, profit before income tax for the nine-month period would have been ₩82 billion lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings (except for floating-rate borrowings amounting to ₩546 billion under floating-to-fixed cross-currency interest rate swap agreements and ₩100 billion under an interest rate swap agreement) and interest income on floating rate financial assets.

Security Price Risk

The Company's investment portfolio consists of direct and indirect investments in listed and non-listed equity securities as well as debt securities. Such securities are exposed to security price risk. As of September 30, 2023, the book value of the Company's short-term investment assets was ₩894 billion. As of such date, the book value of the Company's long-term investment assets was ₩5,486 billion, which included assets related to the Company's participation as a member of the Bain Consortium in its purchase of a controlling stake in Kioxia from Toshiba Corporation in June 2018. As of September 30, 2023, the book value of the Company's investment in SPC 1 was ₩2,897 billion, and the book value of the Company's investment in the convertible bond issued by SPC 2 was ₩2,108 billion, which are accounted for as debt investments and classified as financial assets measured at fair value through profit or loss.

BUSINESS

OVERVIEW

The Company is one of the world's largest memory semiconductor companies and engages in the design, manufacture and sale of advanced memory semiconductors. In the DRAM market, the Company is ranked second globally based on revenue with a market share of 31% in the first nine months of 2023, according to market research conducted by Omdia. In addition, the Company was the third largest supplier of NAND flash memory in terms of revenue, with a worldwide market share of 17% in the first nine months of 2023, according to Omdia. The Company's memory products can be used in virtually all electronic devices, including PCs, servers, graphic cards, mobile devices such as smartphones and tablets, and other consumer electronics products. The Company's product portfolio also includes non-memory semiconductors, including CMOS image sensors that are used to perform the role of electronic film in digital photographing devices such as smartphones, tablets, PC laptops and surveillance cameras. The Company has also been engaging in the foundry business through SK hynix system ic, a wholly-owned subsidiary, and Key Foundry, a wholly-owned subsidiary acquired by the Company in August 2022.

The Company sells a wide variety of DRAM and NAND flash memory products with various configuration options, architectures and performance characteristics tailored to meet application- and customer-specific needs. The Company believes that it is one of the world's leading companies in developing DRAM with advanced specifications, particularly those relating to higher density, faster data-processing speed and lower power consumption. The Company is continually developing higher-density modules, SSDs and other customized DRAM and NAND flash memory products that are optimized for use in specific applications. In particular, the Company offers next-generation graphic memory products in HBM configuration. HBM is designed to meet the greater data-processing speed requirements of graphics applications that incorporate deep learning and artificial intelligence technologies. The Company seeks to strengthen its relationships with leading GPU, PC and game console manufacturers to more effectively meet their needs for customized high-bandwidth graphics memory solutions. The Company believes that offering customized products provides opportunities to mitigate the negative effects of the cyclical nature of the memory products market, and its customized products typically command higher prices than commodity DRAM because of their superior performance and specifically-tailored characteristics.

The Company owns and operates fabs in Icheon and Cheongju, Korea and Wuxi and Dalian, China. The Company also owns and operates assembly and testing facilities for back-end processing of its products in Icheon and Cheongju, Korea and Chongqing, China. As part of the Company's efforts to reduce unit manufacturing costs, improve manufacturing yields and enhance its profitability, the Company periodically phases out the operations of its older fabs and also upgrades them to new fabs that implement more advanced processing technologies. In addition to regular maintenance and enhancement of existing fabs, the Company began mass production operations of its M16 fab in Icheon, Korea starting in the first quarter of 2021. In October 2022, the Company began construction of a new extension fab called M15X in Cheongju. As part of its efforts to ensure its long-term competitiveness, the Company has also announced initiatives to construct an integrated industrial complex in Yongin, Korea for its next generation of fabs and research and development facilities.

In order to maintain its technological leadership, as well as to access new markets for its products, the Company engages in strategic initiatives, including entering into joint ventures and joint product development and supply agreements. From time to time, the Company may also acquire equity stakes in other industry players to further strengthen its business relationships as well as acquire complementary businesses that further strengthen the Company's leading position in the industry. In October 2020, the Company agreed to acquire the NAND flash memory and storage business of Intel. In the first phase of such acquisition completed in December 2021, the Company acquired Intel's NAND SSD business (including NAND SSD-related intellectual property and employees), as well as the Dalian Manufacturing Facility, for US\$6.6 billion. The Company created a subsidiary in the United States called Solidigm to operate the acquired business. In the second phase, the Company is expected to acquire the remaining assets, including the intellectual property related to the manufacture and design of NAND flash wafers, NAND flash wafers-related research and development employees and NAND flash wafers-related workforce at the Dalian Manufacturing Facility, for US\$2.2 billion by March 2025. See "Business – Strategic Alliances, Investments and Acquisitions."

The Company's revenue was ₩42,998 billion in 2021, ₩44,622 billion in 2022, ₩36,950 billion in the first nine months of 2022 and ₩21,460 billion in the first nine months of 2023. The Company recorded profit for the year of ₩9,616 billion in 2021 and ₩2,242 billion in 2022, and profit for the period of ₩5,976 billion in the first nine months of 2022 and loss for the period of ₩7,758 billion in the first nine months of 2023. The Company had total assets of ₩103,872 billion and total equity of ₩63,291 billion as of December 31, 2022 and total assets of ₩102,049 billion and total equity of ₩55,232 billion as of September 30, 2023.

HISTORY

In 1983, the Company's predecessor, Hyundai Electronics Industries Co., Ltd. ("Hyundai Electronics Industries"), entered the memory semiconductor industry with the construction of its first fab in Icheon, Korea. In December 1996, Hyundai Electronics Industries became a public company through an initial public offering and listing of its common shares on the KRX KOSPI Market. In May 1999, Hyundai Electronics Industries acquired the memory semiconductor business of the LG Group, and such business was subsequently merged into Hyundai Electronics Industries.

In response to a substantial decline in global DRAM prices as a result of worldwide oversupply, Hyundai Electronics Industries underwent a corporate restructuring starting in 2001, including divestment of non-core businesses and a restructuring of its debt through debt cancellations, extensions of maturities and reductions of interest rates as well as a debt-to-equity swap with its creditors. In March 2001, Hyundai Electronics Industries changed its name to Hynix Semiconductor Inc. ("Hynix Semiconductor"), and the Korea Fair Trade Commission approved its disaffiliation from the former Hyundai Group in August 2001. In February 2012, the former creditors of Hynix Semiconductor sold their remaining interest in the Company to SK Telecom Co., Ltd. ("SK Telecom"). Hynix Semiconductor changed its name to SK hynix Inc. in March 2012. As of September 30, 2023, SK Square Co., Ltd., which was demerged from SK Telecom in 2021, held a 20.1% interest in the Company.

PRODUCTS AND APPLICATIONS

The Company sells a wide variety of DRAM and NAND flash memory products with various configuration options, architectures and performance characteristics tailored to meet application- and customer-specific needs. The Company's product portfolio also includes non-memory semiconductors, including CMOS image sensors that are used to perform the role of electronic film in digital photographing devices such as smartphones, tablets, PC laptops and surveillance cameras. The Company has also been engaging in the foundry business through SK hynix system ic, a wholly-owned subsidiary, and Key Foundry, a wholly-owned subsidiary acquired by the Company in August 2022.

The following table sets forth the Company's revenue by principal product category and related percentage data for the periods indicated.

	Year Ended December 31,				Nine Months Ended September 30,			
	2021		2022		2022		2023	
	(in billions of Won, except percentages)							
DRAM	₩30,600	71.2%	₩28,169	63.1%	₩23,594	63.9%	₩13,418	62.5%
NAND Flash	10,529	24.5	14,184	31.8	11,819	32.0	6,354	29.6
Other Products	1,869	4.3	2,269	5.1	1,536	4.2	1,687	7.9
Total	₩42,998	100.0%	₩44,622	100.0%	₩36,950	100.0%	₩21,460	100.0%

DRAM

DRAM is a type of random access memory semiconductor and is the highest density and lowest cost per bit memory component available for high-speed digital data storage and retrieval. Sales of DRAM accounted for 71.2% of the Company's total revenue in 2021, 63.1% in 2022 and 62.5% in the first nine months of 2023. The Company offers a wide range of commodity DRAM as well as customized DRAM for applications with higher performance requirements that are sold at higher prices. The Company's customized DRAM is used primarily in servers as well as graphics, mobile and other consumer electronics applications.

PC Memory. The Company offers commodity DRAM that is primarily used in the PC industry. The Company's representative memory module products are offered in densities ranging from (i) 4 gigabyte ("GB") to 32 GB in a Double Data Rate 4 Synchronous DRAM ("DDR4") configuration and (ii) 8 GB to 32 GB in a Double Data Rate 5 Synchronous DRAM ("DDR5") configuration that offers higher performance, lower power consumption and better resiliency compared to DDR4. In the past, the introduction of new or updated Windows operating systems has resulted in the upgrading of PCs, which in turn has increased demand for commodity DRAM. In recent years, the increase in popularity of chromebooks that are designed for the education market, PCs specifically designed for online games and multi-function ultrabook laptops that require higher density memory has contributed to an increase in demand for the Company's PC memory products.

Server Memory. Data centers that provide cloud computing services utilize the Company's high-density customized DRAM memory modules that are specifically designed for servers. Demand for such products is also driven by the growing popularity of analytics applications based on artificial intelligence and machine learning technologies that require sophisticated big data cloud computing, as well as the build-out of 5G mobile infrastructure utilizing edge computing paradigms that bring computation and data storage closer to the location where they are needed to improve response time and save bandwidth. The Company's representative server memory module products are offered in densities ranging from 16 GB to 256 GB in a DDR4 and DDR5 configuration.

Graphic Memory. In recent years, the increasing popularity of high-resolution online games and 4K and 8K video content streaming as well as production of online media content and cinematic 3D motion graphics have contributed to a steady increase in demand for graphic memory products that are primarily used in graphics processing units (“GPU”) and other graphics cards. The Company’s representative graphic memory products are offered in densities ranging from 8 gigabit (“Gb”) to 16 Gb in a Graphics DDR 6 Synchronous DRAM (“GDDR6”) configuration. The Company also offers next-generation graphic memory products with densities ranging from 8 GB to 24 GB in HBM configuration, including HBM3 (generation 3) and HBM3E (general 3 extension). HBM is designed to meet the greater data-processing speed requirements of graphics applications that incorporate deep learning and artificial intelligence technologies. The Company seeks to strengthen its relationships with leading GPU, PC and game console manufacturers to more effectively meet their needs for customized high-bandwidth graphics memory solutions.

Mobile Memory. The Company’s mobile memory products are designed to have low-power and high-bandwidth features that are optimized for use in mobile devices such as smartphones and tablets. Although growth in global sales volume of smartphones has decreased in recent years, the Company believes that increases in memory density per device will continue to contribute to growth in demand for mobile memory products. The Company’s representative mobile memory products are offered in densities ranging from (i) 3 GB to 12 GB in a Low-Power Double Data Rate (“LPDDR”) 4X configuration and (ii) 8 GB to 24 GB in a LPDDR5X configuration that provides faster data-processing speed while consuming less power. The demand for high-density mobile memory products is expected to increase in the future, driven by artificial intelligence and augmented reality applications and expansion of other content offered through 5G mobile services, as well as enhancements of functions in high-end smartphones such as the use of multiple cameras. The Company also offers a lineup of package-on-package and multi-chip package solutions to more effectively address the requirements of next-generation mobile devices.

Consumer Memory. The Company offers customized DRAM for use in various consumer electronics devices such as digital televisions, set-top boxes for Internet protocol televisions (“IP-TV”), smart speakers, car navigation systems and other digital appliances that connect to the Internet. The Company designs its consumer memory products to meet the specific requirements of its customers and offers a full lineup of standardized to highly customized products in various specifications, including densities of 4 Gb in a DDR3 configuration, from 8 Gb to 32 Gb in a DDR4 configuration, as well as LPDDR4/4X and LPDDR5/5X configurations and specialty industrial temperature and automotive temperature models. The Company believes that the increasing popularity of high-resolution video content and the launch of 5G mobile services will contribute to growth in demand for consumer memory products that are necessary for digital devices.

NAND Flash Memory

NAND flash memory is a non-volatile memory device, which retains memory content even when power is turned off. Sales of NAND flash memory products accounted for 24.5% of the Company’s total revenue in 2021, 31.8% in 2022 and 29.6% in the first nine months of 2023. In the past, the Company sold NAND flash memory products for use in portable devices with storage needs, such as USB drives and digital still cameras. In more recent years, the increasing popularity of more advanced smartphones and tablets with multimedia functions as well as increases in consumption of high-resolution content have contributed to growth in demand for NAND flash memory products. In addition, NAND flash memory-based SSDs, which provide faster and more reliable data access and

consume less power compared to hard disk drives, have replaced hard disk drives as the main storage device for laptops and servers. Enterprise use of SSDs is expected to increase further as cloud computing services offered by data centers and “Internet of Things” (“IoT”) applications with higher storage requirements and real-time data-processing needs continue to evolve.

The Company offers a wide range of NAND flash memory products in various formats, including Universal Flash Storage (“UFS”) formats in densities ranging from 64 GB to 1 terabyte (“TB”), embedded Multi Media Card formats in densities ranging from 8 GB to 64 GB, and raw NAND in single-level cell, multi-level cell and triple-level cell formats. In order to more effectively respond to evolving market trends, the Company continues to invest in enhancing its 3D NAND technology, which enables NAND flash memory cells to be stacked vertically in multiple layers, and is working toward transitioning its mass production of NAND flash memory products from utilizing 3D 176 layers to 3D 238 layers technology. In the SSD market, the Company’s representative SSD products for enterprise customers are offered in densities ranging from 480 GB to 15.36 TB, and the Company’s representative SSD products are offered in densities ranging from 256 GB to 2 TB.

In December 2021, the Company completed the first phase of its acquisition of the NAND flash memory and storage business of Intel, which includes the NAND SSD business and the NAND component and wafer business as well as the Dalian Manufacturing Facility. With the Intel NAND Business Acquisition, the Company believes it has enhanced the competitiveness of its storage solution (including enterprise SSDs) capabilities in the rapidly growing NAND flash memory market. The Company created a subsidiary in the United States called Solidigm to operate the acquired business. Solidigm utilizes its industry-leading NAND SSD and quadruple level cell NAND flash memory technology and manufacturing capability to offer a portfolio of advanced 3D NAND flash memory solutions, particularly high-end enterprise SSDs. In 2023, the Company and Solidigm developed PCIe Gen 5 enterprise SSDs PS1010 and PS1030, which combine the Company’s 176-layer NAND flash with Solidigm’s SSD controller and firmware expertise.

Other Products and Services

CMOS Image Sensors. CMOS image sensors are a type of imaging device that performs the role of electronic film in digital photographing devices such as smartphones, tablets, PC laptops and surveillance cameras. Cost and image quality are key to success in the image sensor market. CMOS image sensors offer a distinct form factor, cost, speed and operating power advantage over charge-coupled devices, and enhancements in image quality have led to applications in additional devices such as medical equipment, DSLR cameras, camcorders and automobiles. In recent years, the increasing sophistication of camera functions in smartphones, including use of triple and quadruple cameras in high-end models, has also contributed to growth in demand for CMOS image sensors.

The Company is currently focused on the smartphone market and the PC laptop market, which share similar specifications and requirements. The Company’s representative CMOS image sensor products are offered in resolutions ranging from 5 megapixels to 64 megapixels utilizing advanced back-side illumination technology, with 50 megapixels resolution mainly offered in the rear and front cameras of smartphones. The Company developed 0.64um pixel technology in 2022, and has further narrowed the technological gap with global industry leaders in the CMOS image sensors market by expanding the Company’s portfolio of higher-resolution products. The Company is also pursuing additional growth opportunities and striving to diversify applications of its products in new markets such as biotechnology, surveillance cameras and automobiles.

Foundry Services. The Company engages in the foundry business through SK hynix system ic, a wholly-owned subsidiary, and Key Foundry, a wholly-owned subsidiary acquired by the Company in August 2022.

CUSTOMERS, SALES AND MARKETING

The Company has a global customer base consisting of leading manufacturers and original equipment manufacturers (“OEMs”) of consumer electronics products, communications equipment, PCs, servers and workstations. In 2022, two of the Company’s customers each represented more than 10%, and in the aggregate 23.0%, of the Company’s total revenue. In the first nine months of 2023, none of the Company’s customers represented more than 10% of the Company’s total revenue. In addition to establishing a strong long-term customer base, the Company actively seeks to expand its customer base by targeting emerging markets.

The following table sets forth the Company’s revenue by region based on the location of selling entities and related percentage data for the periods indicated.

	Year Ended December 31,				Nine Months Ended September 30,			
	2021		2022		2022		2023	
	(in billions of Won, except percentages)							
United States	₩17,144	39.9%	₩23,961	53.7%	₩19,248	52.1%	₩9,736	45.4%
China	15,730	36.6	12,210	27.4	10,778	29.2	6,621	30.9
Asia ⁽¹⁾	7,023	16.3	5,615	12.6	4,689	12.7	3,059	14.3
Europe	1,638	3.8	1,609	3.6	1,289	3.5	582	2.7
Korea	1,462	3.4	1,226	2.7	944	2.6	1,462	6.8
Total	₩42,998	100.0%	₩44,622	100.0%	₩36,950	100.0%	₩21,460	100.0%

(1) Other than China and Korea.

Sales outside of Korea are primarily conducted through the Company’s ten overseas sales subsidiaries located in the United States, Germany, the United Kingdom, Japan, Singapore, India, Taiwan and China. The sales subsidiaries typically sell directly to the end users of the Company’s products. The Company also relies on semiconductor product distributors depending on the characteristics of the customer base and geographic location. Such distributors typically carry a wide variety of different products, including the Company’s products as well as those of its competitors, in inventory for onward sale to their customers. The Company’s sales subsidiaries have significantly reduced their dependence on distributors, relying more on their internal sales and marketing teams to sell directly to the Company’s end customers.

In line with the increase in segmentation within the DRAM market and the growth of applications that require tailored memory solutions, the Company has focused its sales and marketing activities on expanding its base of long-term customers who look to the Company as their preferred supplier of customized memory products. The Company believes having a diversified portfolio makes it less susceptible to variations in demand in different market segments, especially in the commodity DRAM market. The Company’s customers look for reliability, scale and timely delivery, and the Company believes that its close relationships with strategic customers who are leaders in their respective fields enable the Company to anticipate market trends and evolving customer product needs. The Company typically enters into mutually non-binding long-term supply agreements of one to three years with its customers, which usually do not establish fixed pricing and volume commitments. The Company’s existing long-term arrangements do not restrict the Company from entering into similar arrangements with other customers.

The Company manages its accounts receivable and credit exposure to customers by establishing credit limits for each customer in accordance with the Company's internal credit guidelines. The Company maintains three general categories of customer accounts:

- Strategic accounts for global OEMs: the Company's chief financial officer conducts a comprehensive review of all strategic account customers at least once each year. The chief financial officer has discretion to adjust credit limits for all strategic account customers, including downgrades.
- Core accounts for leading OEMs: core accounts are monitored, and credit limits adjusted, by the respective core account managers at the Company's headquarters who report directly to the chief financial officer at least once each year.
- Local accounts for smaller-scale OEMs and distributors: local accounts are required to pay in cash and customers are typically unable to obtain credit in excess of the value of the collateral provided, such as letters of credit.

The Company considers each customer's current and potential contribution to its overall sales, industry leadership and product technology as well as other quantitative and qualitative criteria to determine individual credit limits. The Company also takes certain measures, such as factoring arrangements and procurement of insurance for trade receivables, to protect the Company from excessive exposure to credit risks. To date, the Company has not experienced any material problems relating to customer payments.

PRODUCT WARRANTY

Despite the Company's quality control efforts, because the design and manufacturing process for memory semiconductors is highly complex, the Company may ship products that do not fully comply with customer specifications, contain defects or are otherwise incompatible with their intended uses. Under the Company's general terms and conditions of sale and in accordance with industry practice, the Company provides a one-year warranty that is usually limited to repair or replacement of defective items or return of, or a credit with respect to, amounts paid for such items. From time to time, the Company may provide more extensive warranty coverage to certain customers.

STRATEGIC ALLIANCES, INVESTMENTS, AND ACQUISITIONS

The Company continually seeks out opportunities to further its strategic objectives, including by entering into joint ventures and joint product development and supply agreements, to further solidify its market position as a leading semiconductor company in the world. Cooperation in product design, manufacturing and sales and marketing between partner companies has increased in response to the growing diversity and complexity of memory semiconductors and applications, demand for technological enhancements and increasing costs associated with keeping pace with industry developments. The Company believes that its strategic initiatives will not only assist in maintaining and growing its presence in existing markets but also provide the Company with a cost-effective means of accessing new markets, products and technologies.

As part of the efforts to expand the Company's foundry business, the Company acquired Key Foundry in August 2022. From time to time, the Company has also acquired equity stakes in other industry players to further strengthen its business relationships and may do so again in the future. For example, in June 2018, the Company participated as a member of the Bain Consortium in its purchase of a controlling stake in Kioxia from Toshiba Corporation. As a member of the Bain Consortium, the Company invested ₩2,637 billion for an indirect limited partnership interest in SPC 1, which in turn holds an equity interest in Kioxia. In addition, the Company invested ₩1,279 billion to acquire a convertible bond issued by a second special purpose company, SPC 2, which is convertible into an approximately 15.0% equity interest in SPC 2 upon the occurrence of certain specified events. SPC 2 in turn holds an equity interest in Kioxia. As of September 30, 2023, the book value of the Company's investment in SPC 1 was ₩2,897 billion, and the book value of the Company's investment in the convertible bond issued by SPC 2 was ₩2,108 billion, which are accounted for as debt investments and classified as financial assets measured at fair value through profit or loss.

The Company may also pursue acquisition of complementary businesses and technologies rather than through internal development in response to changing competitive pressures.

Intel NAND Business Acquisition

In December 2021, the Company completed the first phase of its acquisition of the NAND flash memory and storage business of Intel, which includes the NAND SSD business and the NAND component and wafer business as well as the Dalian Manufacturing Facility. With the Intel NAND Business Acquisition, the Company believes it has enhanced the competitiveness of its storage solution (including enterprise SSDs) capabilities in the rapidly growing NAND flash memory market. The Company created a subsidiary in the United States called Solidigm to operate the acquired business. Solidigm utilizes its industry-leading NAND SSD and quadruple level cell NAND flash memory technology and manufacturing capability to offer a portfolio of advanced 3D NAND flash memory solutions, particularly high-end enterprise SSDs.

First Phase. In the first phase, the Company acquired Intel's NAND SSD business (including NAND SSD-related intellectual property and employees), as well as the Dalian Manufacturing Facility, for US\$6.6 billion. In connection with closing of the first phase, the Chinese State Administration for Market Regulation granted a conditional business combination approval with certain conditions, including the obligation to maintain a reasonable pricing policy and production level and support the entry of third-party competitors in the Chinese SSD market during the next five years. The Company may apply to waive such conditions after expiration of the five-year period.

Second Phase. In the second phase, the Company is expected to acquire the remaining assets, including the intellectual property related to the manufacture and design of NAND flash wafers, NAND flash wafers-related research and development employees and NAND flash wafers-related workforce at the Dalian Manufacturing Facility, for US\$2.2 billion by March 2025. The second closing is subject to governmental approvals as well as other customary closing conditions and customary termination fees, which may be significant, if the transaction is terminated under certain specified circumstances.

COMPETITION

The Company operates in an intensely competitive market, which has been characterized by erosion of selling prices, frequent product enhancements from changes in technology and relatively short product life cycles. During the past decade, the memory semiconductor industry has experienced consolidation as well as the formation of strategic alliances, such as a joint venture between Kioxia and Western Digital targeting the NAND flash memory market. The Company's major competitors in the DRAM market include Samsung Electronics and Micron Technology. The Company's major competitors in the NAND flash memory market include Samsung Electronics, Kioxia, Micron Technology and Western Digital.

The Company competes in its principal product lines based on the following factors:

- pricing;
- manufacturing costs, yields and product availability;
- product performance, quality and reliability;
- successful and timely development of new products and manufacturing processes;
- ability to deliver in large volumes on a timely basis and the ability to meet changes in the customers' demands;
- marketing and distribution capability;
- customer service, including technical support; and
- brand recognition and financial strength.

Entry into memory semiconductor manufacturing requires substantial capital expenditures and significant technological and manufacturing expertise. Although the Company believes that its existing investment, experience and technological expertise provide "time to market" and economies of scale advantages, the Company faces increasing competition from emerging companies that may significantly expand the scale of their operations, as well as from potential repositioning and expansion by storage solution companies and existing customers that develop memory solutions in-house. In addition, in recent years, various industrialized nations have taken measures to promote high-technology industries, which may intensify the competitive landscape of the semiconductor industry. For example, in August 2022, the U.S. Government enacted the CHIPS and Science Act of 2022, which provides federal aid to promote emerging industries in the United States, including strengthening its domestic semiconductor manufacturing capabilities. Such efforts may incentivize U.S. semiconductor companies to invest in the expansion of their production capabilities. As part of its efforts to promote a robust semiconductor supply chain, the U.S. Government also initiated the Chip 4 Alliance, a new U.S.-Asian semiconductor partnership among the United States, Korea, Japan and Taiwan. Such alliance may lead China and other nations to take measures to more actively develop their semiconductor manufacturing capabilities, which may further intensify competition in the global semiconductor industry.

EQUIPMENT AND SUPPLIERS

Like other memory semiconductor manufacturers, the Company depends on a limited number of manufacturers in the Netherlands, the United States and Japan for its key equipment. The principal pieces of equipment the Company uses to manufacture its semiconductors include steppers, scanners, tracks, etchers, furnaces, wet stations, implanters, chemical vapor deposition, metrology inspection and chemical mechanical planarization equipment. The Company also seeks to maintain testers with the ability to test a variety of different memory semiconductors. In addition to specialized testing equipment, the Company maintains a variety of other types of equipment which are also used in the testing process, such as automated handlers and probers (with special handlers for wafer probing), reformers and PC workstations for use in software development.

The Company generally seeks to obtain testing equipment with similar functionality from various vendors. However, the Company's purchases of high-end equipment are limited to several manufacturers. In periods of high market demand, the lead times from order to delivery of such equipment can be as long as six to twenty-four months. The Company seeks to manage this process through early reservation of appropriate delivery slots and constant communication with its equipment suppliers.

RAW MATERIALS AND SUPPLIES

The raw materials used in the Company's semiconductor fabrication process include polished silicon wafers, chemicals, metals such as titanium and aluminum, gases and subsidiary materials. Wafers are the most significant raw material in terms of cost, representing approximately 10% of the Company's cost of sales in recent years. The other principal raw materials used in assembly include substrates, gold wire, wafer backside lamination tape and printed circuit boards. The Company sources most of its raw materials, including wafers, from suppliers in Korea, Japan and the United States. In addition, the Company's manufacturing processes also require a significant amount of electricity and purified water. In order to obtain reliable electric power and water suppliers, the Company maintains back-up power facilities and water storage facilities.

The Company is not dependent on any one supplier for a substantial portion of its raw material requirements for assembly and testing, and the Company believes that it generally has access to alternative sources of supply for its principal raw materials. However, from time to time, the Company and other semiconductor manufacturers have experienced shortages and increases in lead times for delivery of raw materials, which in turn have resulted in interruptions in production and delivery of products in the past. To minimize the potential for significant interruptions of supplies of principal raw materials, the Company has entered into multi-year supply agreements with its key material suppliers and plans to enter into similar agreements with other major suppliers, as well as diversify the geographic location of key international suppliers and increase sourcing from suppliers in Korea.

The Company's purchasing policy focuses on the capability of a supplier to meet its development and mass production requirements. The Company's principal raw material suppliers are selected on the basis of internal regulations by its engineers, quality control staff and purchase staff. The Company's purchases are generally planned at the end of the year based on the non-binding forecasts provided by its customers. To improve material quality, the Company has also undertaken regular information exchange and joint research and product development with strategic suppliers of raw materials.

MANUFACTURING

Manufacturing Processes

The manufacturing process for DRAM involves etching a hole into the substrate. The front-end production of a semiconductor begins with the mask-making process, in which each layer of the pattern of the circuit is duplicated on a photographic negative, known as a mask, by an electron beam generator. Next, raw silicon wafers are oxidized and modified to form transistors, and semiconductor materials are applied to the wafer in multiple layers through a series of patterning, etching, deposition and implantation processes. Each of these processes is conducted in a highly controlled, clean environment. Dust particles, equipment errors, minute impurities in materials or defects in photo masks cause wafers to be discarded or chips to be non-functional.

The back-end production process involves inspection of individual semiconductors, called “chips” or “dies.” Chips that fail this test are either scrapped or repaired by laser trimming. A wafer is then cut into individual dies. Good chips are connected to a conductive lead frame through wire bonding and the bonded semiconductors are then encapsulated using a plastic mold compound or a ceramic casing. These packaged semiconductors are fully tested for functionality and reliability by specialized testing equipment.

The manufacturing process for NAND flash memory is substantially similar to that of DRAM, but does not include the capacitor manufacturing step. Consequently, NAND flash memory production, as compared to that of DRAM, results in increased efficiency in utilizing fab space, reduced yield risk and reduced turn-around time.

Due to the competitive nature of the memory semiconductor market, manufacturers are continually seeking the most optimal production methods. The five most important determinants of competitive advantage are:

Yield. Yield means the percentage of “good dies” per wafer. Manufacturing processes and quality control need to be optimized to generate maximum yield.

Line width/layer. Line width is the minimum feature size or distance between two features (lines) on a chip. Transitioning to finer line-widths is important in order to increase the number of dies per wafer and eventually reduce cost per bit. Leading manufacturers are currently manufacturing at line widths of 1z nanometer class and 1a nanometer class technology for DRAM and 3D 176 layers technology for NAND flash memory products. Different manufacturers define line width differently and there may be slight variations in feature size for any given line-width process technology.

Wafer size. The number of chips produced depends on the technology used and the size of the wafer. Semiconductor manufacturers, including the Company, manufacture using wafers with a diameter of 12 inches.

Density. Density is measured by the number of memory cells per chip. For a given wafer size, assuming the same process technology, doubling the density doubles the area used on the wafer and the price received upon selling the chip. The assembly and final testing costs remain the same.

Cycle time. Semiconductor manufacturing is composed of several hundred wafer processing steps. As more advanced technology such as finer line width is adopted, additional manufacturing process steps are required, which results in lengthened cycle time. Controlling the level of cycle time is becoming more critical in order to maintain competitiveness.

Manufacturing Facilities

The Company owns and operates fabs located in Icheon and Cheongju, Korea and Wuxi and Dalian, China. The Icheon facility is located approximately 80 kilometers from Seoul. The Cheongju facility is located approximately 140 km from Seoul. The Wuxi facility is located approximately 140 kilometers from Shanghai. The Dalian facility, which was purchased from Intel in December 2021 and is operated by the Company’s subsidiary, Solidigm, is located in the third-most populous city of Northeast China on the southern tip of the Liaodong peninsula.

The following table sets forth information regarding the Company’s fabs as of September 30, 2023:

Fab	Product Category	Commencement of Operations
Icheon, Korea		
M10	CMOS image sensors	Third quarter of 2005
M14	DRAM and NAND flash	Third quarter of 2015
M16	DRAM	First quarter of 2021
Cheongju, Korea		
M11	NAND flash	Second quarter of 2008
M12	NAND flash	Second quarter of 2012
M15	NAND flash	Fourth quarter of 2018
Wuxi, China		
C2	DRAM	Third quarter of 2006
C2F	DRAM	First quarter of 2019
Dalian, China		
Dalian	NAND	Purchased from Intel in December 2021 ⁽¹⁾

(1) For a discussion of the Intel NAND Business Acquisition, see “Business – Strategic Alliances, Investments and Acquisitions – Intel NAND Business Acquisition.”

The Company’s fabs operate 365 days a year, 24 hours a day on a three-shift, eight hours per shift basis. Maintenance at each facility is performed concurrently with production. The Company’s fabs are staffed with engineers, technicians and other employees whose duty is to monitor design and production processes to ensure high quality. These employees include line inspectors who work with members of the production staff to conduct examination, testing and fine-tuning of products during the production process. Quality control personnel are involved from initial design to production. The Company may periodically adjust its production capacity based on market demand for the Company’s products, the production outlook of the global memory semiconductor industry as well as global economic conditions in general.

The Company also owns and operates assembly and testing facilities for back-end processing of its products in Icheon and Cheongju, Korea and Chongqing, China. The Company also utilizes a factory operated by HITECH Semiconductor (Wuxi) Co., Ltd. (“HITECH Semiconductor”) in Wuxi, China, a joint venture company established by the Company and Wuxi Taiji Industry Co., Ltd. (“Wuxi Taiji Industry”). The Company holds a 45.0% interest in the joint venture.

As part of the Company's efforts to reduce unit manufacturing costs, improve manufacturing yields and enhance its profitability, the Company periodically phases out the operations of its older fabs and also upgrades them to new fabs that implement more advanced processing technologies. In addition to regular maintenance and enhancement of existing fabs, the Company began mass production operations of its M16 fab in Icheon, Korea starting in the first quarter of 2021. In August 2020, the Company began mass production at an 8-inch foundry plant in Wuxi, China, in which it owns a 50.1% interest. In October 2022, the Company began construction of a new extension fab called M15X in Cheongju. As part of its efforts to ensure its long-term competitiveness, the Company has also announced initiatives to construct an integrated industrial complex in Yongin, Korea for its next generation of fabs and research and development facilities.

The Company's cash outflows for acquisition of property, plant and equipment amounted to ₩12,487 billion in 2021, ₩19,010 billion in 2022 and ₩6,600 billion in the first nine months of 2023. The Company currently expects its capital expenditures in 2023 to be approximately half of its capital expenditures amount in 2022. In 2024, the Company plans to increase its capital expenditures compared to 2023, but minimize such increase taking into consideration market conditions and the Company's financial condition at the time. The Company periodically adjusts its capital expenditure plans on an ongoing basis subject to market demand for the Company's products, the production outlook of the global memory semiconductor industry as well as global economic conditions in general. The Company may delay or not implement some of its announced capital expenditure plans based on its assessment of such market conditions.

RESEARCH AND DEVELOPMENT

The Company competes in an industry characterized by rapid technological changes. The Company believes that it must continue to develop technologically advanced products and manufacturing processes in order to remain competitive in the memory semiconductor industry. The Company's main research and development facilities are located in Icheon, Korea and the Company engages in various research and development activities, including in the areas of advanced process development, circuit and layout design, enhancement of manufacturing processes, process integration, photo mask design and development, physical and electrical analysis and simulation and modeling. The Company incurred expenditures on research and development of ₩3,914 billion in 2021, ₩4,804 billion in 2022 and ₩3,069 billion in the first nine months of 2023. Of such amounts, the Company capitalized development costs of ₩363 billion in 2021, ₩329 billion in 2022 and ₩286 billion in the first nine months of 2023 as intangible assets.

The Company has entered into a number of licensing and cross-licensing agreements with other manufacturers pursuant to which it obtains access to advanced technologies for incorporation into its own manufacturing processes. See “– Patents and Licensed Technologies.”

PATENTS AND LICENSED TECHNOLOGIES

Both the Company's ability to develop its own technologies as well as its access, through licenses or other arrangements, to technologies of other leading international companies are important to the Company's ability to design and manufacture competitive products. The Company's success depends in part on its ability to obtain patents, licenses and other intellectual property rights relating to its products. As of December 7, 2023, the Company and three of its subsidiaries (SK hynix system ic, SK key foundry Inc. (formerly Key foundry, Inc.) and Solidigm) owned 3,709 patents and

106 trademarks in Korea and 17,012 patents and 337 trademarks outside Korea. As of the same date, the Company and its three subsidiaries had 10,832 patent and trademark applications pending in Korea and abroad. The Company's patents are related primarily to semiconductors and semiconductor manufacturing processes.

The Company also licenses a number of patented technologies and processes from third parties under cross-licensing, technical assistance and other agreements. These agreements generally grant the Company a non-exclusive license to manufacture products in return for payment of royalties or a cross-license to manufacture and sell certain products both in Korea and overseas during a fixed but usually renewable term. The Company considers its technical assistance and licensing agreements to be important to its business and believes that it will be able to negotiate additional licenses as needed and renew existing agreements on commercially reasonable terms that will not adversely affect the Company's ability to use the related technology.

ENVIRONMENTAL MATTERS

The Company's manufacturing operations use and generate a variety of chemicals and gases, and the Company is subject to certain regulations relating to the use, storage, discharge and disposal of such chemicals and gases and other emissions and waste. The Company is vigorous in its efforts to engage in environmentally responsible management of, and to protect the environment from damage resulting from, its operations. The Company believes that its levels of pollution control are higher than those mandated by Korean and Chinese government standards. The Company employs licensed environmental specialists for various environmental areas, including air quality, water quality, toxic materials and radiation. The Company also operates a comprehensive environmental management system to eliminate or minimize the possible negative effects of its manufacturing processes on the environment and employees. The Company educates and trains its employees in environmental issues and the proper handling of hazardous substances and requires adherence to corporate guidelines on environmental protection measures.

The Company undergoes periodic inspection by both internal and external inspectors in accordance with ISO 14001 standards to monitor the operation and maintenance of its environmental management system. In order to continue certification, the Company is required to meet annual requirements in environmental policy, compliance, planning, management, structure and responsibility, training, communication, document control, operational control, emergency preparedness and response, record keeping and management review. The Company also undergoes periodic inspection by both internal and external inspectors in accordance with ISO45001 and KOSHA 18001 standards to monitor the operation and maintenance of its occupational health and safety management systems.

In addition, the Company has taken measures to ensure that it is proactively addressing ESG issues. In 2022, the Company developed an ESG strategy framework called "PRISM." The goals for each of PRISM's five pillars by 2030 (unless specified otherwise below) are as follows:

- P – Pursue a brighter future: generate value created from social contribution activities of ₩1 trillion (cumulative); increase gender/nationality diversity of the board of directors to 30%; and reduce the rate of metabolic syndrome by 10%.

- R – Restore the environment: maintain direct and indirect greenhouse gas emissions at 2020 levels; reduce greenhouse gas emissions intensity by 57% (by 2026); achieve 33% renewable energy use rate; conserve cumulative 600 million tons of water; and reduce water withdrawal intensity by 35% (by 2026).
- I – Innovate technology: reduce greenhouse gas emissions from process gases by 40%; improve destruction and removal efficiency of abatement systems to 95%; and double the energy efficiency of high bandwidth memory products.
- S – Synchronize sustainability efforts: ensure all new suppliers sign the Company’s Supplier Code of Conduct; ensure all tier 1 suppliers complete an online ESG self-assessment; and invest ₩3 trillion in technological cooperation to promote shared growth (cumulative).
- M – Motivate our people: triple the ratio of women in executive positions; ensure 10% representation of women in team leader positions; and achieve 200 hours of annual self-development education per employee.

INSURANCE

The Company maintains property insurance policies with reputable insurance companies covering its equipment, manufacturing facilities, research and development facilities and inventory. These insurance policies cover losses due to fire, earthquake, flood and other natural disasters. The Company also maintains liability and casualty insurance policies that cover various incidents, including work-related injuries to employees, product liability, environmental pollution liability and director and officer liability. The Company considers its insurance coverage to be consistent with market practice in the Korean semiconductor industry.

EMPLOYEES

As of September 30, 2023, the Company, on a stand-alone basis, had 32,144 full-time employees. As of December 31, 2022, the Company, on a stand-alone basis, had 31,944 full-time employees, and, on a consolidated basis, had 40,362 full-time employees. The Company’s success depends to a significant extent upon its ability to attract, retain and motivate qualified employees. Such employees, particularly engineers, production managers and technicians in the memory semiconductor industry, are in high demand, and the Company devotes significant resources to identifying, hiring, training, successfully integrating and retaining these employees. The Company seeks to leverage the SK Group’s brand-recognition to attract top-tier talent from both Korea and abroad and strives to maintain an entrepreneurial, productive and innovation-focused culture.

The Company grants annual increases in basic wages and pays periodic bonuses. The Company also provides benefits such as medical insurance, employment insurance and workers’ compensation to its employees as well as providing fringe benefits including housing loans, periodic health checkups and the provision of childcare and recreational facilities. As of September 30, 2023, the Company had three labor unions, all of which have collective bargaining agreements with the Company. As of such date, the two largest of such labor unions had 14,455 of the Company’s employees as their members. In recent years, the Company has not experienced a strike or other material work stoppage and considers labor relations with its workforce to be good.

The Company's full-time employees in Korea, including executive officers as well as non-executive employees, are subject to a pension insurance system pursuant to the National Pension Act of Korea, under which the Company makes monthly contributions to the pension accounts of the employees, and upon retirement, such employees are paid from their pension accounts. The Company contributes an amount equal to 4.5% of an employee's standard monthly wages, and each employee contributes 4.5% of his or her standard monthly wages, into his or her personal pension account. The Company also operates defined benefit and defined contribution retirement pension plans for its employees. For further information regarding the Company's obligations under its retirement pension plans, see Note 20 of the notes to the Annual Financial Statements and Note 18 of the notes to the Interim Financial Statements, appearing elsewhere in this Offering Circular.

LITIGATION AND REGULATORY PROCEEDINGS

The Company is subject to a number of claims and is a party to a number of legal and regulatory proceedings, including those that are incidental to the normal course of its business.

Class Action Lawsuit in the U.S. and Canada

In April 2018, a class-action lawsuit was filed by direct and indirect DRAM purchasers against the Company, SK hynix America Inc. and other DRAM manufacturers at the U.S. District Court for the Northern District of California (the "U.S. District Court"), asserting claims based on alleged price-fixing of DRAM from June 1, 2016 to February 1, 2018. Similar lawsuits were subsequently filed at courts in Canada.

United States. In December 2020 and September 2021, the U.S. District Court dismissed all lawsuits filed by direct and indirect purchasers in the United States. Both the direct and indirect purchasers subsequently appealed. In March 2022, the U.S. 9th Federal Court of Appeals maintained the U.S. District Court's decision to dismiss the lawsuit filed by indirect purchasers in the United States. In June 2022, the direct purchaser plaintiffs in the United States voluntarily agreed to dismiss their appeal.

Canada. In June and November 2021, the Quebec District Court and the Ontario Federal Court decided to dismiss the certification motions filed by the purchasers in Canada. The plaintiffs of both lawsuits subsequently appealed. In January 2023, the Quebec District Court of Appeals maintained the Quebec District Court's decision to dismiss the lawsuit. Similarly, in April 2023, the Ontario Federal Court of Appeals maintained the Ontario Federal Court's decision to dismiss the lawsuit. However, the plaintiffs of the Ontario federal lawsuit subsequently applied for leave to appeal to the Supreme Court of Canada. The Company intends to vigorously defend against such lawsuits.

Anti-trust Investigation in China

In May 2018, the State Administration for Market Regulation of China initiated an investigation into alleged violation of antitrust laws relating to the Company's sales of DRAM in China. The investigation is ongoing, and the Company is currently unable to predict the outcome of the investigation.

MANAGEMENT

BOARD OF DIRECTORS

The board of directors has ultimate responsibility for the management of the Company's business affairs. The Company is required to have six or more directors but the number of directors may not exceed ten directors, and independent directors must constitute a majority of the total number of directors in accordance with the Company's articles of incorporation. All directors are required to be elected by an affirmative vote of a majority of shares present at the general meeting of shareholders, provided that such affirmative votes may not be less than one-fourth of the total issued and outstanding shares. In the election of an Audit Committee member who is also an independent director, shareholders who own voting shares in excess of 3% of the total voting shares may not exercise their voting rights with respect to such excess shares under the Korean Commercial Code and the Company's articles of incorporation. The term of office of a director will expire upon the close of the third ordinary general meeting of shareholders to be convened after his or her inauguration.

Independent directors are non-standing directors elected from among those persons who do not have a special relationship with the Company that would interfere with the exercise of their independent judgment. The Independent Director Nomination Committee recommends the candidates for independent directors to the general meeting of shareholders. The Company's articles of incorporation require that candidates for independent directors have professional knowledge or experience in management, economy, law or relevant technologies and satisfy the eligibility requirements under the Korean Commercial Code and other relevant laws and regulations.

The representative director is a director elected by a majority of the board of directors and is empowered to make decisions regarding the Company's day-to-day business as its chief executive officer. Noh-Jung Kwak and Jung-Ho Park serve as the Company's representative directors.

DIRECTORS AND EXECUTIVE OFFICERS

The tables below set forth information regarding the Company's directors and executive officers as of the date of this Offering Circular. The business address of each of the Company's directors and executive officers is at the Company's registered office at 2091, Gyeongchung-daero, Bubal-eub, Icheon-si, Gyeonggi-do, Korea.

Directors

<u>Name</u>	<u>Position</u>	<u>First Elected</u>	<u>End of Current Term</u>
Jung-Ho Park	Chief Executive Officer and Vice Chairman	March 2017	March 2024
Noh-Jung Kwak	Chief Executive Officer and President	March 2022	March 2025
Sung-Ha Park	Non-executive Director	March 2023	March 2026
Ho-Keun Song	Independent Director	March 2018	March 2024
Hyun-Jae Cho	Independent Director	March 2018	March 2024
Tae-Hwa Yoon	Independent Director	March 2018	March 2024
Yung-Ku Ha	Independent Director; Chairman of the Board	March 2019	March 2025
Ae-Ra Han	Independent Director	March 2020	March 2026
Deog-Kyoon Jeong	Independent Director	March 2023	March 2026
Zeong-Won Kim	Independent Director	March 2023	March 2026

Executive Officers (Other than Directors)

Name	Position	First Elected/ Appointed	Office/Department
Tae-Won Chey	Chairman	February 2012	Chairman
Dong-Sub Kim.	President	August 2018	Communication and External Affairs

COMMITTEES OF THE BOARD OF DIRECTORS

The Company currently has five committees that serve under its board of directors:

- Audit Committee;
- Independent Director Nomination Committee;
- Sustainability Committee;
- Compensation Committee; and
- Strategy Committee.

The Company’s board of directors may establish other committees if it deems them necessary. The Company’s board of directors appoints each member of these committees, except for members of the Audit Committee.

Audit Committee

Under Korean law and the Company’s articles of incorporation, the Company is required to have an Audit Committee consisting of three or more directors at least two-thirds of whom must be independent directors. Members of the Audit Committee are elected by the Company’s shareholders at the general meeting of shareholders.

The Company’s Audit Committee is responsible for reviewing the Company’s business affairs and accounts and monitoring the various matters carried out by the board of directors. The Audit Committee also has the right to request the board of directors to convene an extraordinary general meeting of shareholders by presenting a written statement to the board that sets forth the agenda of the meeting and grounds for convening the meeting. The Company is required to appoint independent auditors selected by its Audit Committee and to report such appointment to the Company’s shareholders at the general meeting of shareholders or to notify the shareholders as of the latest record date of such appointment in writing or by electronic mail or by disclosure on the Company’s website. Currently, the Company’s Audit Committee consists of four directors: Yung-Ku Ha, Tae-Hwa Yoon, Zeong-Won Kim and Ae-Ra Han. The chairman of the committee is Tae-Hwa Yoon.

The committee holds meetings at least once each quarter, and more frequently as needed.

Independent Director Nomination Committee

The Company's Independent Director Nomination Committee is responsible for reviewing and recommending candidates for independent directors for election at the general meeting of shareholders. Currently, the Company's Independent Director Nomination Committee consists of three members: Yung-Ku Ha, Ho-Keun Song and Hyun-Jae Cho. The chairman of the committee is Yung-Ku Ha.

The committee holds regular meetings prior to the annual general meeting of shareholders, and more frequently as needed.

Sustainability Committee

The Company's Sustainability Committee is responsible for overseeing the Company's compliance management system as well as reviewing and resolving matters regarding contributions exceeding ₩1 billion and sustainability management strategies and results. Currently, the Sustainability Committee consists of four members: Noh-Jung Kwak, Ho-Keun Song, Hyun-Jae Cho and Ae-Ra Han. The chairman of the committee is Ho-Keun Song.

The committee holds meetings at least once each quarter, and more frequently as needed.

Compensation Committee

The Company's Compensation Committee is responsible for reviewing and resolving matters related to compensation of the Company's management. Currently, the Compensation Committee consists of eight members: Sung-Ha Park, Ho-Keun Song, Yung-Ku Ha, Hyun-Jae Cho, Tae-Hwa Yoon, Zeong-Won Kim, Deog-Kyoon Jeong and Ae-Ra Han. The chairman of the committee is Ho-Keun Song.

The committee holds meetings prior to the annual general meeting of shareholders and more frequently as needed.

Strategy Committee

The Company's Strategy Committee is responsible for reviewing important strategic partnerships and investments such as equity investments and key licenses. Currently, the Strategy Committee consists of four members: Jung-Ho Park, Yung-Ku Ha, Hyun-Jae Cho and Deog-Kyoon Jeong. The chairman of the committee is Yung-Ku Ha.

The committee holds meetings at least semi-annually, and more frequently as needed.

COMPENSATION OF DIRECTORS

The aggregate compensation, consisting of salaries, defined benefit plan expenses and share-based payment expenses, to the Company's directors, including directors who also held executive officer positions at the Company, was approximately ₩7 billion in 2021 and ₩14 billion in 2022.

As of September 30, 2023, there were no outstanding transactions other than in the ordinary course of business undertaken by the Company in which its directors or executive officers were interested parties. As of September 30, 2023, there were no loans granted by the Company or its subsidiaries to any of its directors and executive officers.

Stock Option Plan

The Company believes that the use of stock options is an important element of its strategy to maintain a highly motivated management team and to align the interests of senior management with those of the Company's shareholders. Under Korean law, subject to certain exceptions, the Company may by special resolution of the shareholders grant stock options to its officers and employees who have contributed or are expected to contribute to the management and technical innovation of the Company, up to an aggregate of 15% of the total number of its then-issued and outstanding shares. Stock options to officers and employees other than directors may also be granted pursuant to a resolution of the Company's board of directors in an amount not exceeding the upper limit provided in the applicable laws, which is within 10% of the total number of Company's then-issued and outstanding shares. In such case, the Company is required to obtain the approval for the granting of stock options by the first general meeting of the shareholders that is convened after such granting of stock options. As of September 30, 2023, the Company had outstanding stock options in respect of an aggregate of 438,360 common shares.

SHARE OWNERSHIP

The following table sets forth information relating to the Company's shareholder composition as of September 30, 2023:

Shareholder	Number of Common Shares	Ownership Percentage
SK Square Co., Ltd.	146,100,000	20.1%
National Pension Service ⁽¹⁾	57,523,599	7.9
Others	484,492,590	66.6
Treasury shares	39,886,176	5.5
Total issued and outstanding common shares	728,002,365	100.0%

(1) As of August 2, 2023.

Except as described above, no other person or entity known by the Company to be acting in concert, directly or indirectly, jointly or severally, owned 5% or more of the Company's issued and outstanding common shares or exercised control or could exercise control over the Company as of the date of this Offering Circular.

SK GROUP

The SK Group is Korea's second largest business group in terms of combined assets as of December 31, 2022, according to the Korea Fair Trade Commission, and is comprised of approximately 198 companies. As of December 31, 2022, the total assets of the member companies of the SK Group amounted to approximately ₩327 trillion, according to the Korea Fair Trade Commission. The SK Group has played a key part in the development of the Korean economy, encouraged by the Government's focus on export-oriented industrialization.

Founded in the early 1950s as a textile manufacturer, the SK Group has evolved into a major business group, with interests in the energy, chemical, semiconductor, information technology, telecommunications, construction, logistics and service industries. SK Inc. became the holding company of the group on July 1, 2007. Member companies of the SK Group are organized into four sub-groups: the green group, the digital group, the advanced materials group and the biopharmaceuticals group. The following chart shows select member companies of the SK Group as of September 30, 2023:

Green	Digital	Advanced Materials	Biopharmaceuticals
SK Innovation	SK Square	SK hynix	SK Biopharmaceuticals
SK E&S	SK Telecom	SK Siltron	SK Pharmteco
SK Ecoplant	SK Networks	SK Inc. Materials	SK Bioscience
SK Discovery	SK Inc. C&C	SKC	
SK Chemicals	SK Broadband		
SK Gas			
SK Energy			
SK Geo Centric			
SK On			
SK Enmove			
SK IE Technology			
SK Incheon Petrochem			
SK Trading International			
SK Earthon			

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

The Company engages from time to time in various transactions with related parties. The Company believes that it has conducted its transactions with related parties as it would in comparable arm's-length transactions with a non-related party, on a basis substantially as favorable to the Company as would be obtainable in such transactions.

Under the Korean Commercial Code, in the event the Company enters into a transaction with any of its directors, major shareholders or certain related parties of such directors or major shareholders, (i) material terms about the transaction shall be disclosed to the Company's board of directors and (ii) the transaction must be approved by the Company's board of directors (by the affirmative vote of two-thirds or more of the directors).

In addition, in the event that the Company enters into any of the following transactions with its specially-related parties such as its affiliates where the transaction value (in case of the fourth item below, the aggregate amount incurred over a fiscal quarter) exceeds (i) 5% of the greater of the Company's total equity or paid-in capital or (ii) ₩5 billion, the Company is required to (i) obtain approval from its board of directors and (ii) disclose such transaction pursuant to the Monopoly Regulation and Fair Trade Act.

- providing funds for or dealing with provisional payment or loan payment;
- providing or dealing with securities such as stocks or corporate bonds;
- providing or dealing with assets such as real estate or intangible assets; and
- providing services or products for or dealing with certain affiliates which satisfy the requirements under the Enforcement Decree of the Monopoly Regulation and Fair Trade Act, as a counterpart or on behalf of such affiliate.

A summary of the Company's material transactions with related parties is set forth below.

TRANSACTIONS WITH SK ECOPLANT CO., LTD.

The Company's transactions with SK ecoplant Co., Ltd. ("SK ecoplant" and formerly SK Engineering & Construction Co., Ltd.) consist primarily of SK ecoplant's construction of facilities and the Company's acquisition of such assets. SK ecoplant is a subsidiary of SK Inc. and a leading construction company in Korea. The Company's acquisition of assets from SK ecoplant amounted to ₩1,981 billion in 2021, ₩2,366 billion in 2022 and ₩190 billion in the first nine months of 2023.

TRANSACTIONS WITH ESSENCORE LIMITED

The Company's transactions with ESSENCORE Limited ("ESSENCORE") consist primarily of sales of the Company's NAND flash memory products. ESSENCORE is a subsidiary of SK Inc. Operating revenues and others received from ESSENCORE amounted to ₩824 billion in 2021, ₩631 billion in 2022 and ₩448 billion in the first nine months of 2023.

TRANSACTIONS WITH HITECH SEMICONDUCTOR

The Company's transactions with HITECH Semiconductor consist primarily of provision by HITECH Semiconductor of back-end processing services for the Company's products. HITECH Semiconductor is a provider of integrated circuit packaging and testing services for semiconductors and was established in November 2009 as a joint venture between the Company and Wuxi Taiji Industry. As of September 30, 2023, the Company held a 45.0% interest in HITECH Semiconductor. Operating expenses and others paid to HITECH Semiconductor amounted to ₩558 billion in 2021, ₩669 billion in 2022 and ₩496 billion in the first nine months of 2023.

TRANSACTIONS WITH CLEAN INDUSTRIAL REIT CO., LTD.

The Company's transactions with Clean Industrial REIT Co., Ltd., a subsidiary of SK REIT Co., Ltd., consist primarily of the Company's sale of its wastewater management facility located in Icheon, Korea, to Clean Industrial REIT Co., Ltd. in September 2023 for ₩1,120 billion and the following leaseback of the facility. SK REIT Co., Ltd. principally engages in the real estate investment trusts business.

For further information relating to the Company's transactions with related parties, see Note 33 of the notes to the Annual Financial Statements and Note 29 of the notes to the Interim Financial Statements, appearing elsewhere in this Offering Circular.

TERMS AND CONDITIONS OF THE NOTES

The following is a description of the Terms and Conditions of the Notes (as defined below), which (subject to modification and except for the paragraphs in italics) will be endorsed on the Notes in definitive form (if issued).

Each of the 2027 Notes and the 2029 Notes (collectively, the “Notes”) will be issued by SK hynix Inc. (the “Company”) (or any successor to the Company) subject to and with the benefit of a separate Fiscal Agency Agreement dated January 16, 2024 (such agreements, as amended and/or supplemented and/or restated from time to time, respectively, the “2027 Notes Fiscal Agency Agreement” and the “2029 Notes Fiscal Agency Agreement” and collectively, the “Fiscal Agency Agreements”) made among the Company, Citicorp International Limited as the fiscal agent (the “Fiscal Agent”) and Citibank, N.A., London Branch as paying agent (the “Paying Agent”), registrar (the “Registrar”) and transfer agent (the “Transfer Agent”) and any other agent or agents appointed from time to time with respect to each series of the Notes.

The statements in these Terms and Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Fiscal Agency Agreements. Copies of the Fiscal Agency Agreements are available for inspection during normal business hours (being between 9:00 a.m. to 3:00 p.m.) by the holders of the Notes following prior written request and satisfactory proof of holding at the specified office of the Paying Agent or any other paying agent that the Company may appoint, as may be required from time to time (references herein to “Paying Agents” shall refer to the Paying Agent and any paying agents so appointed). The holders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Fiscal Agency Agreements. In these Terms and Conditions, references to the Agents (as defined below) shall include any successor appointed under the Fiscal Agency Agreements, and references to the Company shall include any successor company or business entity succeeding to obligations under the Notes.

In acting under the Fiscal Agency Agreements, the Paying Agent, the Registrar, the Transfer Agent and any other agent or agents appointed by the Company (the “Agents” and each an “Agent”) thereunder are acting solely as agents for the Company and do not assume any obligation or relationship of agency or trust for or with the Noteholders.

1 FORM, DENOMINATION AND TITLE

1.1 Form and Denomination

The Notes are issued in minimum denomination of US\$200,000 and integral multiples of US\$1,000 in excess thereof. A registered certificate (a “**Certificated Note**”) will be issued to each Holder (as defined below) in respect of its registered holding of the Notes (unless Notes will be issued in global form). Each Certificated Note will be numbered serially with an identifying number which will be recorded on the relevant Certificated Note and in the register of Holders (the “**Register**”) which the Company will procure to be kept by the Registrar. Upon issuance, the Notes will initially be represented by one or more fully registered global notes (the “**Global Notes**”) and the depositary for such Global Notes (the “**Depositary**”) shall be a clearing agency registered under the United States Securities Exchange Act of 1934, as amended (the “**Exchange Act**”). The Notes shall be tradeable only in principal amounts of at least US\$200,000 and integral multiples of US\$1,000 in excess thereof. For so long as the Notes are

listed on the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) and the rules of the SGX-ST so require, the Notes, if traded on the SGX-ST, will be traded in a minimum board lot size of S\$200,000 (or its equivalent in foreign currencies). Each such Global Note may bear a legend relating to limitations on the transferability of such Global Note in such form as may be required by the Depository Trust Company (“**DTC**”) unless the Company appoints a successor Depository. Except in the limited circumstances described in Condition 1.3 below, owners of beneficial interests in the Global Notes will not be entitled to receive physical delivery of certificates representing their Notes. The laws of certain jurisdictions require that certain purchasers of the Notes take physical delivery of such Notes in certificated form. Accordingly, the ability of beneficial owners to own, transfer or pledge beneficial interests in the Global Notes may be limited by such laws.

1.2 Title

Title to the Notes passes only by registration in the Register. The holder of any Note will (except as otherwise required by law) be treated as its absolute owner for all purposes (regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificated Notes issued in respect of it) and no person will be liable for so treating the holder. In these Conditions, “**Holder**” and (in relation to a Note) “**holder**” and “**Noteholder**” means the person in whose name a Note is registered in the Register (or, in the case of a joint holding, the first named thereof).

1.3 Certificated Notes

If (i) at any time DTC notifies the Company in writing that it is unwilling or unable to continue as depository or ceases to be a “clearing agency” under the Exchange Act, and a successor Depository is not appointed by the Company within 90 days after the Company is notified by DTC or becomes aware of such condition, or (ii) the Notes have become immediately due and payable pursuant to Condition 10 below, the Company will issue Certificated Notes in registered form in exchange for the Global Notes representing such Notes.

For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, in the event that the Global Note is exchanged for Certificated Notes, the Company will appoint and maintain a paying agent in Singapore (the “**Singapore Paying Agent**”), where the Certificated Notes may be presented or surrendered for payment or redemption. In addition, in the event that the Global Note is exchanged for Certificated Notes, an announcement of such exchange will be made by or on behalf of the Company through the SGX-ST and such announcement will include all material information with respect to the delivery of the Certificated Notes, including details of the Singapore Paying Agent.

2 STATUS

The Notes constitute direct, unconditional, unsubordinated and, subject to the provisions of Condition 3, unsecured obligations of the Company and shall at all times rank *pari passu* and without any preference or priority among themselves and, subject to the provisions of Condition 3, with all other present and future direct, unconditional, unsubordinated and unsecured obligations of the Company, except as may be required by mandatory provisions of law.

3 CERTAIN COVENANTS

3.1 Negative Pledge

So long as any of the Notes remains outstanding, the Company will not create or permit to be outstanding any mortgage, charge, lien, pledge or other security interest (each a “**Security Interest**”) upon the whole or any part of its property, assets or revenues, present or future, to secure for the benefit of the holders of any International Investment Securities (as defined below):

- (a) any payment of any sum owing in respect of any such International Investment Securities; or
- (b) any payment under any guarantee or other like obligation of any such International Investment Securities; or
- (c) any payment under any indemnity or other like obligation relating to any such International Investment Securities,

without in any such case at the same time, according to the Notes, either (i) the same Security Interest as is granted to or is outstanding in respect of such International Investment Securities or (ii) with respect to any guarantee, indemnity or other like obligation, such other arrangement (whether or not comprising a Security Interest) as shall be approved by an Extraordinary Resolution (as defined below).

3.2 Consolidation, Merger and Sale of Assets

The Company will not consolidate with, or merge or amalgamate into, or sell, transfer, lease or convey all or substantially all of its property or assets to any person, except as provided herein. The Company, without the consent of the holders of any of the Notes, may consolidate with, or merge into, or sell, transfer, lease or convey all or substantially all of its property as an entirety to any corporation or business entity organized under the laws of the Republic of Korea; *provided that* (a) any successor corporation or business entity expressly assumes the Company’s obligations under the Notes and the Fiscal Agency Agreement (including the obligation to pay Additional Amounts under Condition 8), (b) immediately after giving effect to the transaction, no Event of Default and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred and be continuing, (c) if, as a result of any such transaction, the properties or assets of the Company or any successor corporation or business entity would become subject to any Security Interest which would not be permitted by the Notes, the Company or such successor corporation or business entity, as the case may be, shall take such steps as shall be necessary to secure the Notes equally and ratably with (or prior to) all indebtedness secured thereby, and (d) the Company has delivered to the Fiscal Agent a certificate executed by a duly authorized officer of the Company and an opinion of counsel as to matters of law stating that such consolidation, merger, sale, transfer, lease or conveyance and, if any supplemental agreement(s) is/are required in connection with such transaction, such supplemental agreement(s) comply with the Fiscal Agency Agreement and the Notes and that all conditions precedent herein provided for relating to such transaction have been complied with. The Fiscal Agent shall be entitled to accept and conclusively rely upon such certificate and opinion (without further investigation or enquiry) as sufficient and conclusive evidence of such compliance and the Fiscal Agent shall be protected and shall have no liability to any holder or any person for so accepting and relying on such certificate or opinion.

3.3 Interpretation

For the purposes of these Conditions:

“**International Investment Securities**” means bonds, debentures, notes or investment securities of the Company which:

- (a) either are by their terms payable, or confer a right to receive payment, in any currency other than Korean Won or are denominated in Korean Won and more than 50% of the aggregate principal amount thereof is initially distributed outside Korea by or with the authorization of the Company; and
- (b) are, for the time being, quoted, listed, or ordinarily dealt in or traded on any stock exchange or over-the-counter or other securities market outside Korea.

4 INTEREST

4.1 Interest Payment Dates

The 2027 Notes will be issued in an initial aggregate principal amount of US\$500,000,000 and will mature at a price equal to 100% of the principal amount on January 16, 2027 (the “**2027 Notes Maturity Date**”). The 2027 Notes will bear interest at a rate of 5.500% per annum from and including January 16, 2024 or from the most recent interest payment date to which interest has been paid or provided for.

The 2029 Notes will be issued in an initial aggregate principal amount of US\$1,000,000,000 and will mature at a price equal to 100% of the principal amount on January 16, 2029 (the “**2029 Notes Maturity Date**”). The 2029 Notes will bear interest at a rate of 5.500% per annum from and including January 16, 2024 or from the most recent interest payment date to which interest has been paid or provided for.

Interest on the Notes will be payable semi-annually in arrears on January 16 and July 16 of each year (each an “**Interest Payment Date**”) with the first interest payment to be made on July 16, 2024.

4.2 Interest Accrual

Each Note will cease to bear interest from and including its due date for redemption unless, upon due presentation, payment of the principal in respect of the Note is improperly withheld or refused or unless default is otherwise made in respect of payment. In such event, interest will continue to accrue until whichever is the earlier of:

- (a) the date on which all amounts due in respect of such Note have been paid; and
- (b) five days after the date on which the full amount of the moneys payable in respect of such Notes has been received by the Fiscal Agent and notice to that effect has been given to the Noteholders in accordance with Condition 12.

4.3 Calculation of Broken Interest

When interest is required to be calculated in respect of a period of less than a full year, it shall be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

Interest in respect of any Note shall be calculated per US\$1,000 in principal amount of the Notes (the “**Calculation Amount**”). The amount of interest payable per Calculation Amount for any period shall be equal to the product of the rate of interest specified above, the Calculation Amount and the day-count fraction for the relevant period, rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

5 PAYMENTS

5.1 Payment

Payments in respect of each Note will be made by transfer to the registered account of the Holder and will be paid to the Holder shown on the Register at the close of business on the date (the “**record date**”) that is the fifteenth day before the due date for such payments.

For the purposes of this Condition 5.1, a Holder’s “**registered account**” means the U.S. dollar account maintained by or on behalf of it with a bank in the United States that processes payments in U.S. dollar, details of which appear on the Register at the close of business on the relevant record date, and a Holder’s registered address means its address appearing on the Register at that time.

Where payment is to be made by transfer to a registered account, payment instructions (for value on the due date or, if that is not a Payment Business Day, for value the first following day which is a Payment Business Day) will be initiated on the due date for payment, or if that is not a Payment Business Day, on the next succeeding Payment Business Day, without any interest or payment in respect of such delay.

5.2 Agents

The names of the initial Agents and their specified offices are set out in the Fiscal Agency Agreement. The Company reserves the right under and in accordance with the terms of the Fiscal Agency Agreement at any time to remove any Agent, and to appoint other or further agents or a replacement Registrar, *provided that* it will at all times maintain (i) a Fiscal Agent, (ii) a Paying Agent, (iii) a Registrar, (iv) a Transfer Agent and (v) a Singapore Paying Agent (for so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, in the event that the Global Note is exchanged for Certificated Notes). Notice of any such removal or appointment and of any change in the specified office of any Agent will be given promptly by the Company to the Noteholders in accordance with Condition 12.

5.3 Payment subject to fiscal laws

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 8. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

5.4 Payment date convention

If any Interest Payment Date or either of the 2027 Notes Maturity Date or the 2029 Notes Maturity Date would fall on a day that is not a Payment Business Day, that Interest Payment Date, the 2027 Notes Maturity Date or the 2029 Notes Maturity Date, as the case may be, will be postponed to the following day that is a Payment Business Day, and no interest shall be payable in respect of any such delay.

5.5 Payment Business Day

In these Conditions, “**Payment Business Day**” means a day (other than a Saturday or Sunday) on which commercial banks and financial institutions are generally open for business in New York City, London, Seoul, the city where the specified office of the Paying Agent is located and (for so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST require the Company to maintain a Singapore Paying Agent) Singapore and, in the case of the surrender of a Certificated Note, in the place of the Transfer Agent or Registrar where the Certificated Note is surrendered.

6 TRANSFERS OF NOTES

6.1 Transfers

Subject as provided in Condition 6.2, a Note may be transferred by depositing the Certificated Note issued in respect of that Note, with the form of transfer on the back duly completed and signed, at the specified office of the Transfer Agent (or, in the case of a Note represented by a Global Note, delivery of a duly executed form of transfer as set forth in the Fiscal Agency Agreement), together with such evidence as the Registrar or the Transfer Agent may require to prove title to the Notes that are the subject of the transfer and the authority of the individuals who have executed the form of transfer. Legal title to the Notes will pass upon registration of such transfer in the Register.

All transfers of Notes and entries in the Register will be made subject to the terms concerning transfers of the Notes provided in the Fiscal Agency Agreement.

6.2 Closed Periods

If Certificated Notes are to be issued in exchange for the Global Note, no Noteholder may require the transfer of a Certificated Note to be registered (i) during the period of 15 days preceding the due date for any payment of principal of, or interest (if any) on, the Notes or (ii) after such Note has been selected or deposited for redemption pursuant to Condition 7.2 or 7.3.

6.3 Regulations

All transfers of Certificated Notes will be made subject to the detailed provisions concerning transfer of Notes set forth in Clause 4(b)(iv) of the Fiscal Agency Agreement. The provisions may be changed by the Company with the prior written approval of the Registrar.

7 REDEMPTION AND PURCHASE

7.1 Redemption at Maturity

Unless the 2027 Notes have been previously redeemed or repurchased and cancelled as provided below, the Company will redeem the 2027 Notes at 100% of their principal amount in U.S. dollars on the 2027 Notes Maturity Date. The 2027 Notes may be redeemed prior to that date only as provided in Conditions 7.2 and 7.3 below, but without prejudice to Condition 10.

Unless the 2029 Notes have been previously redeemed or repurchased and cancelled as provided below, the Company will redeem the 2029 Notes at 100% of their principal amount in U.S. dollars on the 2029 Notes Maturity Date. The 2029 Notes may be redeemed prior to that date only as provided in Conditions 7.2 and 7.3 below, but without prejudice to Condition 10.

7.2 Redemption for Taxation Reasons

At any time, the Company may, having given not less than 30 or more than 60 days' notice to the holders of the Notes (which notice shall be irrevocable and delivered in accordance with Condition 12), redeem the Notes in whole, but not in part, at 100% of their principal amount plus accrued and unpaid interest, if any, to the date fixed for redemption, *provided that* prior to the delivery of any notice of redemption pursuant to this Condition 7.2, the Company shall deliver to the Fiscal Agent (1) a certificate signed by an authorized officer stating that the obligation to pay Additional Amounts (as defined in Condition 8.1) is as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction (as defined in Condition 8.2), or any change in the general application or official interpretation of such laws or regulations, which change or amendment is announced and becomes effective after the date of the original issuance of the Notes (or if the Relevant Jurisdiction became a Relevant Jurisdiction after the date of original issuance, after the date such jurisdiction became a Relevant Jurisdiction) and cannot be avoided by the Company taking reasonable measures available to it and (2) an opinion addressed to the Fiscal Agent by an independent law firm of recognized standing admitted to practice in the Relevant Jurisdiction to the effect that the Company has or will become obliged to pay such Additional Amounts as a result of a change or amendment referred to above, and the Fiscal Agent shall be entitled to accept and conclusively rely upon such certificate and opinion (without further investigation or enquiry) as sufficient and conclusive evidence of the conditions precedent referred to in this Condition 7.2, in which event it shall be conclusive and binding on the holders of the Notes and the Fiscal Agent shall be protected and shall have no liability to any holder or any person for so accepting and relying on such certificate or opinion.

7.3 Change of Control Put Right

If a Change of Control Triggering Event occurs, Noteholders will have the right (the “**Change of Control Put Right**”) to require the Company to redeem all or any part (equal to US\$200,000 or an integral multiple of US\$1,000 in excess thereof) of their Notes pursuant to the offer described below (the “**Change of Control Offer**”). In the Change of Control Offer, the Company will be required to offer payment in cash equal to 100% of the aggregate principal amount of the Notes redeemed plus accrued and unpaid interest, if any, on the Notes redeemed, to the date of redemption (the “**Change of Control Payment**”). Within 30 days following any

Change of Control Triggering Event, the Company will provide notice to the Noteholders, with a copy to the Agents, describing the events that constitute the Change of Control Triggering Event and offering to redeem the Notes on the date specified in the notice, which date will be no earlier than 30 days and no later than 60 days from the date of such notice (the “**Change of Control Payment Date**”), pursuant to the provisions of this Condition 7.3. To exercise the Change of Control Put Right, the Holder of the relevant Note must deposit at the specified office of the Fiscal Agent a duly completed and signed Change of Control Put Notice (as defined in the Fiscal Agency Agreement), in the form for the time being current, obtainable from the specified office of the Fiscal Agent during usual business hours (being between 9:00 am to 3:00 pm), together with, in the case of Certificated Notes, the Certificate evidencing the Note to be redeemed, by no later than 10 days prior to the Change of Control Payment Date. To the extent that the provisions of any securities laws (including, without limitation, the Financial Investment Services and Capital Markets Act of Korea) or regulations conflict with this Condition 7.3, the Company will be required to comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under this Condition 7.3 by complying with such laws and regulations.

On the Change of Control Payment Date, the Company will be required, to the extent lawful, to:

- (a) accept for redemption and payment all Notes or portions of Notes properly tendered pursuant to a duly completed Change of Control Put Notice; and
- (b) deposit with the Fiscal Agent an amount equal to the Change of Control Payment in respect of all Notes or portions of Notes properly tendered.

For so long as any Note remains outstanding, the Company shall use commercially reasonable efforts to cause at least two Rating Agencies to maintain ratings of the Notes.

For the purposes of this Condition 7.3:

“**Change of Control**” means the occurrence of any of the following: (1) the direct or indirect sale, transfer, conveyance or other disposition, in one or a series of related transactions, of all or substantially all of the properties or assets of the Company and its subsidiaries taken as a whole to any person other than the Company or one of its subsidiaries (other than for the purposes of, or pursuant to and followed by, a consolidation, amalgamation, merger or reorganization permitted by Condition 3.2) or (2) if at any time SK Square Co., Ltd. and its affiliates cease to hold at least 20% of the Company’s outstanding shares.

“**Change of Control Triggering Event**” means the occurrence of both a Change of Control and a Rating Event.

“**Moody’s**” means Moody’s Investors Service, Inc.

“**Rating Agencies**” means (1) each of Moody’s and S&P and (2) if any of Moody’s or S&P ceases to rate the Notes or fails to make a rating of the Notes publicly available for reasons outside of the Company’s control, a “nationally recognized statistical rating organization” recognized by the United States Securities and Exchange Commission, selected by the Company (as certified by a resolution of the Company’s board of directors) as a replacement agency for Moody’s or S&P (a “**Replacement Agency**”), or both of them, as the case may be.

“**Rating Event**” means the Notes are rated (1) below an investment grade credit rating (Ba1, or equivalent, or worse) by Moody’s (or a Replacement Agency therefor) or (2) below an investment grade credit rating (BB+, or equivalent, or worse) by S&P (or a Replacement Agency therefor) on any date from the date of the public announcement by the Company of an arrangement that could result in a Change of Control until the end of the 60-day period following public announcement by the Company of the occurrence of the Change of Control (which 60-day period shall be extended so long as the rating of the Notes is under publicly announced consideration for possible downgrade by any of the Rating Agencies).

“**S&P**” means S&P Global Ratings, a division of S&P Global, Inc.

None of the Agents shall have any duty or obligation to verify or be required to monitor or to take any steps to ascertain whether a Change of Control Triggering Event or any event which could lead to the occurrence of a Change of Control Triggering Event has occurred or whether this Condition 7.3 conflicts with any securities laws or regulations, and shall not be liable to any person for not doing so.

*The definition of “**Change of Control**” includes a phrase relating to the sale, transfer, conveyance or other disposition of “all or substantially all” of the property or assets of the Company and its subsidiaries taken as a whole. Although there is a developing body of case law interpreting the phrase “substantially all”, there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a Holder to require the Company to repurchase Notes as a result of a sale, transfer, conveyance or other disposition of less than all of the property or assets of the Company and its subsidiaries taken as a whole to another person or group may be uncertain.*

7.4 Purchases

The Company or any of its subsidiaries may at any time and from time to time repurchase Notes in the open market or otherwise at any price. Such Notes may be held by the Company, resold or surrendered to the Registrar for cancellation. If purchases are made by tender, tenders must be available to all Noteholders alike.

7.5 Cancellations

All Notes that are redeemed, repurchased or converted and surrendered to the Registrar for cancellation shall forthwith be cancelled. Notes cancelled may not be reissued or resold.

7.6 Redemption Procedures

In the event that the Company is required to deliver a notice to the holders of the Notes under this Condition 7, the Company shall provide, or procure the provision by the Fiscal Agent of, the notice to each holder of the Notes in accordance with Condition 12 and the provisions of the Fiscal Agency Agreement, which notice shall state, to the extent applicable:

- (a) the date fixed for redemption;
- (b) the applicable redemption price of a Note on the redemption date; and
- (c) the names and addresses of all Paying Agents and the Registrar.

7.7 Notices Final

Upon the expiry of any notice as is referred to in Condition 7.2 or 7.3 above, the Company shall be bound to redeem the Notes to which the notice refers in accordance with the terms of such Condition.

8 TAXATION

8.1 Additional Amounts

All payments of principal and interest in respect of the Notes, including any Additional Amounts (as defined below), by or on behalf of the Company shall be made free and clear of and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (“**Taxes**”) imposed, levied, collected, withheld or assessed by or on behalf of the Relevant Jurisdiction, as defined in Condition 8.2 below, except as required by applicable law. In that event, the Company will, subject to the exceptions and limitations set forth below, pay to a holder of any Note such additional amounts (the “**Additional Amounts**”) as may be necessary in order that every net payment by the Company or a Paying Agent of the principal of and interest on the Note and any other amounts payable on the Note after withholding or deduction for or on account of any present or future tax, duty, assessment or governmental charge imposed or levied by a Relevant Jurisdiction, as defined in Condition 8.2 below, will not be less than the amount provided for in the Note to be then due and payable under the Notes.

However, the obligation to pay Additional Amounts shall not apply:

- (a) to the holder or beneficial owner of the Notes who would not be liable for or subject to such deduction or withholding by making a declaration of non-residence or other similar claim for exemption to the relevant tax authority if, after having been requested in writing by the Company to make such a declaration or claim, such holder or beneficial owner of the Notes fails to do so within 30 days; or
- (b) to the holder or beneficial owner of the Notes who is subject to Taxes in respect of the Notes by reason of the existence of any present or former connection between the holder (or between a fiduciary, settlor, beneficiary, member or shareholder of the holder, if the

holder is an estate, a trust, a partnership, a limited liability company or a corporation) and a Relevant Jurisdiction, other than merely holding a Note or receiving a payment in respect of a Note, including, without limitation, the holder (or such fiduciary, settlor, beneficiary, member or shareholder) being or having been a citizen or resident of a Relevant Jurisdiction or being or having been engaged in a trade or business or present in a Relevant Jurisdiction or having, or having had, a permanent establishment in a Relevant Jurisdiction; or

- (c) to the holder or beneficial owner of the Notes who presents the relevant Notes, where presentation is required, for payment on a date more than 30 days after the Relevant Date; or
- (d) to any estate, inheritance, gift, sales, transfer, capital gains or personal property tax or any similar tax, duty, assessment or governmental charge; or
- (e) to any tax, duty, assessment or other governmental charge that is payable otherwise than by withholding or deduction from payments on or in respect of any Note; or
- (f) to any tax, duty, assessment or other governmental charge that would not have been imposed but for the failure of the holder or beneficial owner to comply with certification, information or other reporting requirements concerning the nationality, residence or identity of the holder or beneficial owner of that Note, if compliance is required by statute or by regulation of a Relevant Jurisdiction as a precondition to relief or exemption from the tax, duty, assessment or other governmental charge; or
- (g) to any tax, duty, assessment or other governmental charge required to be withheld by any Paying Agent from any payment of the principal of, or interest on, any Note, to the extent such tax, duty, assessment or other governmental charge results from the presentation (where presentation is required) of any Note for payment and the payment can be made without such withholding or deduction by the presentation of the Note for payment by at least one other Paying Agent; or
- (h) to any combination of the items listed above.

Nor will Additional Amounts be paid with respect to any payment on a Note to a holder who is a fiduciary, a partnership, a limited liability company or other than the sole beneficial owner of that payment to the extent that payment would be required by the laws of a Relevant Jurisdiction to be included in the income, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, a member of that partnership, an interest holder in a limited liability company or a beneficial owner who would not have been entitled to the Additional Amounts had that beneficiary, settlor, member, interest holder or beneficial owner been the holder.

References in these Conditions to payments in respect of the Notes shall be deemed to refer to any Additional Amounts that may be payable in respect thereof under this Condition 8.1.

The Agent shall in no event be responsible for paying any tax, duty, charges, withholding or other payment referred to in this Condition 8 or for determining whether such amounts are payable or the amount thereof, and shall not be responsible or liable for any failure by the Company or the Noteholders or any other person to pay such tax, duty, charges, withholding or other payment or be responsible to provide any notice or information in relation to the Notes in connection with payment of such tax, duty, charges, withholding or other payment.

Notwithstanding any other provision of these Conditions, any amounts to be paid on the Notes by or on behalf of the Company will be paid net of any deduction or withholding imposed or required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the “**Code**”), or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any regulations thereunder or official interpretations thereof) or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof (or any fiscal or regulatory legislation, rules or practices implementing such an intergovernmental agreement) (any such withholding or deduction, a “**FATCA Withholding**”). Neither the Company nor any other person will be required to pay any additional amounts in respect of FATCA Withholding.

8.2 Interpretation

For the purposes of these Conditions:

- (a) “**Relevant Date**” in relation to any Notes means (i) the due date for payment in respect thereof or (ii) if the full amount of the moneys payable on such due date has not been received by the Fiscal Agent or the Paying Agent on or prior to such due date, the date on which notice is duly given to the holders of the Notes that such moneys have been so received; and
- (b) “**Relevant Jurisdiction**” means the Republic of Korea or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Company or any successor becomes subject in respect of payments made by it of principal and interest on the Notes (including, without limitation, any jurisdiction of incorporation, organization, tax residency and jurisdiction in which it is doing business).

9 PRESCRIPTION

Claims against the Company in respect of the payment of principal and interest on the Notes shall be prescribed unless made within 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date (as defined in Condition 8).

10 EVENTS OF DEFAULT

10.1 Events of Default

The holder of any Note may give written notice addressed to the Company and delivered to the Company with a copy to the Fiscal Agent that the Note is, and it shall accordingly forthwith become, immediately due and repayable at its principal amount, together with interest accrued to the date of repayment, if any of the following events (an “**Event of Default**”) shall have occurred and be continuing:

- (a) the Company fails to pay the principal or interest, if any, on, any of the Notes, and in the case of principal, the failure continues for a period of seven days and in the case of interest, the failure continues for a period of 30 days; or
- (b) the Company fails to perform or observe any of its other obligations under these Conditions or in the Fiscal Agency Agreement and the failure continues for a period of 60 days following the service by any Noteholder on the Company of a notice requiring the same to be remedied; or
- (c) if (i) any Indebtedness for Borrowed Money (as defined below) of the Company becomes due and repayable prematurely by reason of an event of default (however described); (ii) the Company fails to make any payment in respect of any Indebtedness for Borrowed Money on the due date for payment; (iii) any security given by the Company for any Indebtedness for Borrowed Money becomes enforceable or proceedings are commenced to enforce any security; or (iv) default is made by the Company in making any payment due under any guarantee and/or indemnity given by it in relation to any Indebtedness for Borrowed Money of any other person; *provided, that* no event described in this Condition 10.1(c) shall constitute an Event of Default unless the relevant amount of Indebtedness for Borrowed Money or other relative liability due and unpaid, either alone or when aggregated (without duplication) with other amounts of Indebtedness for Borrowed Money and/or other liabilities due and unpaid relative to all (if any) other events specified in (i) through (iv) above which have occurred and are continuing, amounts to at least US\$30,000,000 (or its equivalent in any other currency); or
- (d) if any order is made by any competent court or resolution is passed for the winding up or dissolution of the Company; or
- (e) the Company ceases or threatens to cease to carry on the whole or a substantial part of its business save for the purposes of, or pursuant to and followed by, a consolidation, amalgamation, merger or reorganization permitted by Condition 3.2; or
- (f) if (i) proceedings are initiated against the Company under any applicable liquidation, insolvency, composition, reorganization or other similar laws or an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Company or, as the case may be, in relation to the whole or any part of its undertaking or assets or an encumbrancer takes possession of the whole or any part of its undertaking or assets, or

a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or any part of its undertaking or assets and (ii) in any such case (other than the appointment of an administrator), unless initiated by the relevant company, is not discharged within 60 days; or

(g) if the Company (or any of its respective directors or shareholders) initiates or consents to juridical proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganization or other similar laws (including the obtaining of a moratorium) or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors); or

(h) any event occurs which under the laws of the Republic of Korea has an analogous effect to any of the events referred to in (a) through (g) above.

10.2 Interpretation

For the purposes of these Conditions:

“**Indebtedness for Borrowed Money**” means any indebtedness (whether being principal, premium, interest or other amounts) for or in respect of any notes, bonds, debentures, debenture stock, loan stock or other securities or any borrowed money or any liability under or in respect of any acceptance or acceptance credit.

11 REPLACEMENT OF CERTIFICATES

If any Certificated Note is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Registrar or such Transfer Agent upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity, prefunding and otherwise as the Company, Registrar or Transfer Agent may require. Mutilated or defaced Certificated Notes must be surrendered before replacements will be issued.

12 NOTICES

All notices to holders of the Notes shall be validly given if mailed to them at their respective addresses in the record of holders of the Notes maintained by the Registrar and deemed to have been given on the fifth weekday (being a day other than a Saturday or a Sunday) after the date of mailing and by the participants, or published in a leading newspaper having general circulation in Asia (which is expected to be the *Asian Wall Street Journal*). Notwithstanding the foregoing, so long as the Notes are represented by the Global Note and the Global Note is held on behalf of DTC, notice to Noteholders may be given by delivery of the relevant notice to DTC, for communication by them to entitled accountholders in substitution for notification as required by the foregoing sentence. The Company shall also ensure that notices are duly given or published in a manner which complies with the rules and regulations of any stock exchange on which the Notes are for the time being listed. Any such notice shall be deemed to have been given on the seventh day after being so mailed or on the date of such publication.

13 MEETINGS OF NOTEHOLDERS, MODIFICATION AND WAIVER

13.1 Meetings of Noteholders

The Fiscal Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the modification by Extraordinary Resolution (as defined below) of any of these Conditions or any of the provisions of the Fiscal Agency Agreement. Such a meeting may be convened by Noteholders holding not less than 10% of the principal amount of the Notes then outstanding. The quorum at any meeting for passing an Extraordinary Resolution will be one or more persons present holding or representing more than 50% of the principal amount of the Notes then outstanding, or, at any adjourned meeting, one or more persons present holding or representing more than 25% of the principal amount of the Notes then outstanding; *provided, however*, that no such meeting shall consider the modification, amendment or waiver to the Fiscal Agency Agreement or any Note to (i) change the stated maturity of the Notes or the scheduled dates for payment of principal of or interest on any Note; (ii) reduce the principal of or interest on any such Note; (iii) change the currency of payment of the principal of or interest on such Note; or (iv) reduce the above-stated percentage of the aggregate principal amount of the Notes outstanding or reduce the quorum requirements or the percentage of votes required for the taking of any action, in which case the necessary quorum for passing an Extraordinary Resolution will be one or more persons present holding or representing not less than two-thirds, or at any adjourned meeting not less than one-third, of the principal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders will be binding on all Noteholders, whether or not they are present at the meeting.

“**Extraordinary Resolution**” means a resolution duly passed by either (i) a majority in aggregate principal amount of the Notes then outstanding pursuant to a written resolution of the Noteholders or (ii) 75% in aggregate principal amount of the Notes represented and voting at a duly convened meeting of the Noteholders.

13.2 Modification

The Company shall only permit any modification, without the consent of the Noteholders, to these Conditions or any of the provisions of the Fiscal Agency Agreement either (i) for the purpose of curing any ambiguity or of curing, correcting or supplementing any manifest or proven error or any other defective provision contained herein or therein or (ii) in any other manner which is not materially prejudicial to the interests of the Noteholders. Any determination as to prejudice applying to the interests of the Noteholders pursuant to this Condition shall be made by the Company and none of the Agents shall have any responsibility or liability whatsoever with respect to such determination. Any modification shall be binding on the Noteholders and shall be notified by the Company to the Noteholders as soon as practicable thereafter in accordance with Condition 12.

14 FURTHER ISSUANCES

The Company may from time to time, without notice to or the consent of the holders of the Notes, create and issue further debt securities ranking *pari passu* with the Notes in all respects (or in all respects except for the payment of interest accruing prior to the issue date of the additional Notes or except for the first payment of interest following the issue date of the additional Notes). The Company may consolidate such further debt securities with the outstanding Notes to form a single series to the extent permitted under applicable law. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition 14 and forming a single series with the Notes, provided, however that any additional debt securities shall be issued under a separate CUSIP, ISIN and/or other identifying number, as applicable, unless the additional debt securities are issued pursuant to a “qualified reopening” of the original series, are otherwise treated as part of the same “issue” of debt instruments as the original series or are issued with less than a de minimis amount of original issue discount, in each case for U.S. federal income tax purposes.

15 GOVERNING LAW AND SUBMISSION TO JURISDICTION

15.1 Governing Law

The Fiscal Agency Agreement and the Notes are governed by, and shall be construed in accordance with, the laws of the State of New York.

15.2 Jurisdiction

The Company agrees that any legal suit, action or proceeding arising out of or based upon the Fiscal Agency Agreement or the Notes may be instituted in any state or federal court in the Borough of Manhattan, the State and City of New York.

The Company, to the fullest extent it is permissible to do so under applicable law, (a) waives any objection which it may have now or hereafter to the laying of the venue of any such suit, action or proceeding in any such court and (b) irrevocably submits to the non-exclusive jurisdiction of any such court in any suit, action or proceeding.

15.3 Appointment of Process Agent

The Company has agreed to irrevocably appoint SK hynix America Inc., located at 3101 North 1st Street, San Jose, CA 95134, as its authorized agent in the State of New York to receive service of process in any proceedings in the State of New York based on any of the Notes or the Fiscal Agency Agreement. The Company agrees that in the event of such agent ceasing so to act it will appoint such other person as its agent for that purpose.

16 CURRENCY INDEMNITY

The Company’s obligations under the Notes to make all payments in U.S. dollars will not be satisfied by any payment, recovery or any other realization of proceeds in any currency other than the U.S. dollar. If pursuant to any such judgment, conversion shall be made on a date (the “**Substitute Date**”) other than the date of entry of judgment (the “**Judgment Date**”) and there

shall occur a change between the market exchange rate for the U.S. dollar as in effect on the Substitute Date and the market exchange rate as in effect on the Judgment Date, the Company agrees to pay such Additional Amounts (if any) in U.S. dollars as may be necessary to ensure that the amount paid is equal to the amount in such other currency or currency unit which, when converted at the market exchange rate as in effect on the Judgment Date, is the amount due under any Notes. To the extent permitted by applicable law, any amount due from the Company under this Condition 16 shall be due as a separate debt and is not to be affected by or merged into any judgment being obtained for any other sums due in respect of any Notes. In no event, however, shall the Company be required to pay more in U.S. dollars due under the Notes at the market exchange rate as in effect on the Judgment Date than the amount of U.S. dollars stated to be due under the Notes so that in any event the Company's obligations under the Notes will be effectively maintained as obligations in U.S. dollars and the Company shall be entitled to withhold (or be reimbursed for, as the case may be) any excess of the amount actually realized upon any such conversion on the Substitute Date over the amount due on the Judgment Date.

TAXATION

KOREAN TAXATION

The information provided below does not purport to be a complete summary of Korean tax law and practice currently applicable. Prospective investors who are in any doubt as to their tax position should consult with their own professional advisors.

The taxation of non-resident individuals and non-Korean corporations (“Non-Residents”) depends on whether they have a “permanent establishment” (as defined under Korean law and applicable tax treaty) in Korea to which the relevant Korean source income is attributable or with which such income is effectively connected. Non-Residents without a permanent establishment in Korea are taxed in the manner described below. Non-Residents with permanent establishments in Korea are taxed in accordance with different rules.

Tax on Interest

Interest on the Notes paid to Non-Residents (excluding payments to their permanent establishment in Korea), being foreign currency denominated bonds, is exempt from income tax and corporation tax (whether payable by withholding or otherwise) pursuant to the Special Tax Treatment Control Law (the “STTCL”), so long as the Notes are “foreign currency denominated bonds” under the STTCL and the issuance of the Notes is deemed to be an overseas issuance under the STTCL. The term “foreign currency denominated bonds” in this context is not defined under the STTCL. The Korean tax authority issued a ruling on September 1, 1990 that “a notes issuance facility, commercial paper issued in U.S. dollars or a banker’s acceptance” are not treated as “foreign currency denominated bonds.”

If the tax exemption under the STTCL referred to above were to cease to be in effect, the rate of income tax or corporation tax applicable to interest on the Notes, for a Non-Resident without a permanent establishment in Korea, would be 14% of income. In addition, a tax surcharge called a local income tax would be imposed at the rate of 10% of the income or corporation tax (raising the total tax rate to 15.4%). The tax is withheld by the payer or the Company. The tax rates may be reduced or exempted by an applicable tax treaty, convention or agreement between Korea and the resident country of the recipient of the income. The relevant tax treaties are discussed below.

Tax on Capital Gains

Korean tax laws currently exclude from Korean taxation gains made by a Non-Resident without a permanent establishment in Korea from the sale of the Notes to other Non-Residents (other than to their permanent establishments in Korea). In addition, capital gains earned by Non-Residents with or without permanent establishments in Korea from the transfer taking place outside Korea of the Notes are currently exempt from taxation by virtue of STTCL, provided that the issuance of the Notes is deemed to be an overseas issuance under the STTCL.

If the exclusion or exemption from Korean taxation referred to above were to cease to be in effect, in the absence of an applicable treaty reducing or eliminating tax on capital gains, the applicable rate of tax would be the lower of 11% (including local income tax) of the gross realization proceeds or (subject to the production of satisfactory evidence of the acquisition cost and certain

direct transaction costs of the relevant Note) 22% (including local income tax) of the realized gain (i.e., the excess of the gross realization proceeds over the acquisition cost and certain direct transaction costs) made. If such evidence shows that no gain (or a loss) was made on the sale, no Korean tax is payable. There is no provision under relevant Korean law to allow offsetting of gains and losses or otherwise aggregating transactions for the purpose of computing the net gain attributable to sales of Notes issued by Korean companies. The purchaser or any other designated withholding agent of Notes is obliged under Korean law to withhold the applicable amount of Korean tax and make payment thereof to the relevant Korean tax authority. Unless the seller can claim the benefit of an exemption from tax under an applicable tax treaty or on the failure of the seller to produce satisfactory evidence of his acquisition cost and certain direct transaction costs in relation to the instruments being sold, the purchaser or such withholding agent must withhold an amount equal to 11% of the gross realization proceeds. Any amounts withheld by the purchaser or such withholding agent must be paid to the competent Korean tax office. The purchaser or withholding agent must pay any withholding tax no later than the tenth day of the month following the month in which the payment for the purchase of the relevant instruments occurred. Failure to transmit the withheld tax to the Korean tax authorities in time subjects the purchaser or such withholding agent to penalties under Korean tax laws. The Korean tax authorities may attempt to collect such tax from a Non-Resident who is liable for payment of any Korean tax on gains, as a purchaser or withholding agent who is obliged to withhold such tax, through proceedings against payments due to the Non-Resident from its Korean investments and the assets or revenues of any of the Non-Resident's branch or representative offices in Korea.

Inheritance and Gift Tax

Korean inheritance tax is imposed upon (a) all assets (wherever located) of the deceased if at the time of his death he was domiciled in Korea or had resided in Korea continuously for at least 183 days immediately prior to his death and (b) all property located in Korea that passes on death (irrespective of the domicile of the deceased). Gift tax is imposed in similar circumstances to the above. The taxes are imposed if the value of the relevant property is above a certain limit and the rate varies from 10% to 50% based on the value of the relevant property. At present, Korea has not entered into any tax treaties regarding its inheritance or gift taxes.

Under Korean inheritance and gift tax laws, bonds issued by Korean corporations are deemed located in Korea irrespective of where they are physically located or by whom they are owned, and, consequently, the Korean inheritance and gift taxes will be imposed on transfers of the Notes by inheritance or gift. Prospective purchasers should consult their personal tax advisors regarding the consequences of the imposition of the Korean inheritance or gift tax.

Stamp Duty and Securities Transaction Tax

No stamp, issue or registration duties will be payable in Korea by the holders of the Notes in connection with the issue of the Notes except for a nominal amount of stamp duty on certain documents executed in Korea which will be paid by the Company. No securities transaction tax will be imposed upon the transfer of the Notes.

Tax Treaties

At the date of this Offering Circular, Korea has tax treaties with, inter alia, Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Luxembourg, The Netherlands, New Zealand, Norway, Singapore, Sweden, Switzerland, the United Kingdom and the United States of America, under which the rate of withholding tax on interest is reduced, generally to between 10 and 15% (including local income tax), and the tax on capital gains is often eliminated.

Each holder of the Notes should inquire whether such holder is entitled to the benefit of a tax treaty with respect to any transaction involving the Notes. It is the responsibility of the party claiming the benefits of a tax treaty in respect of interest payments and capital gains to file with the payer or the Company a certificate as to his tax residence. In the absence of sufficient proof, the payer or the Company must withhold taxes in accordance with the above discussion.

In order to claim the benefit of a tax rate reduction or tax exemption available under the applicable tax treaties, a Non-Resident holder should submit to the payer of such Korean source income an application (for a reduced withholding tax rate, the “application for entitlement to reduced tax rate,” and for an exemption from withholding tax, the “application for exemption” under a tax treaty along with a certificate of the Non-Resident holder’s tax residence issued by a competent authority of the Non-Resident holder’s residence country) as the beneficial owner of such Korean source income (“BO Application”), provided that if such tax exemption is being sought to be applied to an amount that is ₩1 billion or more (including where the aggregate amount exempted within one year from the last day of the month in which the payment was made is ₩1 billion or more), in addition to the certificate of tax residence issued by a competent authority of the Non-Resident holder’s residence country, the Non-Resident holder will also be required to submit the names and addresses of all of the members of the board of directors, the identities and shareholding percentages of all of the shareholders (provided that if there are more than 100 shareholders, the Non-Resident holder may instead provide a statement showing the total number of shareholders and the aggregate investment amount from each country), and audit reports for the three most recent years submitted to the country of residence (or, if the entity has been in existence for less than three years, audit reports since incorporation). Such application should be submitted to the withholding agent prior to the payment date of the relevant income. Subject to certain exceptions, where the relevant income is paid to an overseas investment vehicle (which is not the beneficial owner of such income) (“OIV”), a beneficial owner claiming the benefit of an applicable tax treaty with respect to such income must submit its BO Application to such OIV, which must submit an OIV report and a schedule of beneficial owners (as well as the BO applications collected from each beneficial owner, if such beneficial owner is applying for a tax exemption) to the withholding agent prior to the payment date of such income. Effective from January 1, 2022, an OIV is deemed to be a beneficial owner of the Korean source income if (i) under the applicable tax treaty, the OIV bears tax liabilities in the country in which it is established and (ii) the Korean source income is eligible for the treaty benefits under the tax treaty. The benefits under a tax treaty between Korea and the country of such OIV’s residence will apply with respect to the relevant income paid to such OIV, subject to certain application requirements as prescribed by the Corporate Income Tax or Individual Income Tax Law. In the case of a tax exemption application, the withholding agent is required to submit such application (together with the applicable OIV report in the case of income paid to an OIV) to the relevant district tax office by the ninth day of the month following the date of the payment of such income.

Withholding and Gross Up

As mentioned above, interest on the Notes paid to Non-Residents without a permanent establishment in Korea is exempt from any withholding or deduction on account of income tax or corporation tax pursuant to the STTCL if the Notes are deemed to be issued outside Korea under the STTCL. However, in the event that the payer or the Company is required by law to make any withholding or deduction for or on account of any Korean taxes (as more fully described in “Terms and Conditions of the Notes – Taxation”) the Company has agreed to pay (subject to the customary exceptions as set out in “Terms and Conditions of the Notes – Taxation”) such Additional Amounts as may be necessary in order that the net amounts received by the holder of any Note after such withholding or deduction shall equal the respective amounts which would have been received by such holder in the absence of such withholding or deduction.

UNITED STATES FEDERAL INCOME TAXATION

The following is a summary of certain U.S. federal income tax considerations that may be relevant to a U.S. Holder (as defined below) of a Note. This summary is based on provisions of the Internal Revenue Code of 1986, as amended (the “Code”), applicable Treasury regulations, laws, rulings and decisions as of the date hereof, all of which are subject to change, possibly with retroactive effect. This summary deals only with beneficial owners of Notes that will hold Notes as capital assets and that acquire the Notes in this offering at their issue price. It does not address particular tax considerations that may be applicable to investors that are subject to special tax rules, such as banks and other financial institutions, tax-exempt entities, insurance companies, individual retirement accounts and other tax-deferred accounts, regulated investment companies, dealers in securities or currencies, traders in securities electing to mark to market, persons that will hold Notes as a position in a “straddle,” hedging, or conversion transaction, or as part of a “synthetic security” or other integrated financial transaction, persons holding the Notes in connection with a trade or business outside the United States, entities or arrangements taxed as partnerships for U.S. federal income tax purposes or the partners therein, nonresident alien individuals present in the United States for more than 182 days during the taxable year, persons that have ceased to be U.S. citizens or lawful permanent residents of the United States or persons that have a “functional currency” other than the U.S. dollar.

This summary addresses only U.S. federal income tax consequences and does not address consequences arising under state, local, non-U.S. tax laws, any alternative minimum tax, the Medicare tax on net investment income, the special timing rules prescribed under section 451(b) of the Code or U.S. federal gift or estate tax laws. Investors should consult their own tax advisors in determining the tax consequences to them of holding Notes under such tax laws, as well as the application to their particular situation of the U.S. federal income tax considerations discussed below.

As used herein, a “U.S. Holder” is a beneficial owner of a Note that is, for U.S. federal income tax purposes, an individual citizen or resident of the United States or a U.S. domestic corporation or that otherwise will be subject to U.S. federal income taxation on a net income basis in respect of the Note.

Investors should consult their tax advisors concerning the particular U.S. federal income tax consequences of the purchase, ownership and disposition of the Notes, as well as the consequences under the laws of any other taxing jurisdiction.

Payments of Interest and Additional Amounts

General. The gross amount of stated interest and any Additional Amounts (i.e., without reduction for Korean withholding taxes, if any), will be taxable to a U.S. Holder as ordinary interest income at the time it accrues or is actually or constructively received, in accordance with the U.S. Holder's method of accounting for U.S. federal income tax purposes. Interest and Additional Amounts will constitute income from sources without the United States.

It is expected, and this discussion assumes, that the Notes will be issued without OID for U.S. federal income tax purposes. In general, however, if the Notes are issued with OID at or above a de minimis threshold, a U.S. Holder will be required to include OID in gross income, as ordinary income, under a "constant-yield method" before the receipt of cash attributable to such income, regardless of the U.S. Holder's regular method of accounting for U.S. federal income tax purposes. Prospective investors should consult their tax advisors concerning the applicability of the foreign tax credit rules to income from the Notes in case any Korean withholding taxes are imposed on interest payments.

Sale, Exchange and Retirement of Notes

Upon the sale, exchange or retirement of a Note, a U.S. Holder generally will recognize gain or loss equal to the difference between the amount realized on the sale, exchange or retirement (less any accrued interest, which will be taxable as such) and the U.S. Holder's tax basis in such Note. A U.S. Holder's tax basis in a Note will generally equal the cost of the Note to the U.S. Holder.

Gain or loss recognized upon a sale, exchange or retirement of a Note generally will be long-term capital gain or loss if the U.S. Holder has held the Note for more than one year at the time of disposition. Long-term capital gains recognized by an individual holder generally are subject to tax at a lower rate than short-term capital gains or ordinary income. The deduction of capital losses is subject to limitations.

Specified Foreign Financial Assets

Certain U.S. Holders that own "specified foreign financial assets" with an aggregate value in excess of \$50,000 on the last day of the taxable year or \$75,000 at any time during the taxable year are generally required to file an information statement along with their tax returns, currently on Form 8938, with respect to such assets. "Specified foreign financial assets" include any financial accounts held at a non-U.S. financial institution, as well as securities issued by a non-U.S. issuer (which may include Notes issued in certificated form) that are not held in accounts maintained by financial institutions. Higher reporting thresholds apply to certain individuals living abroad and to certain married individuals. Regulations extend this reporting requirement to certain entities that are treated as formed or availed of to hold direct or indirect interests in specified foreign financial assets based on certain objective criteria. U.S. Holders who fail to report the required information could be subject to substantial penalties. In addition, the statute of limitations for assessment of tax would be suspended, in whole or part. Prospective investors should consult their own tax advisors concerning the application of these rules to their investment in the Notes, including the application of the rules to their particular circumstances.

Information Reporting and Backup Withholding

Information returns will be filed with the IRS in connection with payments on the Notes made to, and the proceeds of sales or other dispositions of Notes effected by, certain U.S. Holders. In addition, certain U.S. persons may be subject to backup withholding in respect of such amounts if they do not provide their taxpayer identification numbers to the person from whom they receive payments. Holders who are not U.S. persons may be required to comply with applicable certification procedures to establish that they are not U.S. persons in order to avoid the application of such information reporting requirements and backup withholding. The amount of any backup withholding from a payment to a holder will be allowed as a credit against the holder's U.S. federal income tax liability and may entitle the holder to a refund, provided that the required information is timely furnished to the IRS. Investors should consult their tax advisors about these rules and any other reporting obligations that may apply to their ownership or disposition of Notes.

PLAN OF DISTRIBUTION

Subject to the terms and conditions stated in the purchase agreement dated January 8, 2024, (the “Purchase Agreement”), each initial purchaser named below (each, an “Initial Purchaser” and collectively, the “Initial Purchasers”) has severally agreed to purchase from the Company, and the Company has agreed to sell to such Initial Purchaser, the principal amount of the 2027 Notes and the 2029 Notes set forth opposite the name of such Initial Purchaser.

Initial Purchasers	Principal Amount of the 2027 Notes	Principal Amount of the 2029 Notes
BNP Paribas	US\$ 62,500,000	US\$ 125,000,000
Citigroup Global Markets Inc.	62,500,000	125,000,000
Crédit Agricole Corporate and Investment Bank	62,500,000	125,000,000
The Hongkong and Shanghai Banking Corporation Limited	62,500,000	125,000,000
J.P. Morgan Securities plc	62,500,000	125,000,000
The Korea Development Bank	62,500,000	125,000,000
Mizuho Securities Asia Limited	62,500,000	125,000,000
MUFG Securities Asia Limited.	62,500,000	125,000,000
Total	US\$500,000,000	US\$1,000,000,000

The Purchase Agreement provides that the obligations of each of the Initial Purchasers to purchase the Notes are subject to approval of certain legal matters by counsel and to certain other conditions. Each of the Initial Purchasers must purchase all the Notes set forth opposite its name if they purchase any of the Notes. The Purchase Agreement also provides that if an Initial Purchaser defaults, the purchase commitments of non-defaulting Initial Purchasers may be increased or the offering may be terminated.

If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Initial Purchasers or any affiliate of the Initial Purchasers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by that Initial Purchaser or its affiliate on behalf of the Company in such jurisdiction.

The Initial Purchasers and their affiliates are full service financial institutions engaged in various activities which may include securities trading, commercial and investment banking, financial advice, investment management, principal investment, hedging, financing and brokerage activities. Each of the Initial Purchasers may have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Company or its subsidiaries, jointly controlled entities or associated companies and may be paid fees in connection with such services from time to time. In the ordinary course of their various business activities, the Initial Purchasers and their affiliates may make or hold (on their own account, on behalf of clients or in their capacity of investment advisers) a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments and enter into other transactions, including credit derivatives (such as asset swaps, repackaging and credit default swaps) in relation thereto. Such transactions, investments and securities activities may involve securities and instruments of the Company or its subsidiaries, jointly controlled entities or associated companies, including the Notes, may be entered into at the same time or proximate to offers and sales of Notes or at other times in the secondary market and be carried out with counterparties that are also purchasers, holders or sellers of the Notes and could adversely affect the trading price and liquidity of the Notes. The Notes issued hereunder may be purchased by or be allocated to any Initial Purchaser or an affiliate for asset

management and/or proprietary purposes but not with a view to distribution. Such persons do not intend to disclose the extent of any such investment or transactions other than in accordance with any legal or regulatory obligation to do so.

COMMISSIONS AND DISCOUNTS

The purchase price for each of the Notes will be the applicable offering price set forth on the cover page of this Offering Circular net of a combined management and underwriting commission. After the initial offering, the offering price or any other selling term may be changed.

NEW ISSUE OF NOTES

The Notes are a new issue of securities with no established trading market. The Initial Purchasers may make a market in the Notes after completion of the offering. However, they are under no obligation to do so and may discontinue any market-making activities at any time without any notice. The Company cannot assure the liquidity of the trading market for the Notes. If an active trading market for the Notes does not develop, the market price and liquidity of the Notes may be adversely affected. If the Notes are traded, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, the Company's operating performance and financial condition, general economic conditions and other factors.

SETTLEMENT

Delivery of the Notes is expected on or about January 16, 2024.

NO SALES OF SIMILAR SECURITIES

The Company has agreed that it will not issue, offer, sell or contract to sell, or otherwise dispose of or enter into any transaction which is designed to, or might reasonably be expected to, result in the offer of, or announce the offering of, any non-Won denominated debt securities issued or guaranteed by the Company (other than the Notes), without the prior written consent of the Initial Purchasers for a period of 15 days following the date of this Offering Circular.

SHORT POSITIONS

In connection with the offering, the Initial Purchasers may purchase and sell the Notes in the open market. These transactions may include short sales and purchases on the open market to cover positions created by short sales. Short sales involve the sale by the Initial Purchasers of a greater principal amount of Notes than they are required to purchase in the offering. The Initial Purchasers must close out any short position by purchasing Notes in the open market. A short position is more likely to be created if the Initial Purchasers are concerned that there may be downward pressure on the price of the Notes in the open market after pricing that could adversely affect investors who purchase in the offering.

Similar to other purchase transactions, the Initial Purchasers' purchases to cover the syndicate short sales may have the effect of raising or maintaining the market price of the Notes or preventing or retarding a decline in the market price of the Notes. As a result, the price of the Notes may be higher than the price that might otherwise exist in the open market.

None of the Company and the Initial Purchasers make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Notes. In addition, none of the Company and the Initial Purchasers make any representation that the Initial Purchasers will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

It is expected that the delivery of the Notes will be made against payment therefor on or about the date specified on the cover page of this Offering Circular, which will be the fifth business day following the date of pricing of the Notes (such settlement cycle being herein referred to as “T+5”). Under Rule 15c6-1 under the Exchange Act, trades in the secondary market generally are required to settle in two business days, unless the parties to any such trade expressly agree otherwise. Accordingly, if purchasers of the Notes wish to trade in the Notes on any day prior to the second business day before the settlement date, because the Notes will initially settle in T+5, the purchasers of the Notes may be required to specify an alternate settlement cycle at the time of such trade to prevent a failed settlement. Purchasers of the Notes who wish to trade the Notes prior to their date of delivery hereunder should consult their advisors.

IMPORTANT NOTICE TO CMIS (INCLUDING PRIVATE BANKS)

This notice to CMIs (including private banks) is a summary of certain obligations the SFC Code imposes on CMIs, which require the attention and cooperation of other CMIs (including private banks). Certain CMIs may also be acting as OCs for this offering and are subject to additional requirements under the SFC Code.

Prospective investors who are the directors, employees or major shareholders of the Company, a CMI or its group companies would be considered under the SFC Code as having an Association with the Company, the CMI or the relevant group company. CMIs should specifically disclose whether their investor clients have any Association when submitting orders for the Notes. In addition, private banks should take all reasonable steps to identify whether their investor clients may have any Associations with the Company or any CMI (including its group companies) and inform the Initial Purchasers accordingly.

CMIs are informed that, unless otherwise notified, the marketing and investor targeting strategy for this offering includes institutional investors, sovereign wealth funds, pension funds, hedge funds, family offices and high net worth individuals, in each case, subject to the selling restrictions set out elsewhere in this Offering Circular.

CMIs should ensure that orders placed are bona fide, are not inflated and do not constitute duplicated orders (i.e. two or more corresponding or identical orders placed via two or more CMIs). CMIs should enquire with their investor clients regarding any orders which appear unusual or irregular. CMIs should disclose the identities of all investors when submitting orders for the Notes (except for omnibus orders where underlying investor information may need to be provided to any OCs when submitting orders). Failure to provide underlying investor information for omnibus orders, where required to do so, may result in that order being rejected. CMIs should not place “X-orders” into the order book.

CMIs should segregate and clearly identify their own proprietary orders (and those of their group companies, including private banks as the case may be) in the order book and book messages.

CMI (including private banks) should not offer any rebates to prospective investors or pass on any rebates provided by the Company. In addition, CMI (including private banks) should not enter into arrangements which may result in prospective investors paying different prices for the Notes.

The SFC Code requires that a CMI disclose complete and accurate information in a timely manner on the status of the order book and other relevant information it receives to targeted investors for them to make an informed decision. In order to do this, those Initial Purchasers in control of the order book should consider disclosing order book updates to all CMIs.

When placing an order for the Notes, private banks should disclose, at the same time, whether such order is placed other than on a “principal” basis (whereby it is deploying its own balance sheet for onward selling to investors). Private banks who do not provide such disclosure are hereby deemed to be placing their order on such a “principal” basis. Otherwise, such order may be considered to be an omnibus order pursuant to the SFC Code. Private banks should be aware that placing an order on a “principal” basis may require the relevant affiliated Initial Purchaser(s) (if any) to categorize it as a proprietary order and apply the “proprietary orders” requirements of the SFC Code to such order.

In relation to omnibus orders, when submitting such orders, CMIs (including private banks) that are subject to the SFC Code should disclose underlying investor information in respect of each order constituting the relevant omnibus order (failure to provide such information may result in that order being rejected). Underlying investor information in relation to omnibus orders should consist of:

- The name of each underlying investor;
- A unique identification number for each investor;
- Whether an underlying investor has any “Associations” (as used in the SFC Code);
- Whether any underlying investor order is a “Proprietary Order” (as used in the SFC Code);
- Whether any underlying investor order is a duplicate order.

Underlying investor information in relation to omnibus order should be sent to: dl.asia.syndicate@asia.bnpparibas.com, DCM.Omnibus@citi.com, HKG-Syndicate@ca-cib.com, hk_syndicate_omnibus@hsbc.com.hk, Investor.info.hk.bond.deals@jpmorgan.com, kdbdcm@kdb.co.kr, AS_DB SYN@hk.mizuho-sc.com, MizuhoSynDesk@mizuhogroup.com, Asia-Syndicate@hk.sc.mufg.jp.

To the extent information being disclosed by CMIs and investors is personal and/or confidential in nature, CMIs (including private banks) agree and warrant: (A) to take appropriate steps to safeguard the transmission of such information to any OCs; and (B) that they have obtained the necessary consents from the underlying investors to disclose such information to any OCs. By submitting an order and providing such information to any OCs, each CMI (including private banks) further warrants that they and the underlying investors have understood and consented to the collection, disclosure, use and transfer of such information by any OCs and/or any other third parties as may be required by the SFC Code, including to the Company, relevant regulators and/or any other third parties as may be required by the SFC Code, for the purpose of complying with the SFC Code, during the bookbuilding process for this offering. CMIs that receive such underlying investor information are reminded that such information should be used only for submitting orders in this

offering. The relevant Initial Purchaser may be asked to demonstrate compliance with their obligations under the SFC Code and may request other CMI (including private banks) to provide evidence showing compliance with the obligations above (in particular, that the necessary consents have been obtained). In such event, other CMI (including private banks) are required to provide the relevant Initial Purchaser with such evidence within the timeline requested.

SELLING RESTRICTIONS

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Each Initial Purchaser has agreed that, except as permitted by the Purchase Agreement, it will not offer or sell the Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering of the Notes and the issue date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each Initial Purchaser to which it sells the Notes (other than a sale pursuant to Rule 144A) during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

The Notes are being offered and sold outside of the United States to non-U.S. persons in reliance on Regulation S. The Purchase Agreement provides that Initial Purchasers may directly or through their respective U.S. broker-dealer affiliates arrange for the offer and resale of Notes within the United States only to qualified institutional buyers in reliance on Rule 144A.

In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of Notes within the United States by a dealer that is not participating in the offering of the Notes may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

European Economic Area

In relation to each Member State of the EEA, each Initial Purchaser has represented and agreed that it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Circular to the public in that Member State other than:

- (a) to any legal entity which is a qualified investor as defined in the Prospectus Regulation;
- (b) to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Regulation), subject to obtaining the prior consent of the relevant Initial Purchaser or Initial Purchasers nominated by the Company for any such offer; or
- (c) in any other circumstances falling within Article 1(4) of the Prospectus Regulation,

provided that no such offer of Notes shall require the Company or any Initial Purchaser to publish a prospectus pursuant to Article 3 of the Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation.

For the purposes of this provision, the expression an “offer of Notes to the public” in relation to any Notes in any Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes, and the expression “Prospectus Regulation” means Regulation (EU) 2017/1129, as amended.

United Kingdom

Each Initial Purchaser has represented and agreed that:

- (a) it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Company; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Switzerland

This Offering Circular is not intended to constitute an offer or solicitation to purchase or invest in the Notes described herein. The Notes may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland, and will not be listed on the SIX Swiss Exchange (“SIX”) or on any other exchange or regulated trading facility in Switzerland. Neither this Offering Circular nor any other offering or marketing material relating to the Notes constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX or any other regulated trading facility in Switzerland or a simplified prospectus or a prospectus as such term is defined in the Swiss Collective Investment Scheme Act, and neither this Offering Circular nor any other offering or marketing material relating to the Notes may be publicly distributed or otherwise made publicly available in Switzerland. Neither this Offering Circular nor any other offering or marketing material relating to the offering, nor the Company or the Notes have been or will be filed with or approved by any Swiss regulatory authority. The Notes are not subject to the supervision by any Swiss regulatory authority, e.g., the Swiss Financial Markets Supervisory Authority, and investors in the Notes will not benefit from protection or supervision by such authority.

Hong Kong

Each Initial Purchaser has represented and agreed that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (a) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the “SFO”) and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the “C(WUMP)O”) or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and

- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong), other than with respect to the Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the SFO and any rules made under the SFO.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the “Financial Instruments and Exchange Act”). Accordingly, each Initial Purchaser has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

Singapore

Each Initial Purchaser has acknowledged that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Initial Purchaser has represented, warranted and agreed that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act 2001 of Singapore, as modified or amended from time to time (the “SFA”)) pursuant to Section 274 of the SFA or (ii) to an accredited investor (as defined in Section 4A of the SFA) pursuant to and in accordance with the conditions specified in Section 275 of the SFA.

Italy

The offering of the Notes has not been registered with the *Commissione Nazionale per le Società e la Borsa* (“CONSOB”) pursuant to Italian securities legislation and, accordingly, the Notes may not be offered, sold or delivered, nor may copies of this Offering Circular or of any other document relating to any Notes be distributed in Italy, except in accordance with any Italian securities, tax and other applicable laws and regulations.

Each Initial Purchaser has represented and agreed that it has not offered, sold or delivered, and will not offer, sell or deliver, any Notes or distribute any copy of this Offering Circular or any other document relating to the Notes in Italy except:

- (a) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of Legislative Decree No. 58 of 24 February 1998 (the “Financial Services Act”) and Article 34-ter, paragraph 1, letter (b) of CONSOB Regulation No. 11971 of 14 May 1999 (the “Issuers Regulation”), all as amended from time to time; or
- (b) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Issuers Regulation.

In any event, any offer, sale or delivery of the Notes or distribution of copies of this Offering Circular or any other document relating to the Notes in Italy under paragraphs (a) or (b) above must be:

- (i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Financial Services Act, Legislative Decree No. 385 of 1 September 1993 (the “Banking Act”) and CONSOB Regulation No. 20307 of 15 February 2018, all as amended from time to time;
- (ii) in compliance with Article 129 of the Banking Act, as amended from time to time, and the implementing guidelines of the Bank of Italy, as amended from time to time; and
- (iii) in compliance with any other applicable laws and regulations, including any limitation or requirement which may be imposed from time to time by CONSOB or the Bank of Italy or other competent authority.

Korea

The Notes have not been and will not be registered with the Financial Services Commission of Korea (the “FSC”) under the Financial Investment Services and Capital Markets Act of Korea (the “FSCMA”), as amended. Accordingly, the Notes may not be offered, sold or delivered, directly or indirectly, in Korea or to, or for the account or benefit of, any Korean resident (as such term is defined in the Foreign Exchange Transaction Act of Korea and its Presidential Decree) or to others for re-offering or resale, directly or indirectly, in Korea or to any Korean resident, except as otherwise permitted under applicable Korean laws and regulations. In addition, for a period of one year from the date of issuance of the Notes, the Notes may not be transferred to any Korean resident other than a Korean Qualified Institutional Buyer (a “Korean QIB”) as specified in Article 2-2, Paragraph 2, Item 4 of the Regulation on Issuance and Public Disclosure, Etc. of Securities of Korea and who is registered with the Korean Financial Investment Association as a Korean QIB, provided that the Notes are issued as straight bonds other than equity-linked bonds, such as convertible bonds, bonds with warrants and exchangeable bonds, and all of the following requirements under Article 2-2-2, Paragraph 2, Item 3 of the above regulation are satisfied: (1) the Notes shall be issued in a currency other than Won and the principal and interest thereof shall be paid in a currency other than Won, (2) at least 80% of the aggregate issue amount of the Notes shall be allocated to non-residents of Korea (as such term is defined in the Foreign Exchange Transaction Act of Korea and its Presidential Decree) (which applies only to the Notes acquired from the Company or any Initial Purchaser at the

time of issuance of the Notes), (3) the Notes shall be those listed on a major overseas securities market specified by the governor of the Financial Supervisory Service of Korea, those registered with or reported to a foreign financial investment supervisory agency of the country in which the above securities market is established, or those for which any other procedure that may be deemed a public offering is completed, (4) measures shall be taken to state the condition that the Notes shall not be transferred to any Korean resident other than Korean QIBs at the time of issuance or within one year from the date of issuance of the Notes on the face of such Notes (limited to the case where any physical instrument is issued), the purchase agreement and offering documents and (5) the Company and the manager(s) (limited to the case where any manager is appointed) shall take measures under foregoing items (1) through (4) and the Company and the managers shall severally or jointly preserve evidential documents in relation thereto, or as otherwise permitted by applicable Korean laws and regulations.

Canada

The Notes may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 *Prospectus Exemptions* or subsection 73.3(1) of the *Securities Act* (Ontario), and are permitted clients, as defined in National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*. Any resale of the Notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Offering Circular (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105 *Underwriting Conflicts* ("NI 33-105"), the Initial Purchasers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

TRANSFER RESTRICTIONS

Because of the following restrictions, purchasers are advised to consult with legal counsel prior to making any offer, resale, pledge or other transfers of the Notes.

TRANSFER RESTRICTIONS UNDER KOREAN LAW

Each purchaser of the Notes, by accepting delivery of this Offering Circular, will be deemed to have represented, warranted and agreed as follows:

- (a) The Notes have not been and will not be registered with the FSC under the FSCMA, as amended. Accordingly, the Notes may not be offered, sold or delivered, directly or indirectly, in Korea or to, or for the account or benefit of, any Korean resident (as such term is defined in the Foreign Exchange Transaction Act of Korea and its Presidential Decree) or to others for re-offering or resale, directly or indirectly, in Korea or to any Korean resident, except as otherwise permitted under applicable Korean laws and regulations. In addition, for a period of one year from the date of issuance of the Notes, the Notes may not be transferred to any Korean resident other than a Korean Qualified Institutional Buyer (a “Korean QIB”) as specified in Article 2-2, Paragraph 2, Item 4 of the Regulation on Issuance and Public Disclosure, Etc. of Securities of Korea and who is registered with the Korean Financial Investment Association as a Korean QIB, provided that the Notes are issued as straight bonds other than equity-linked bonds, such as convertible bonds, bonds with warrants and exchangeable bonds, and all of the following requirements under Article 2-2-2, Paragraph 2, Item 3 of the above regulation are satisfied: (1) the Notes shall be issued in a currency other than Won and the principal and interest thereof shall be paid in a currency other than Won, (2) at least 80% of the aggregate issue amount of the Notes shall be allocated to non-residents of Korea (as such term is defined in the Foreign Exchange Transaction Act of Korea and its Presidential Decree) (which applies only to the Notes acquired from the Company or any Initial Purchaser at the time of issuance of the Notes), (3) the Notes shall be those listed on a major overseas securities market specified by the governor of the Financial Supervisory Service of Korea, those registered with or reported to a foreign financial investment supervisory agency of the country in which the above securities market is established, or those for which any other procedure that may be deemed a public offering is completed, (4) measures shall be taken to state the condition that the Notes shall not be transferred to any Korean resident other than Korean QIBs at the time of issuance or within one year from the date of issuance of the Notes on the face of such Notes (limited to the case where any physical instrument is issued), the purchase agreement and offering documents and (5) the Company and the manager(s) (limited to the case where any manager is appointed) shall take measures under foregoing items (1) through (4) and the Company and the managers shall severally or jointly preserve evidential documents in relation thereto, or as otherwise permitted by applicable Korean laws and regulations.

- (b) The Notes will bear legends to the following effect:

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE FINANCIAL INVESTMENT SERVICES AND CAPITAL MARKETS ACT OF KOREA. ACCORDINGLY, THE NOTES MAY NOT BE OFFERED, SOLD OR DELIVERED, DIRECTLY OR INDIRECTLY, IN KOREA OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY RESIDENT OF KOREA (AS SUCH TERM IS DEFINED UNDER THE FOREIGN EXCHANGE TRANSACTIONS ACT OF KOREA AND ITS PRESIDENTIAL DECREE) OR TO OTHERS FOR RE-OFFERING OR RESALE, DIRECTLY OR INDIRECTLY, IN KOREA OR TO ANY RESIDENTS OF KOREA, EXCEPT AS OTHERWISE PERMITTED UNDER APPLICABLE KOREAN LAWS AND REGULATIONS. IN ADDITION, DURING THE FIRST YEAR AFTER THE ISSUANCE OF THE NOTES, THE NOTES MAY NOT BE TRANSFERRED TO ANY RESIDENT OF KOREA OTHER THAN A KOREAN QUALIFIED INSTITUTIONAL BUYER (A "KOREAN QIB," AS DEFINED IN THE REGULATION ON ISSUANCE AND PUBLIC DISCLOSURE, ETC. OF SECURITIES OF KOREA) WHO IS REGISTERED WITH THE KOREA FINANCIAL INVESTMENT ASSOCIATION AS A KOREAN QIB, PROVIDED THAT THE AMOUNT OF THE NOTES ACQUIRED BY SUCH KOREAN QIBS IN THE PRIMARY MARKET IS LIMITED TO NO MORE THAN 20% OF THE AGGREGATE ISSUE AMOUNT OF THE NOTES.

OTHER TRANSFER RESTRICTIONS APPLICABLE TO THE NOTES

The Notes have not been and will not be registered under the Securities Act or any state securities laws and, subject to certain exceptions, may not be offered or sold directly or indirectly within the United States or to or for the account or benefit of U.S. persons, as defined in Regulation S. The Notes may be offered for sale only (i) in the United States, to QIBs within the meaning of, and in reliance on, Rule 144A or another available exemption from, or in a transaction not subject to, the registration requirements of the Securities Act; or (ii) outside the United States to non-U.S. persons in reliance on, and in accordance with, Regulation S, in each case, in compliance with applicable laws, regulations and directives.

Each purchaser of the Notes will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or Regulation S under the Securities Act are used herein as defined therein):

1. The purchaser (A)(i) is a qualified institutional buyer, (ii) is aware that the sale to it is being made in reliance on Rule 144A and (iii) is acquiring the Notes for its own account or for the account of a qualified institutional buyer or (B) is a non-U.S. person purchasing the Notes in an offshore transaction pursuant to Regulation S.
2. The purchaser understands that the Notes are being offered in a transaction not involving any public offering in the United States within the meaning of the Securities Act, that the Notes have not been and will not be registered under the Securities Act and that, in the event of Notes sold in reliance on Rule 144A, if in the future it decides to offer, resell, pledge or otherwise transfer any of the Notes, such Notes may be offered, resold, pledged or otherwise transferred only (A)(i) to the Company, (ii) to a person whom the seller reasonably believes is a qualified institutional buyer in a transaction meeting the

requirements of Rule 144A, (iii) to a non-U.S. person in an offshore transaction meeting the requirements of Rule 903 or Rule 904 under the Securities Act, (iv) pursuant to an exemption from registration under the Securities Act provided by Rule 144 under the Securities Act (if available), or (v) pursuant to another exemption from the Securities Act, provided that, as a condition to the registration of the transfer thereof, the Company or the Fiscal Agent may require the delivery of any documents, including an opinion of counsel that it, in its sole discretion, may deem necessary or appropriate to evidence compliance with such exemption, or (B) pursuant to an effective registration statement under the Securities Act, and, in each of such cases, in accordance with any applicable securities laws of any state of the United States. The purchaser will, and each subsequent holder is required to, notify any subsequent purchaser of the Notes from it of the resale restrictions referred to in (A) above.

3. The purchaser understands that the Notes will, unless the Company determines otherwise in compliance with applicable law, bear a legend substantially to the following effect:

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"). THE HOLDER HEREOF, BY PURCHASING THIS SECURITY, AGREES FOR THE BENEFIT OF SK HYNIX INC. (THE "COMPANY") THAT THIS SECURITY MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (A)(i) TO THE COMPANY, (ii) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER, AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT, IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT, (iii) TO A NON-U.S. PERSON IN AN OFFSHORE TRANSACTION MEETING THE REQUIREMENTS OF RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT, (iv) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (v) PURSUANT TO ANOTHER EXEMPTION FROM THE SECURITIES ACT, PROVIDED THAT, AS A CONDITION TO THE REGISTRATION OF THE TRANSFER THEREOF, THE COMPANY OR THE FISCAL AGENT MAY REQUIRE THE DELIVERY OF ANY DOCUMENTS, INCLUDING AN OPINION OF COUNSEL THAT IT, IN ITS SOLE DISCRETION, MAY DEEM NECESSARY OR APPROPRIATE TO EVIDENCE COMPLIANCE WITH SUCH EXEMPTION, OR (B) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, AND, IN EACH OF SUCH CASES IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY SUBSEQUENT PURCHASER OF THE SECURITY FROM IT OF THE RESALE RESTRICTIONS REFERRED TO IN (A) ABOVE.

4. The purchaser understands that the offer or sale of the Notes sold in reliance on Regulation S may not be made to a U.S. person or for the account or benefit of a U.S. person (other than a distributor), until the expiration of 40 days after the later of the commencement of this offering and the completion of the distribution of the Notes, and unless otherwise agreed by the Company, will bear a legend substantially to the following effect:

THIS SECURITY (OR ITS PREDECESSOR) WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND MAY NOT BE TRANSFERRED IN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY U.S. PERSON EXCEPT PURSUANT TO AN AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND ALL APPLICABLE STATE SECURITIES LAWS. TERMS USED ABOVE HAVE THE MEANINGS GIVEN TO THEM IN REGULATION S UNDER THE SECURITIES ACT.

PRIOR TO THE EXPIRATION OF 40 DAYS AFTER THE LATER OF THE COMMENCEMENT OF THE OFFERING OF THE NOTES AND THE LATEST CLOSING DATE (THE "DISTRIBUTION COMPLIANCE PERIOD"), THE NOTES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED TO ANY U.S. PERSON OUTSIDE THE UNITED STATES OR ANY PERSON IN THE UNITED STATES. EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THE NOTES EVIDENCED HEREBY, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING AND FOLLOWING RESTRICTIONS.

THE FOREGOING PARAGRAPH WILL BE NO LONGER EFFECTIVE AFTER THE END OF THE DISTRIBUTION COMPLIANCE PERIOD WITH RESPECT TO THE NOTES, AFTER WHICH THE NOTES EVIDENCED HEREBY WILL NO LONGER BE SUBJECT TO THE RESTRICTIONS SET FORTH THEREIN, PROVIDED THAT AT SUCH TIME AND THEREAFTER THE OFFER OR SALE OF THE NOTES EVIDENCED HEREBY WOULD NOT BE RESTRICTED UNDER ANY APPLICABLE SECURITIES LAWS OF THE UNITED STATES OR OF THE STATES OR TERRITORIES OF THE UNITED STATES.

5. The Company, the Registrar, the Initial Purchasers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements. If it is acquiring any Notes for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account.
6. It understands that the Notes offered in reliance on Rule 144A will be represented by the Restricted Global Note. Before any interest in the Restricted Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Unrestricted Global Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Fiscal Agency Agreement) as to compliance with applicable securities laws.

Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

LEGAL MATTERS

Cleary Gottlieb Steen & Hamilton LLP, U.S. counsel to the Company, and Linklaters LLP, U.S. counsel to the Initial Purchasers, will pass upon certain legal matters as to United States law relating to the Notes. Kim & Chang, the Company's Korean counsel, will pass upon certain matters as to Korean law for the Company. Cleary Gottlieb Steen & Hamilton LLP and Linklaters LLP may rely as to all matters of Korean law on Kim & Chang. Kim & Chang may rely on Cleary Gottlieb Steen & Hamilton LLP as to all matters of U.S. law.

INDEPENDENT ACCOUNTANTS

The consolidated financial statements of the Company as of and for the years ended December 31, 2022 and 2021 included in this Offering Circular have been audited by Samil PricewaterhouseCoopers, independent accountants, as stated in their report appearing herein.

The unaudited consolidated interim financial statements of the Company as of September 30, 2023 and for the three- and nine-month periods ended September 30, 2023 included in this Offering Circular have been reviewed by KPMG Samjong Accounting Corp., independent auditors, as stated in their report appearing herein. KPMG Samjong Accounting Corp.'s report on the unaudited consolidated interim financial statements for the nine months ended September 30, 2023 contains an emphasis-of-matter paragraph that states that the condensed consolidated interim statements of comprehensive income for the three- and nine-month periods ended September 30, 2022, and changes in equity and cash flows for the nine-month period ended September 30, 2022, presented for comparative purposes, were restated to reflect the adjustments made to the provisional amounts recorded in relation to the Intel NAND Business Acquisition. However, the separate report dated November 14, 2023 appearing herein states that they did not audit and they do not express an opinion on such interim financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

With respect to the unaudited consolidated interim statements of comprehensive income of the Company for the three- and nine-month periods ended September 30, 2022 and the unaudited consolidated interim statements of changes in equity and cash flows for the nine-month period ended September 30, 2022 (before the effects of the adjustments to retrospectively reflect adjustments to the provisional amounts recognized at the acquisition date in connection with the Intel NAND Business Acquisition as described in Note 33(1) of the notes to the Interim Financial Statements included in this Offering Circular), not included in this Offering Circular, Samil PricewaterhouseCoopers reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, the separate report dated November 11, 2022 appearing herein states that they did not audit and they do not express an opinion on such interim financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Interim Financial Statements

Independent auditors' review report	F-2
Report on review of consolidated interim financial statements	F-4
Consolidated interim statements of financial position as of September 30, 2023 and December 31, 2022	F-6
Consolidated interim statements of comprehensive income for the three- and nine-month periods ended September 30, 2023 and 2022	F-8
Consolidated interim statements of changes in equity for the nine-month periods ended September 30, 2023 and 2022	F-9
Consolidated interim statements of cash flows for the nine-month periods ended September 30, 2023 and 2022	F-11
Notes to the consolidated interim financial statements	F-12

Audited Consolidated Financial Statements

Independent auditor's report	F-67
Consolidated statements of financial position as of December 31, 2022 and 2021 . . .	F-72
Consolidated statements of comprehensive income for the years ended December 31, 2022 and 2021	F-74
Consolidated statements of changes in equity for the years ended December 31, 2022 and 2021	F-75
Consolidated statements of cash flows for the years ended December 31, 2022 and 2021	F-77
Notes to the consolidated financial statements	F-78

Independent Auditors' Review Report

To the Shareholders and Board of Directors of
SK hynix Inc.

Reviewed Financial Statements

We have reviewed the accompanying condensed consolidated interim financial statements of SK hynix Inc. and its subsidiaries (collectively referred to as the "Group"), which comprise the condensed consolidated interim statement of financial position as of September 30, 2023, the condensed consolidated interim statements of comprehensive income (loss) for the three-month and nine-month periods ended September 30, 2023, changes in equity and cash flows for the nine-month period ended September 30, 2023, and notes comprising a summary of material accounting policy information and other explanatory information.

Management's Responsibility for the Condensed Consolidated Interim Financial Statements

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

Auditors' Responsibility

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

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

Conclusion

Based on our reviews, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements are not presented fairly, in all material respects, in accordance with Korean International Financial Reporting Standards No. 1034, *Interim Financial Reporting*.



Emphasis of Matter

As described in Note 33(1), the Group's accounting for business combination related to Intel NAND business acquisition was incomplete as of December 31, 2021, and provisional amounts were reported in the consolidated financial statements as of and for the year then ended. During the year ended December 31, 2022, the provisional amounts recognized at the acquisition date were adjusted retrospectively based on newly obtained information about facts and circumstances that existed as of the acquisition date. Accordingly, the condensed consolidated interim statements of comprehensive income for the three-month and nine-month period ended September 30, 2022, changes in equity and cash flows for the nine-month period ended September 30, 2022, presented for comparative purposes, were restated to reflect these adjustments.

Other Matters

The accompanying condensed consolidated interim statements of comprehensive income for the three-month and nine-month periods ended September 30, 2022, changes in equity and cash flows for the nine-month period ended September 30, 2022, presented for comparative purposes, before the adjustments described above, were reviewed by another auditor whose report dated November 11, 2022 stated that based on their review, nothing has come to their attention that causes them to believe the accompanying consolidated interim financial statements do not present fairly, in all material respects, in accordance with Korean International Financial Reporting Standards.

The consolidated statement of financial position of the Group as of December 31, 2022 and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, which are not accompanying this review report, were audited by other auditors in accordance with Korean Standards on Auditing, and their report thereon, dated March 10, 2023, expressed an unmodified opinion. The accompanying consolidated statement of financial position of the Group as of December 31, 2022, presented for comparative purposes, is not different from that audited by another auditor from which it was derived in all material respects.

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

KPMG Samjong Accounting Corp.

Seoul, Korea
November 14, 2023

This report is effective as of November 14, 2023 the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying condensed consolidated interim financial statements and notes thereto. Accordingly, the readers of the review report should understand that the above review report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

Report on Review of Consolidated Interim Financial Statements

To the Shareholders and Board of Directors of
SK hynix Inc.

Reviewed Financial Statements

We have reviewed the consolidated interim statements of comprehensive income for the three-month and nine-month periods ended September 30, 2022 and the consolidated interim statements of changes in equity and cash flows for the nine-month period ended September 30, 2022 of SK hynix Inc. and its subsidiaries (collectively referred to as the “Group”), including related notes (collectively referred to as the “consolidated interim financial statements”), before the effects of the adjustments to retrospectively reflect adjustments to the provisional amounts recognized at the acquisition date in connection with the acquisition of Intel Nand business described in Note 33.(1).

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated interim financial statements in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS) 1034 *Interim Financial Reporting*, and for such internal control as management determines is necessary to enable the preparation of consolidated interim financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility

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

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim financial statements, before the effects of the adjustments to retrospectively reflect adjustments to the provisional amounts recognized at the acquisition date in connection with the acquisition of Intel Nand business described in Note 33.(1), are not presented fairly, in all material respects, in accordance with Korean IFRS 1034 *Interim Financial Reporting*. (the 2022 consolidated interim financial statements before the effects of adjustments discussed in Note 33.(1) are not presented herein).

Other Matters

We were not engaged to audit, review or apply any procedures to the adjustments to the provisional amounts recognized at the acquisition date in connection with the acquisition of Intel Nand business described in Note 33.(1) to the consolidated interim financial statements as of and for the nine-month period ended September 30, 2023 and, accordingly, we do not express an opinion or any other form of assurance on them.

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

/s/ Samil PricewaterhouseCoopers

Seoul, Korea
November 11, 2022

This report is effective as of November 11, 2022, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying consolidated interim financial statements and notes thereto. Accordingly, the readers of the review report should understand that there is a possibility that the above review report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

SK hynix Inc. and Subsidiaries
Condensed Consolidated Interim Statements of Financial Position
September 30, 2023 and December 31, 2022 (unaudited)

(In millions of Korean won)

	Notes	September 30, 2023	December 31, 2022
Assets			
Current assets			
Cash and cash equivalents	5,6	₩ 7,122,306	₩ 4,977,007
Short-term financial instruments	5,6	515,346	415,625
Short-term investment assets	5,6	893,670	1,016,360
Trade receivables, net	5,6,7,29	5,515,297	5,186,054
Loans and other receivables, net	5,6,7,29	362,882	272,512
Inventories, net	8	14,947,895	15,664,707
Current tax assets		43,728	14,523
Other current assets	9	876,984	1,186,544
Other financial assets	5,6,19	115,859	-
		<u>30,393,967</u>	<u>28,733,332</u>
Non-current assets			
Investments in associates and joint ventures	10	1,416,495	1,352,845
Long-term investment assets	5,6	5,485,715	5,733,544
Loans and other receivables, net	5,6,7,29	488,957	354,167
Other financial assets	5,6,19	122,351	115,712
Property, plant and equipment, net	11,30	54,016,964	60,228,528
Right-of-use assets, net	12,29	2,683,902	1,779,985
Intangible assets, net	13	3,551,901	3,512,107
Investment property, net	14	214	223
Deferred tax assets		2,369,320	657,115
Employee benefit assets	18	1,318,135	1,332,253
Other non-current assets	9,29,30	201,529	71,701
		<u>71,655,483</u>	<u>75,138,180</u>
Total assets		<u>₩ 102,049,450</u>	<u>₩ 103,871,512</u>

See accompanying notes to the condensed consolidated interim financial statements.

SK hynix Inc. and Subsidiaries
Condensed Consolidated Interim Statements of Financial Position, Continued
September 30, 2023 and December 31, 2022 (unaudited)

(In millions of Korean won)

	Notes	September 30, 2023	December 31, 2022
Liabilities			
Current liabilities			
Trade payables	5,6,29	₩ 1,916,761	₩ 2,186,230
Other payables	5,6,21,29	2,834,557	5,445,335
Other non-trade payables	5,6,29	1,802,421	3,024,648
Borrowings	5,6,15,30	11,229,878	7,423,247
Provisions	17	261,666	251,889
Current tax liabilities		30,269	696,553
Lease liabilities	5,6,12,29	600,461	280,873
Other current liabilities	16	936,355	534,335
Other financial liabilities	5,6,19	637,754	586
		<u>20,250,122</u>	<u>19,843,696</u>
Non-current liabilities			
Long-term other payables	5,6	3,268,421	2,958,659
Other non-trade payables	5,6	84,855	28,083
Borrowings	5,6,15,30	20,328,737	15,571,357
Provisions	17	2,774	1,404
Defined benefit liabilities, net	18	76,702	69,952
Deferred tax liabilities		125,451	382,477
Lease liabilities	5,6,12,29	2,423,357	1,516,208
Other non-current liabilities	16	253,451	204,844
Other financial liabilities	5,6	4,020	4,290
		<u>26,567,768</u>	<u>20,737,274</u>
Total liabilities		<u>46,817,890</u>	<u>40,580,970</u>
Equity			
Equity attributable to owners of the Parent Company			
Capital stock	20	3,657,652	3,657,652
Capital surplus	20	4,346,117	4,336,170
Other equity	20,32	(2,285,868)	(2,311,409)
Accumulated other comprehensive income		1,196,594	898,682
Retained earnings	21	48,287,780	56,685,260
Total equity attributable to owners of the Parent Company		<u>55,202,275</u>	<u>63,266,355</u>
Non-controlling interests		29,285	24,187
Total equity		<u>55,231,560</u>	<u>63,290,542</u>
Total liabilities and equity		<u>₩ 102,049,450</u>	<u>₩ 103,871,512</u>

See accompanying notes to the condensed consolidated interim financial statements.

SK hynix Inc. and Subsidiaries
Condensed Consolidated Interim Statements of Comprehensive Income (Loss)
Three-month and Nine-month periods ended September 30, 2023 and 2022 (unaudited)

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

	Notes	Period Ended September 30			
		2023		2022	
		Three months	Nine months	Three Months	Nine months
Revenue	4,22,29	₩ 9,066,171	₩ 21,460,214	₩ 10,982,883	₩ 36,949,537
Cost of sales	24,29	9,002,045	24,219,215	7,117,303	21,345,100
Gross profit (loss)		64,126	(2,759,001)	3,865,580	15,604,437
Selling and administrative expense	23,24,29	1,856,087	5,317,346	2,205,057	6,882,791
Operating profit (loss)		(1,791,961)	(8,076,347)	1,660,523	8,721,646
Finance income	25	668,230	2,188,565	2,095,629	4,178,889
Finance expenses	25	1,141,653	3,656,065	2,064,165	4,615,888
Share of profit of equity-accounted investees	10	6,011	18,858	26,526	119,245
Other income	26	234,157	260,258	30,097	214,249
Other expenses	26	444,441	518,316	60,401	180,065
Profit (loss) before income tax		(2,469,657)	(9,783,047)	1,688,209	8,438,076
Income tax expense (benefit)	27	(284,958)	(2,024,950)	580,592	2,461,820
Profit (loss) for the period		₩ (2,184,699)	₩ (7,758,097)	₩ 1,107,617	₩ 5,976,256
Other comprehensive income (loss)					
Item that will not be reclassified to profit or loss:					
Remeasurements of defined benefit liabilities, net of tax	18	(8,119)	(23,017)	(14,480)	(36,758)
Items that may be subsequently reclassified to profit or loss:					
Foreign operations – foreign currency translation differences, net of tax		155,416	273,057	978,631	1,886,027
Gain (loss) on valuation of derivatives, net of tax	19	(6,449)	(29,827)	(1,448)	9,228
Equity-accounted investees – share of other comprehensive income, net of tax	10	20,796	53,555	102,690	206,733
Other comprehensive income for the period, net of tax		161,644	273,768	1,065,393	2,065,230
Total comprehensive income (loss) for the period		₩ (2,023,055)	₩ (7,484,329)	₩ 2,173,010	₩ 8,041,486
Profit (loss) attributable to:					
Owners of the Parent Company		₩ (2,183,733)	₩ (7,755,323)	₩ 1,111,705	₩ 5,970,978
Non-controlling interests		(966)	(2,774)	(4,088)	5,278
Total comprehensive income (loss) attributable to:					
Owners of the Parent Company		₩ (2,022,125)	₩ (7,480,428)	₩ 2,168,781	₩ 8,023,517
Non-controlling interests		(930)	(3,901)	4,229	17,969
Earnings (loss) per share	28				
Basic earnings (loss) per share (in Korean won)		₩ (3,174)	₩ (11,272)	₩ 1,617	₩ 8,683
Diluted earnings (loss) per share (in Korean won)		₩ (3,174)	₩ (11,272)	₩ 1,616	₩ 8,681

See accompanying notes to the condensed consolidated interim financial statements.

SK hynix Inc. and Subsidiaries
Condensed Consolidated Interim Statements of Changes in Equity
Nine-month periods ended September 30, 2023 and 2022 (unaudited)

Attributable to owners of the Parent Company

(In millions of Korean won)

	Notes	Accumulated					Total	Non-controlling interests	Total equity
		Capital stock	Capital surplus	Other equity	comprehensive income other	Retained earnings			
Balance at January 1, 2022		₩ 3,657,652	₩ 4,334,643	₩ (2,294,562)	₩ 675,271	₩ 55,784,068	₩ 62,157,072	₩ 33,986	₩ 62,191,058
Comprehensive income:									
Profit for the period		-	-	-	-	5,970,978	5,970,978	5,278	5,976,256
Remeasurements of defined benefit liabilities, net of tax	18	-	-	-	-	(36,758)	(36,758)	-	(36,758)
Other comprehensive income of associate, net of tax	10	-	-	-	206,733	-	206,733	-	206,733
Gain on valuation of derivatives, net of tax		-	-	-	9,228	-	9,228	-	9,228
Foreign currency translation differences for foreign operations, net of tax		-	-	-	1,873,336	-	1,873,336	12,691	1,886,027
Total comprehensive income for the period		-	-	-	2,089,297	5,934,220	8,023,517	17,969	8,041,486
Transactions with owners of the Parent Company:									
Dividends paid	21	-	-	-	-	(1,471,526)	(1,471,526)	(3,084)	(1,474,610)
Share-based payment transactions	32	-	-	4,587	-	-	4,587	-	4,587
Changes in terms and conditions of share-based payment	20,32	-	-	(26,927)	-	-	(26,927)	-	(26,927)
Disposal of treasury stock	20	-	1,527	1,731	-	-	3,258	-	3,258
Total transactions with owners of the Parent Company		-	1,527	(20,609)	-	(1,471,526)	(1,490,608)	(3,084)	(1,493,692)
Balance at September 30, 2022		₩ 3,657,652	₩ 4,336,170	₩ (2,315,171)	₩ 2,764,568	₩ 60,246,762	₩ 68,689,981	₩ 48,871	₩ 68,738,852

See accompanying notes to the condensed consolidated interim financial statements.

SK hynix Inc. and Subsidiaries
Condensed Consolidated Interim Statements of Changes in Equity, Continued
Nine-month periods ended September 30, 2023 and 2022 (unaudited)

		Attributable to owners of the Parent Company						
		Accumulated				Non-		
		Capital stock	Capital surplus	Other equity	comprehensive income (loss) other	Retained earnings	controlling interests	Total equity
Notes								
	Balance at January 1, 2023	₩ 3,657,652	₩ 4,336,170	₩ (2,311,409)	₩ 898,682	₩ 56,685,260	₩ 24,187	₩ 63,290,542
	Comprehensive income:							
	Loss for the period	-	-	-	-	(7,755,323)	(2,774)	(7,758,097)
	Remeasurements of defined benefit liability, net of tax	-	-	-	-	(23,017)	-	(23,017)
18	Other comprehensive income of associate, net of tax	-	-	-	53,555	-	-	53,555
10	Loss on valuation of derivatives, net of tax	-	-	-	(29,827)	-	-	(29,827)
	Foreign currency translation differences for foreign operations, net of tax	-	-	-	274,184	-	(1,127)	273,057
	Total comprehensive income (loss) for the period	-	-	-	297,912	(7,778,340)	(3,901)	(7,484,329)
	Transactions with owners of the Parent Company:							
21	Dividends paid	-	-	-	-	(619,140)	-	(619,140)
	Share-based payment transactions	-	-	(978)	-	-	20,107	19,129
20	Disposal of treasury shares	-	12,414	26,519	-	-	-	38,933
	Acquisition of subsidiary shares	-	(2,467)	-	-	-	(11,108)	(13,575)
	Total transactions with owners of the Parent Company	-	9,947	25,541	-	(619,140)	8,999	(574,653)
	Balance at September 30, 2023	₩ 3,657,652	₩ 4,346,117	₩ (2,285,868)	₩ 1,196,594	₩ 48,287,780	₩ 29,285	₩ 55,231,560

See accompanying notes to the condensed consolidated interim financial statements.

SK hynix Inc. and Subsidiaries
Condensed Consolidated Interim Statements of Cash Flows
Nine-month periods ended September 30, 2023 and 2022 (unaudited)

<i>(In millions of Korean won)</i>	<u>Note</u>	<u>2023</u>	<u>2022</u>
Cash flows from operating activities			
Cash generated from operating activities	31 ₩	2,276,472 ₩	16,763,330
Interest received		135,993	35,371
Interest paid		(905,531)	(312,697)
Dividends received		32,578	19,744
Income tax paid		(1,214,229)	(2,910,028)
Net cash provided by operating activities		<u>325,283</u>	<u>13,595,720</u>
Cash flows from investing activities			
Decrease in short-term financial instruments		984,402	1,549,687
Increase in short-term financial instruments		(1,083,035)	(1,617,034)
Decrease in short-term investment assets, net		184,378	1,267,232
Decrease in loans and other receivables		42,147	30,017
Increase in loans and other receivables		(225,626)	(63,916)
Proceeds from disposal of long-term investment assets		8,560	3,701
Acquisition of long-term investment assets		(28,830)	(97,656)
Decrease in other financial assets		-	29,350
Proceeds from disposal of property, plant and equipment		1,388,014	314,748
Acquisition of property, plant and equipment		(6,599,521)	(14,873,038)
Proceeds from disposal of intangible assets		290	1,016
Acquisition of intangible assets		(352,682)	(521,587)
Proceeds from disposal of investment property		-	263,211
Proceeds from disposal of investments in associates		8,847	201,454
Acquisition of investments in associates		(21,848)	(35,147)
Acquisitions of business		-	(1,027,663)
Net cash used in investing activities		<u>(5,694,904)</u>	<u>(14,575,625)</u>
Cash flows from financing activities			
Proceeds from borrowings		17,747,887	6,392,515
Repayments of borrowings		(9,446,375)	(4,611,893)
Dividends paid		(619,140)	(1,474,610)
Exercise stock-option		53	3
Repayments of lease liabilities		(283,185)	(212,727)
Disposal of treasury stock		12,737	9,518
Acquisition of subsidiary shares		(13,575)	-
Net cash provided by from financing activities		<u>7,398,402</u>	<u>102,806</u>
Effects of exchange rate changes on cash and cash equivalents			
		116,518	538,334
Net Increase (decrease) in cash and cash equivalents		<u>2,145,299</u>	<u>(338,765)</u>
Cash and cash equivalents at the beginning of the period		4,977,007	5,057,982
Cash and cash equivalents at the end of the period	₩	<u>7,122,306</u>	₩ <u>4,719,217</u>

See accompanying notes to the condensed consolidated interim financial statements.

SK hynix Inc. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

September 30, 2023 and 2022 (Unaudited) and December 31, 2022

1. General Information

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

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

As of September 30, 2023, the shareholders of the Parent Company are as follows:

Shareholder	Number of shares	Percentage of ownership (%)
SK Square Co., Ltd.	146,100,000	20.07
Other investors	542,016,189	74.45
Treasury shares	39,886,176	5.48
	<u>728,002,365</u>	<u>100.00</u>

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

SK hynix Inc. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2023 and 2022 (Unaudited) and December 31, 2022

1. General Information, Continued

(2) Details of the Group's consolidated subsidiaries as of September 30, 2023 and December 31, 2022 are as follows:

Company	Location	Business	Ownership (%)	
			2023	2022
SK hyeng Inc.	Korea	Construction and service	100	100
SK hystec Inc.	Korea	Business support and service	100	100
HappyNarae Co., Ltd.	Korea	Industrial material supply	100	100
Happymore Inc.	Korea	Semiconductor apparel manufacturing, baking and services	100	100
SK hynix system ic Inc.	Korea	Semiconductor research and development and business support	100	100
SK hynix America Inc. ¹⁴	U.S.A.	Semiconductor sales	100	97.74
SK hynix Deutschland GmbH	Germany	Semiconductor sales	100	100
SK hynix Asia Pte. Ltd.	Singapore	Semiconductor sales	100	100
SK hynix Semiconductor Hong Kong Ltd.	Hong Kong	Semiconductor sales	100	100
SK hynix Japan Inc.	Japan	Semiconductor sales	100	100
SK hynix U.K. Ltd.	U.K.	Semiconductor sales	100	100
SK hynix Semiconductor India Private Ltd. ¹	India	Semiconductor sales	100	100
SK hynix Semiconductor (Shanghai) Co., Ltd.	China	Semiconductor sales	100	100
SK hynix (Wuxi) Semiconductor Sales Ltd.	China	Semiconductor sales	100	100
SK hynix Semiconductor Taiwan Inc.	Taiwan	Semiconductor sales	100	100
SK hynix Semiconductor (China) Ltd.	China	Semiconductor manufacturing	100	100
SK hynix Semiconductor (Chongqing) Ltd. ²	China	Semiconductor manufacturing	100	100
SK APTECH Ltd.	Hong Kong	Overseas investment	100	100
SK hynix Ventures Hong Kong Ltd.	Hong Kong	Overseas investment	100	100
SK hynix Italy S.r.l. ¹⁵	Italy	Semiconductor research and development	100	100
SK hynix memory solutions America Inc. ¹²	U.S.A.	Semiconductor research and development	99.47	99.89
SK hynix memory solutions Taiwan Ltd.	Taiwan	Semiconductor research and development	100	100
SK hynix memory solutions Eastern Europe LLC. ¹⁵	Belarus	Semiconductor research and development	100	100
SK hynix (Wuxi) Investment Ltd. ³	China	Overseas investment	100	100
SK hynix (Wuxi) Industry Development Ltd. ⁴	China	Foreign hospital construction	100	100
SK hynix Happiness (Wuxi) Hospital Management Ltd. ⁴	China	Foreign hospital operation	70	70
SK hynix cleaning (Wuxi) Ltd. ⁴	China	Building maintenance and others	100	100
SK hynix system ic (Wuxi) Co., Ltd. ⁵	China	Overseas Semiconductor manufacturing and sales	100	100
SUZHOU HAPPYNARAE Co., Ltd. ⁶	China	Overseas industrial material supply	100	100
CHONGQING HAPPYNARAE Co., Ltd. ⁷	China	Overseas industrial material supply	100	100
SK hynix (Wuxi) Education Technology Co., Ltd. ⁴	China	Overseas Education	100	100
SkyHigh Memory Limited ⁵	Hong Kong	Overseas Semiconductor manufacturing and sales	60	60
Gauss Labs Inc. ¹⁶	U.S.A.	Overseas telecommunication of information	99.94	100
Skyhigh Memory China Limited ⁹	China	Semiconductor sales support	60	60
Skyhigh Memory Limited Japan ⁹	Japan	Semiconductor sales support	60	60
HappyNarae America LLC ⁶	U.S.A.	Overseas industrial material supply	100	100
HappyNarae Hungary Kft ⁶	Hungary	Overseas industrial material supply	100	100

SK hynix Inc. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2023 and 2022 (Unaudited) and December 31, 2022

1. General Information, Continued

(2) Details of the Group's consolidated subsidiaries as of September 30, 2023 and December 31, 2022 are as follows, Continued:

Company	Location	Business	Ownership (%)	
			2023	2022
SK hynix Ventures America LLC	U.S.A	Overseas investment	100	100
SK hynix (Wuxi) Education Service Development Co., Ltd. ¹⁰	China	Overseas education	100	100
SK hynix NAND Product Solutions Corp.	U.S.A	Semiconductor sales, research and development and others	99.47	99.89
SK hynix NAND Product Solutions Taiwan Co., Ltd. ^{8, 12}	Taiwan	Semiconductor research and development and sales	99.47	99.89
SK hynix NAND Product Solutions Canada Ltd. ^{8, 12}	Canada	Semiconductor research and development	99.47	99.89
SK hynix NAND Product Solutions Mexico, S. DE R.L. DE C.V. ^{8, 12}	Mexico	Semiconductor research and development	99.47	99.89
SK hynix Semiconductor (Dalian) Co., Ltd.	China	Semiconductor manufacturing	100	100
SK hynix NAND Product Solutions UK Limited ^{8, 12}	U.K.	Semiconductor sales	99.47	99.89
SK hynix NAND Product Solutions Israel Ltd. ^{8, 12}	Israel	Semiconductor sales	99.47	99.89
SK hynix NAND Product Solutions Japan G.K. ^{8, 12}	Japan	Semiconductor sales	99.47	99.89
SK hynix NAND Product Solutions International LLC ^{8, 12}	U.S.A	Semiconductor sales	99.47	99.89
SK hynix NAND Product Solutions Asia Pacific LLC ^{8, 12}	U.S.A	Semiconductor sales	99.47	99.89
SK hynix NAND Product Solutions Singapore Pte. Ltd. ^{8, 12}	Singapore	Semiconductor sales	99.47	99.89
SK hynix NAND Product Solutions Malaysia Sdn. Bhd. ^{8, 12}	Malaysia	Semiconductor sales	99.47	99.89
SK HYNIX NAND PRODUCT SOLUTIONS POLAND sp. z o.o. ^{8, 12}	Poland	Semiconductor research and development	99.47	99.89
SK hynix NAND Product Solutions (Beijing) Co., Ltd. ^{8, 12}	China	Semiconductor sales	99.47	99.89
SK hynix NAND Product Solutions (Shanghai) Co., Ltd. ^{8, 12}	China	Semiconductor research and development	99.47	99.89
Key Foundry Co., Ltd.	Korea	Semiconductor sales, manufacturing and others	100	100
KEY FOUNDRY, INC. ¹³	U.S.A	Semiconductor sales	100	100
KEY FOUNDRY SHANGHAI CO., LTD. ¹³	China	Semiconductor sales	100	100
KEY FOUNDRY LTD. ^{13, 15}	Taiwan	Semiconductor sales	100	100
Intel NDTM US LLC ¹¹	U.S.A	Semiconductor research and development	-	-
Intel Semiconductor Storage Technology (Dalian) Ltd. ¹¹	China	Semiconductor manufacturing support	-	-
MMT (Money Market Trust)	Korea	Money Market Trust	100	100

¹ Subsidiary of SK hynix Asia Pte. Ltd.

² Subsidiary of SK APTECH Ltd.

³ Subsidiary of SK hynix Semiconductor (China) Ltd.

⁴ Subsidiary of SK hynix (Wuxi) Investment Ltd.

⁵ Subsidiary of SK hynix system ic Inc.

⁶ Subsidiary of HappyNarae Co., Ltd.

SK hynix Inc. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

September 30, 2023 and 2022 (Unaudited) and December 31, 2022

1. General Information, Continued

(2) Details of the Group's consolidated subsidiaries as of September 30, 2023 and December 31, 2022 are as follows, Continued:

⁷ Subsidiary of SUZHOU HAPPYNARAE Co., Ltd.

⁸ Subsidiary of SK hynix NAND Product Solutions Corp.

⁹ Subsidiary of SkyHigh Memory Limited

¹⁰ Subsidiary of SK hynix (Wuxi) Education Technology Co., Ltd.

¹¹ Intel holds the legal ownership of these entities as of September 30, 2023 and the Group is expected to acquire ownership through the 2nd Closing of Intel NAND business acquisition expected in 2025. However, the Group consolidated these entities since the initial closing of the acquisition, because the management determined that it has control over these entities.

¹² The Parent Company's ownership interest decreased due to grants of stock options to employees of SK hynix NAND Product Solutions Corp. and its subsidiary during the nine-month period ended on September 30, 2023.

¹³ Subsidiary of Key Foundry Co., Ltd.

¹⁴ Ownership interest increased upon acquisition of non-controlling interest during the nine-month period ended on September 30, 2023.

¹⁵ Liquidation is in progress as of September 30, 2023.

¹⁶ The Parent Company's ownership interest decreased due to exercise of stock options by employees of Gauss Labs Inc. during the nine-month period ended on September 30, 2023.

(3) The subsidiaries in consolidation are the same as those as of December 31, 2022.

(4) Major subsidiaries' summarized statements of financial position as of September 30, 2023 and December 31, 2022 are as follows:

(In millions of Korean won)

	September 30, 2023			December 31, 2022		
	Assets	Liabilities	Equity	Assets	Liabilities	Equity
SK hynix America Inc.	₩ 3,249,185	₩ 2,612,857	₩ 636,328	₩ 3,407,756	₩ 2,820,013	₩ 587,743
SK hynix Asia Pte. Ltd.	290,747	172,539	118,208	388,934	281,014	107,920
SK hynix Semiconductor Hong Kong Ltd.	333,483	138,897	194,586	236,723	58,074	178,649
SK hynix U.K. Ltd.	301,684	270,404	31,280	313,691	286,308	27,383
SK hynix Semiconductor Taiwan Inc.	588,442	566,590	21,852	156,135	130,036	26,099
SK hynix (Wuxi) Semiconductor Sales Ltd.	1,394,043	837,905	556,138	871,993	383,653	488,340
SK hynix Semiconductor (China) Ltd.	10,970,221	4,918,726	6,051,495	12,127,232	6,015,062	6,112,170
SK hynix Semiconductor (Chongqing) Ltd.	1,098,877	209,494	889,383	1,033,694	244,180	789,514
SK hynix Japan Inc.	277,387	197,773	79,614	385,040	307,751	77,289
HappyNarae Co., Ltd.	125,511	71,803	53,708	205,797	145,968	59,829
SK hynix NAND Product Solutions Corp. and subsidiaries	12,994,311	13,457,894	(463,583)	13,475,178	10,333,565	3,141,614

SK hynix Inc. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2023 and 2022 (Unaudited) and December 31, 2022

1. General Information, Continued

(5) Major subsidiaries' summarized statements of comprehensive income (loss) for the nine-month periods ended September 30, 2023 and 2022 are as follows:

(In millions of Korean won)

	2023		2022	
	Revenue	Net profit (loss)	Revenue	Net profit (loss)
SK hynix America Inc.	₩ 7,777,536	₩ (27,610)	₩ 15,666,175	₩ (207,565)
SK hynix Asia Pte. Ltd.	788,759	3,598	2,245,156	15,195
SK hynix Semiconductor Hong Kong Ltd.	1,084,133	5,412	1,709,419	(3,649)
SK hynix U.K. Ltd.	435,490	2,150	1,021,380	20,754
SK hynix Semiconductor Taiwan Inc.	1,699,456	(2,385)	1,924,888	(17,086)
SK hynix (Wuxi) Semiconductor Sales Ltd.	5,255,706	60,351	8,571,524	32,837
SK hynix Semiconductor (China) Ltd.	3,880,287	(149,684)	4,173,176	(537,085)
SK hynix Semiconductor (Chongqing) Ltd.	812,654	87,802	856,374	64,720
SK hynix Japan Inc.	584,290	6,753	521,601	22,034
HappyNarae Co., Ltd.	610,015	(6,120)	645,135	1,896
SK hynix NAND Product Solutions Corp. and subsidiaries	2,085,637	(3,672,435)	3,849,070	(857,838)

(6) There are no significant non-controlling interests to the Group as of September 30, 2023 and December 31, 2022.

SK hynix Inc. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

September 30, 2023 and 2022 (Unaudited) and December 31, 2022

2. Material Accounting Policies

2.1 Basis of Consolidated Interim Financial Statements Preparation

The Group 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 Group's consolidated interim financial statements for the nine-month period ended September 30, 2023 have been prepared in accordance with Korean IFRS 1034 *Interim Financial Reporting*. These consolidated interim financial statements have been prepared in accordance with Korean IFRS which is effective or early adopted as of September 30, 2023.

2.1.1 New and amended standards or interpretations adopted by the Group

The Group has applied the following new and revised IFRS Standards or interpretations that are effective from January 1, 2023.

(a) Korean IFRS 1001 Presentation of Financial Statements - Disclosure of Accounting Policies

The amendments to Korean IFRS 1001 define and require entities to disclose their material accounting policies. The amendment does not have a significant impact on the consolidated interim financial statements.

(b) Korean IFRS 1001 Presentation of Financial Statements - Disclosure of gain or loss on valuation of financial liabilities subject to adjustment of exercise price

If the entire or a part of financial instrument, whose exercise price is subject to change due to the issuer's share price, is classified as a financial liability, the carrying amount of the financial liability and related gains and losses shall be disclosed. The amendment does not have a significant impact on the consolidated interim financial statements.

(c) Korean IFRS 1008 Accounting policies, changes in accounting estimates and errors - Definition of Accounting Estimates

The amendments define accounting estimates and clarify how to distinguish them from changes in accounting policies. The amendment does not have a significant impact on the consolidated interim financial statements.

(d) Korean IFRS 1012 Income Taxes - Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments include an additional condition to the exemption to initial recognition of an asset or liability that a transaction does not give rise to equal taxable and deductible temporary differences at the time of the transaction. The amendment does not have a significant impact on the consolidated interim financial statements.

SK hynix Inc. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

September 30, 2023 and 2022 (Unaudited) and December 31, 2022

2. Material Accounting Policies, Continued

2.1 Basis of Consolidated Interim Financial Statements Preparation, Continued

2.1.1 New and amended standards or interpretations adopted by the Group, Continued

(e) Korean IFRS 1117 Insurance Contract

Korean IFRS 1117 Insurance Contracts replaces *Korean IFRS 1104 Insurance Contracts*. This Standard estimates future cash flows of an insurance contract and measures insurance liabilities using discount rates applied with assumptions and risks at the end of the reporting period. The entity recognizes insurance revenue on an accrual basis including services (insurance coverage) provided to the policyholder by each annual period. In addition, investment components (refunds due to termination/maturity) repaid to a policyholder even if an insured event does not occur, are excluded from insurance revenue, and insurance financial income or expense and the investment income or expense are presented separately to enable users of the information to understand the sources of income or expenses. The amendment does not have a significant impact on the consolidated interim financial statements.

2.1.2 New and amended standards or interpretations not yet adopted by the Group

The following new accounting standards and interpretations have been published that are not mandatory for September 30, 2023 reporting periods and have not been early adopted by the Group.

(a) Amendments to Korean IFRS 1001 Presentation of Financial Statements - Classification of Liabilities as Current or Non-current

The amendments clarify that liabilities are classified as either current or non-current, depending on the substantive rights that exist at the end of the reporting period. Classification is unaffected by the likelihood that an entity will exercise right to defer settlement of the liability or the expectations of management. Also, the settlement of liability includes the transfer of the entity's own equity instruments, however, it would be excluded if an option to settle them by the entity's own equity instruments if compound financial instruments is met the definition of equity instruments and recognized separately from the liability. In addition, covenants that an entity is required to comply with after the end of the reporting period would not affect classification of a liability as current or non-current at the reporting date. When an entity classifies a liability that is subject to the covenants which an entity is required to comply with within twelve months of the reporting date as non-current at the end of the reporting period, the entity shall disclose information in the notes to understand the risk that non-current liabilities with covenants could become repayable within twelve months after the reporting period. The amendments should be applied for annual periods beginning on or after January 1, 2024, and earlier application is permitted. The Group is in review for the impact of these amendments on the consolidated financial statements.

2.2 Accounting Policies

Material accounting policies and method of computation used in the preparation of the consolidated interim financial statements are consistent with those of the consolidated annual financial statements for the year ended December 31, 2022, except for the changes due to the application of amendments and enactments of standards described in Note 2.1.1 and as described below.

SK hynix Inc. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2023 and 2022 (Unaudited) and December 31, 2022

2. Material Accounting Policies, Continued

2.2 Accounting Policies, Continued

2.2.1 Income tax expense

Income tax expense for the interim period is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual effective income tax rate is applied to the pre-tax income for the interim period.

3. Critical Accounting Estimates and Assumptions

The Group makes estimates and assumptions concerning the future. The estimates and assumptions are continuously assessed, considering historical experience and other factors, including expectations of future events that are believed to be reasonable under the current circumstances. These resulting accounting estimates may differ from the actual results.

Critical accounting estimates and assumptions made in the preparation of these consolidated interim financial statements are consistent with those applied in the preparation of the consolidated annual financial statements for the year ended December 31, 2022, except for the estimates used to determine the income tax expense.

4. Operating Segment Information

The Group has a single reportable segment that is engaged in the manufacture and sale of semiconductor products. The Chief Operating Decision Maker of the Group reviews the operational results of the semiconductor business with the reporting information which is prepared in the same manner as management reviews during the establishment of the Group's business strategy.

(1) The Group's non-current assets (excluding financial assets, loans and other receivables, investment in associates and joint ventures and deferred tax assets) information by region based on the location of the Parent Company and its subsidiaries as of September 30, 2023 and December 31, 2022 are as follows:

(In millions of Korean won)

	September 30, 2023	December 31, 2022
Korea	₩ 45,668,511	₩ 48,935,513
China	15,570,363	17,486,061
Asia(other than China)	20,803	19,397
U.S.A.	502,452	469,699
Europe	10,516	14,128
	<u>₩ 61,772,645</u>	<u>₩ 66,924,798</u>

(2) For the nine-month period ended September 30, 2023, no revenue derived from a single customer reached over 10% of the Group's revenue. For the nine-month period ended September 30, 2022 revenue of ₩4,332,591 million and ₩3,985,640 million, over 10% of the Group's revenue, were derived from external customers A and B.

SK hynix Inc. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2023 and 2022 (Unaudited) and December 31, 2022

5. Carrying Amounts of Financial Instruments by Categories

(1) Carrying amounts of financial assets by categories as of September 30, 2023 and December 31, 2022 are as follows:

(In millions of Korean won)

September 30, 2023					
	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income or loss	Financial assets at amortized cost	Other financial assets	Total
Cash and cash equivalents	₩ -	₩ -	₩ 7,122,306	₩ -	₩ 7,122,306
Short-term financial instruments	222,500	-	292,846	-	515,346
Short-term investment assets	893,670	-	-	-	893,670
Trade receivables ¹	-	332,432	5,182,865	-	5,515,297
Loans and other receivables	-	-	851,839	-	851,839
Other financial assets	-	-	706	237,504	238,210
Long-term investment assets	5,485,715	-	-	-	5,485,715
	<u>₩ 6,601,885</u>	<u>₩ 332,432</u>	<u>₩ 13,450,562</u>	<u>₩ 237,504</u>	<u>₩ 20,622,383</u>

¹ The Group transferred certain portion of trade receivables due from specific customers, and derecognized the trade receivables from the consolidated financial statements as all the risks and rewards are substantially transferred. Accordingly, the Group recognized gain or loss on disposal of trade receivables.

(In millions of Korean won)

December 31, 2022					
	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income or loss	Financial assets at amortized cost	Other financial assets	Total
Cash and cash equivalents	₩ -	₩ -	₩ 4,977,007	₩ -	₩ 4,977,007
Short-term financial instruments	222,500	-	193,125	-	415,625
Short-term investment assets	1,016,360	-	-	-	1,016,360
Trade receivables ¹	-	207,072	4,978,982	-	5,186,054
Loans and other receivables	-	-	626,679	-	626,679
Other financial assets	-	-	695	115,017	115,712
Long-term investment assets	5,733,544	-	-	-	5,733,544
	<u>₩ 6,972,404</u>	<u>₩ 207,072</u>	<u>₩ 10,776,488</u>	<u>₩ 115,017</u>	<u>₩ 18,070,981</u>

¹ The Group transferred certain portion of trade receivables due from specific customers, and derecognized the trade receivables from the consolidated financial statements as all the risks and rewards are substantially transferred. Accordingly, the Group recognized gain or loss on disposal of trade receivables.

SK hynix Inc. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2023 and 2022 (Unaudited) and December 31, 2022

5. Carrying Amounts of Financial Instruments by Categories, Continued

(2) Carrying amounts of financial liabilities by categories as of September 30, 2023 and December 31, 2022 are as follows:

(In millions of Korean won)

	September 30, 2023		
	Financial liabilities at fair value through profit or loss	Financial liabilities at amortized cost	Total
Trade payables	₩ -	₩ 1,916,761	₩ 1,916,761
Other payables	-	6,102,978	6,102,978
Other non-trade payables ¹	-	1,352,420	1,352,420
Borrowings	-	31,558,615	31,558,615
Lease liabilities	-	3,023,818	3,023,818
Other financial liabilities	637,174	4,600	641,774
	<u>₩ 637,174</u>	<u>₩ 43,959,192</u>	<u>₩ 44,596,366</u>

¹ Among other non-trade payables, employee benefits liabilities that correspond to the Group's obligations under the employee benefit plan were excluded because they were not subject to disclosure of financial instruments.

(In millions of Korean won)

	December 31, 2022	
	Financial liabilities at amortized cost	
Trade payables	₩	2,186,230
Other payables		8,403,994
Other non-trade payables ¹		1,415,197
Borrowings		22,994,604
Lease liabilities		1,797,081
Other financial liabilities		4,876
	<u>₩</u>	<u>36,801,982</u>

¹ Among other non-trade payables, employee benefits liabilities that correspond to the Group's obligations under the employee benefit plan were excluded because they were not subject to disclosure of financial instruments.

SK hynix Inc. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2023 and 2022 (Unaudited) and December 31, 2022

6. Financial Risk Management

(1) Financial risk management

The Group's activities are exposed to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The consolidated interim financial statements do not include all the financial risk management policies and disclosures that are required in the consolidated annual financial statements; therefore, see the consolidated annual financial statements for full disclosure. There were no significant changes in risk management department and risk management policies subsequent to December 31, 2022.

(a) Market risk

(i) Foreign exchange risk

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

Monetary foreign currency assets and liabilities as of September 30, 2023 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	16,166 ₩	21,740,700	22,859 ₩	30,740,544
JPY	2,711	24,461	68,613	619,040
CNY	1,869	344,463	341	62,771
EUR	19	26,509	137	194,588

The Group enters into a currency swap contract and a currency interest rate swap contract to hedge currency risk of foreign currency denominated bonds and borrowings as explained in Note 19.

When the exchange rate of the functional currency against each foreign currency fluctuates by 10% as of September 30, 2023, the impact of the change in the exchange rate on profit before income tax expenses are as follows:

(In millions of Korean won)

		If increased by 10%	If decreased by 10%
USD	₩	(678,240) ₩	678,240
JPY		(59,458)	59,458
CNY		28,169	(28,169)
EUR		(16,808)	16,808

SK hynix Inc. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2023 and 2022 (Unaudited) and December 31, 2022

6. Financial Risk Management, Continued

(1) Financial risk management, Continued

(a) Market risk, Continued

(ii) Interest rate risk

Interest rate risk of the Group is defined as the risk that the interest expenses arising from borrowings will fluctuate 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 Group is managing cash flow interest rate risk using floating-to-fixed cross currency interest rate swaps. These interest rate swaps have an economic effect of converting floating interest borrowings into fixed interest borrowings. Generally, the Group borrows at a floating interest rate and then swaps at a fixed rate. Under the swap agreement, the Group will settle the difference between fixed interest costs and the floating interest costs calculated according to the principal agreed upon for each counterparty and specific period (mainly quarterly).

The Group is partially exposed to the risk of changing net interest costs due to changes in interest rates as of September 30, 2023. The Group has signed a currency interest rate swap contract on floating interest rate borrowings of ₩546,325 million and an interest rate swap contract on floating interest rate borrowings of ₩100,000 million. Therefore, the changes in interest costs subject to fluctuation of interest rates do not have an impact on the profit before income tax for the nine-month period ended September 30, 2023.

As of September 30, 2023, if interest rates on borrowings and financial assets had been 100 basis points higher/lower with all other variables held constant, profit before income tax would have been ₩82,374 million (2022: ₩79,923 million) lower/higher over the next year, mainly as a result of higher/lower net interest costs on floating-rate borrowings and interest on floating-rate financial assets.

(iii) Price risk

The Group invests in equity and debt securities resulted from its business needs and the purpose of liquidity management. The Group's equity and debt securities are exposed to price risk as of September 30, 2023.

(b) Credit risk

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

SK hynix Inc. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2023 and 2022 (Unaudited) and December 31, 2022

6. Financial Risk Management, Continued

(1) Financial risk management, Continued

(b) Credit risk, Continued

(i) Trade and other receivables

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

The Group reviews at the end of each reporting period whether trade and other receivables are impaired and enters into credit insurance contracts to manage credit risk exposure from oversea customers. The extent of the Group's exposure to credit risk as of September 30, 2023 is equal to the carrying amount of trade and other receivables.

(ii) Other financial assets

Credit risk also arises from other financial assets such as cash and cash equivalents, short-term financial instruments, 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 September 30, 2023 is the carrying amount of those financial assets. The Group deposits cash and cash equivalents, short-term financial instruments and others in several financial institutions, and transacts only with banks and financial institutions with high credit ratings. 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 Group is unable to meet its short-term payment obligations on time due to deterioration of its business performance or inability to access financing. The Group forecasts its cash flow and liquidity status and sets action plans on a regular basis to manage liquidity risk proactively.

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

SK hynix Inc. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2023 and 2022 (Unaudited) and December 31, 2022

6. Financial Risk Management, Continued

(2) Capital management

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

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

The debt-to-equity ratio and net borrowing ratio as of September 30, 2023 and December 31, 2022 are as follows:

(In millions of Korean won)

	September 30, 2023	December 31, 2022
Total liabilities (A)	₩ 46,817,890	₩ 40,580,970
Total equity (B)	55,231,560	63,290,542
Cash and cash equivalents, and others ¹ (C)	8,531,322	6,408,992
Total borrowings (D)	31,558,615	22,994,604
Debt-to-equity ratio (A/B)	84.77%	64.12%
Net borrowing ratio (D-C)/B	41.69%	26.21%

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

Under major borrowing contracts, the Group is obliged to comply with a certain level of debt ratio and Loan-To-Value ratio. The Group has complied with all of these conditions as of September 30, 2023.

(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)

SK hynix Inc. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2023 and 2022 (Unaudited) and December 31, 2022

6. Financial Risk Management, Continued

(3) Fair value, Continued

(a) The following table presents the Group's carrying amounts and fair values of financial instruments by categories, including their levels in the fair value hierarchy, as of September 30, 2023 and December 31, 2022:

(In millions of Korean won)

	Carrying amounts	September 30, 2023			
		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Short-term financial instruments	₩ 222,500 ₩	- ₩	- ₩	222,500 ₩	222,500
Short-term investment assets	893,670	-	893,670	-	893,670
Trade receivables ¹	332,432	-	332,432	-	332,432
Long-term investment assets	5,485,715	-	-	5,485,715	5,485,715
Other financial assets	237,504	-	237,504	-	237,504
	<u>7,171,821</u>	<u>-</u>	<u>1,463,606</u>	<u>5,708,215</u>	<u>7,171,821</u>
Financial assets not measured at fair value					
Cash and cash equivalents ²	7,122,306	-	-	-	-
Short-term financial instruments ²	292,846	-	-	-	-
Trade receivables ²	5,182,865	-	-	-	-
Loans and other receivables ²	851,839	-	-	-	-
Other financial assets ²	706	-	-	-	-
	<u>13,450,562</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total financial asset	₩ 20,622,383 ₩	- ₩	1,463,606 ₩	5,708,215 ₩	7,171,821
Financial liabilities measured at fair value					
Other financial liabilities	₩ 637,174 ₩	- ₩	637,174 ₩	- ₩	637,174
	<u>637,174</u>	<u>-</u>	<u>637,174</u>	<u>-</u>	<u>637,174</u>
Financial liabilities not measured at fair value					
Trade payables ²	1,916,761	-	-	-	-
Other payables ²	6,102,978	-	-	-	-
Other non-trade payables ²	1,352,420	-	-	-	-
Borrowings	31,558,615	-	30,357,466	-	30,357,466
Lease liabilities ²	3,023,818	-	-	-	-
Other financial liabilities ²	4,600	-	-	-	-
	<u>43,959,192</u>	<u>-</u>	<u>30,357,466</u>	<u>-</u>	<u>30,357,466</u>
Total financial liabilities	₩ 44,596,366 ₩	- ₩	30,994,640 ₩	- ₩	30,994,640

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

² The Group 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. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2023 and 2022 (Unaudited) and December 31, 2022

6. Financial Risk Management, Continued

(3) Fair value, Continued

(a) The following table presents the Group's carrying amounts and fair values of financial instruments by categories, including their levels in the fair value hierarchy, as of September 30, 2023 and December 31, 2022, Continued:

(In millions of Korean won)

	Carrying amounts	December 31, 2022			
		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Short-term financial instruments	₩ 222,500	₩ -	₩ -	₩ 222,500	₩ 222,500
Short-term investment assets	1,016,360	-	1,016,360	-	1,016,360
Trade receivables ¹	207,072	-	207,072	-	207,072
Long-term investment assets	5,733,544	-	-	5,733,544	5,733,544
Other financial assets	115,017	-	115,017	-	115,017
	<u>7,294,493</u>	<u>-</u>	<u>1,338,449</u>	<u>5,956,044</u>	<u>7,294,493</u>
Financial assets not measured at fair value					
Cash and cash equivalents ²	4,977,007	-	-	-	-
Short-term financial instruments ²	193,125	-	-	-	-
Trade receivables ²	4,978,982	-	-	-	-
Loans and other receivables ²	626,679	-	-	-	-
Other financial assets ²	695	-	-	-	-
	<u>10,776,488</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total financial asset	<u>₩ 18,070,981</u>	<u>₩ -</u>	<u>₩ 1,338,449</u>	<u>₩ 5,956,044</u>	<u>₩ 7,294,493</u>
Financial liabilities not measured at fair value					
Trade payables ²	₩ 2,186,230	₩ -	₩ -	₩ -	-
Other payables ²	8,403,994	-	-	-	-
Other non-trade payables ²	1,415,197	-	-	-	-
Borrowings	22,994,604	-	21,809,209	-	21,809,209
Lease liabilities ²	1,797,081	-	-	-	-
Other financial liabilities ²	4,876	-	-	-	-
Total financial liabilities	<u>₩ 36,801,982</u>	<u>₩ -</u>	<u>₩ 21,809,209</u>	<u>₩ -</u>	<u>₩ 21,809,209</u>

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

²The Group 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. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2023 and 2022 (Unaudited) and December 31, 2022

6. Financial Risk Management, Continued

(3) Fair value, Continued

(b) The valuation techniques used to measure financial instruments with fair value level 2 and level 3 are the same as those applied by the Group in its consolidated financial statements as of and for the year ended December 31, 2022.

(c) There was no transfer between fair value hierarchy levels for the nine-month period ended September 30, 2023. The changes in financial assets classified as level 3 fair value measurements for the nine-month period ended September 30, 2023 are as follows:

(In millions of Korean won)

		<u>Beginning Balance</u>	<u>Acquisition</u>	<u>Disposals</u>	<u>Loss on Valuation</u>	<u>Foreign Exchange Difference</u>	<u>Ending Balance</u>
Financial assets:							
Short-term							
financial instruments	₩	222,500	-	-	-	-	222,500
Long-term							
investment assets	₩	5,733,544	30,149	(3,101)	(741)	(274,136)	5,485,715

SK hynix Inc. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2023 and 2022 (Unaudited) and December 31, 2022

7. Trade Receivables and Loans and Other Receivables

(1) Details of loans and other receivables as of September 30, 2023 and December 31, 2022 are as follows:

(In millions of Korean won)

	<u>September 30, 2023</u>	<u>December 31, 2022</u>
Current		
Other receivables	₩ 282,752	₩ 194,516
Accrued income	9,644	5,352
Short-term loans	15,770	14,265
Short-term guarantee and other deposits	54,716	58,379
	<u>362,882</u>	<u>272,512</u>
Non-current		
Long-term other receivables	3	3
Long-term loans	274,287	280,639
Guarantee deposits	214,413	73,286
Others	254	239
	<u>488,957</u>	<u>354,167</u>
	<u>₩ 851,839</u>	<u>₩ 626,679</u>

(2) Trade receivables and loans and other receivables, net of provision for impairment, as of September 30, 2023 and December 31, 2022 are as follows:

(In millions of Korean won)

	<u>September 30, 2023</u>		
	<u>Gross amount</u>	<u>Provision for impairment</u>	<u>Carrying amount</u>
Trade receivables	₩ 5,523,874	₩ (8,577)	₩ 5,515,297
Current loans and other receivables	364,195	(1,313)	362,882
Non-current loans and other receivables	490,077	(1,120)	488,957
	<u>₩ 6,378,146</u>	<u>₩ (11,010)</u>	<u>₩ 6,367,136</u>

(In millions of Korean won)

	<u>December 31, 2022</u>		
	<u>Gross amount</u>	<u>Provision for impairment</u>	<u>Carrying amount</u>
Trade receivables	₩ 5,187,164	₩ (1,110)	₩ 5,186,054
Current loans and other receivables	273,825	(1,313)	272,512
Non-current loans and other receivables	355,228	(1,061)	354,167
	<u>₩ 5,816,217</u>	<u>₩ (3,484)</u>	<u>₩ 5,812,733</u>

SK hynix Inc. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2023 and 2022 (Unaudited) and December 31, 2022

8. Inventories

Details of inventories as of September 30, 2023 and December 31, 2022 are as follows:

(In millions of Korean won)

	September 30, 2023		
	Acquisition cost	Inventory valuation allowance	Carrying amount
Merchandise	₩ 3,672	₩ (183)	₩ 3,489
Finished goods	5,142,176	(1,229,230)	3,912,946
Work-in-process	10,034,958	(1,492,011)	8,542,947
Raw materials	1,726,984	(107,252)	1,619,732
Supplies	837,281	(80,042)	757,239
Goods in transit	111,542	-	111,542
	₩ 17,856,613	₩ (2,908,718)	₩ 14,947,895

(In millions of Korean won)

	December 31, 2022		
	Acquisition cost	Inventory valuation allowance	Carrying amount
Merchandise	₩ 3,539	₩ (138)	₩ 3,401
Finished goods	4,651,604	(812,889)	3,838,715
Work-in-process	9,433,873	(339,721)	9,094,152
Raw materials	1,936,321	(118,945)	1,817,376
Supplies	849,480	(63,655)	785,825
Goods in transit	125,238	-	125,238
	₩ 17,000,055	₩ (1,335,348)	₩ 15,664,707

9. Other Current and Non-current Assets

Details of other current and non-current assets as of September 30, 2023 and December 31, 2022 are as follows:

(In millions of Korean won)

	September 30, 2023	December 31, 2022
Current		
Advance payments	₩ 54,397	₩ 56,616
Prepaid expenses	276,464	241,894
Value added tax refundable	373,229	795,879
Contract assets	98,281	91,905
Others	74,613	250
	876,984	1,186,544
Non-current		
Long-term advance payments	138,369	22,683
Long-term prepaid expenses	32,946	42,745
Others	30,214	6,273
	201,529	71,701
	₩ 1,078,513	₩ 1,258,245

SK hynix Inc. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2023 and 2022 (Unaudited) and December 31, 2022

10. Investments in Associates and Joint Ventures

(1) General information of investments in associates and joint ventures is as follows:

<u>Type</u>	<u>Investee</u>	<u>Location</u>	<u>Business</u>
Associate and joint ventures	SK China Company Limited ¹	China	Consulting and investment
	SK South East Asia Investment Pte. Ltd.	Singapore	Consulting and investment
	Magnus Private Investment Co., Ltd. ³	Korea	Investment
	HITECH Semiconductor (Wuxi) Co., Ltd. ²	China	Manufacture of semiconductor parts
	Hystars Semiconductor (Wuxi) Co., Ltd. ²	China	Foundry factory construction
	Others		

¹ Management of the Group is able to exercise significant influence over the entity by participating the Board of Directors. Accordingly, the investment in this investee has been classified as an associate.

² It has been classified as a joint venture as it is stated in the agreement that a unanimous vote is required for relevant activities.

³ Magnus Private Investment Co., Ltd. completed its liquidation during the nine-month period ended September 30, 2023.

(2) Details of investments in associates and joint ventures as of September 30, 2023 and December 31, 2022 are as follows:

(In millions of Korean won)

<u>Investee</u>	<u>September 30, 2023</u>			<u>December 31, 2022</u>	
	<u>Ownership (%)</u>	<u>Net asset value</u>	<u>Carrying amount</u>	<u>Ownership (%)</u>	<u>Carrying amount</u>
Associate and Joint ventures:					
SK China Company Limited	11.87	₩ 367,865	₩ 420,462	11.87	₩ 399,116
SK South East Asia Investment Pte. Ltd.	20.00	377,691	377,691	20.00	352,411
Magnus Private Investment Co., Ltd.	-	-	-	49.76	2,983
HITECH Semiconductor (Wuxi) Co., Ltd.	45.00	138,591	140,754	45.00	134,228
Hystars Semiconductor (Wuxi) Co., Ltd.	50.10	222,403	223,994	50.10	220,281
Others		217,660	253,594		243,826
		₩ 1,324,210	₩ 1,416,495		₩ 1,352,845

SK hynix Inc. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2023 and 2022 (Unaudited) and December 31, 2022

10. Investments in Associates and Joint Ventures, Continued

(3) Changes in investments in associates and joint ventures for the nine-month periods ended September 30, 2023 and 2022 are as follows:

(In millions of Korean won)

	2023						
	Beginning balance	Acquisition	Disposal	Share of profit (loss)	Other equity movement	Dividend	Ending balance
SK China Company Limited	₩ 399,116	₩ -	₩ -	₩ 7,664	₩ 13,682	₩ -	₩ 420,462
SK South East Asia Investment Pte. Ltd.	352,411	-	-	1,813	23,467	-	377,691
Magnus Private Investment Co., Ltd.	2,983	-	-	(2,721)	-	(262)	-
HITECH Semiconductor (Wuxi) Co., Ltd.	134,228	-	-	14,170	8,219	(15,863)	140,754
Hystars Semiconductor (Wuxi) Co., Ltd.	220,281	-	-	303	3,410	-	223,994
Others	243,826	21,849	(8,847)	(2,371)	4,777	(5,640)	253,594
	₩ <u>1,352,845</u>	₩ <u>21,849</u>	₩ <u>(8,847)</u>	₩ <u>18,858</u>	₩ <u>53,555</u>	₩ <u>(21,765)</u>	₩ <u>1,416,495</u>

(In millions of Korean won)

	2022						
	Beginning balance	Acquisition	Disposal	Share of profit (loss)	Other equity movement	Dividend	Ending balance
SK China Company Limited	₩ 343,987	₩ -	₩ -	₩ 616	₩ 84,441	₩ -	₩ 429,044
SK South East Asia Investment Pte. Ltd.	347,317	-	-	(292)	67,648	-	414,673
Wuxi xinfa IC industry park., Ltd.	33,288	1,128	-	(132)	2,461	-	36,745
Magnus Private Investment Co., Ltd.	183,760	-	(201,228)	99,056	-	-	81,588
SiFive Inc.	43,499	-	-	1,911	4,795	-	50,205
HITECH Semiconductor (Wuxi) Co., Ltd.	123,864	-	-	15,288	26,022	(17,383)	147,791
Hystars Semiconductor (Wuxi) Co., Ltd.	226,773	-	-	(158)	16,193	-	242,808
Others	107,940	34,019	(226)	2,956	5,173	(1,085)	148,777
	₩ <u>1,410,428</u>	₩ <u>35,147</u>	₩ <u>(201,454)</u>	₩ <u>119,245</u>	₩ <u>206,733</u>	₩ <u>(18,468)</u>	₩ <u>1,551,631</u>

SK hynix Inc. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2023 and 2022 (Unaudited) and December 31, 2022

10. Investments in Associates and Joint Ventures, Continued

(4) Major associates and joint ventures' summarized financial information as of September 30, 2023 and December 31, 2022 are as follows:

(In millions of Korean won)

	September 30, 2023			
	Current assets	Non-current assets	Current liabilities	Non-current liabilities
SK China Company Limited	₩ 1,343,461	₩ 2,072,888	₩ 316,212	₩ -
SK South East Asia Investment Pte. Ltd.	253,003	3,141,070	533,302	14,886
HITECH Semiconductor (Wuxi) Co., Ltd.	377,997	360,221	202,259	227,979
Hystars Semiconductor (Wuxi) Co., Ltd.	199,034	505,022	12,745	247,392

(In millions of Korean won)

	December 31, 2022			
	Current assets	Non-current assets	Current liabilities	Non-current liabilities
SK China Company Limited	₩ 1,223,426	₩ 2,050,002	₩ 353,179	₩ -
SK South East Asia Investment Pte. Ltd.	145,399	3,024,694	487,762	-
Magnus Private Investment Co., Ltd.	3,014	-	31	-
HITECH Semiconductor (Wuxi) Co., Ltd.	252,162	369,578	119,652	203,569
Hystars Semiconductor (Wuxi) Co., Ltd.	175,833	526,041	14,939	250,428

(5) Major associates and joint ventures' summarized financial information for the nine-month periods ended September 30, 2023 and 2022 are as follows:

(In millions of Korean won)

	2023		2022	
	Revenue	Net profit	Revenue	Net profit
SK China Company Limited	₩ 34,663	₩ 64,589	₩ 16,370	₩ 5,195
SK South East Asia Investment Pte. Ltd.	51,992	9,064	52,806	(1,460)
Magnus Private Investment Co., Ltd.	-	(2,721)	154,892	99,056
HITECH Semiconductor (Wuxi) Co., Ltd.	548,586	26,446	555,445	30,432
Hystars Semiconductor (Wuxi) Co., Ltd.	26,165	604	46,386	(316)

SK hynix Inc. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2023 and 2022 (Unaudited) and December 31, 2022

11. Property, Plant and Equipment

(1) Changes in property, plant and equipment for the nine-month periods ended September 30, 2023 and 2022 are as follows:

(In millions of Korean won)

	2023		2022
Beginning balance	₩ 60,228,528	₩	53,225,667
Acquisition	4,197,815		14,543,358
Acquisitions of business	-		343,923
Impairment	-		(7,691)
Disposal and retirement	(1,282,110)		(157,133)
Transfer	(2,894)		(12,662)
Depreciation	(9,726,460)		(9,567,757)
Foreign exchange difference	602,085		2,237,685
Ending balance	₩ <u>54,016,964</u>	₩	<u>60,605,390</u>

(2) Certain property, plant and equipment are pledged as collaterals for borrowings of the Group as of September 30, 2023 (Note 30).

12. Leases

(1) Changes in right-of-use assets for the nine-month periods ended September 30, 2023 and 2022 are as follows:

(In millions of Korean won)

	2023		2022
Beginning balance	₩ 1,779,985	₩	1,597,344
Acquisition	1,150,454		351,878
Termination	-		(19,446)
Depreciation	(266,464)		(243,009)
Foreign exchange difference	19,927		71,488
Ending balance	₩ <u>2,683,902</u>	₩	<u>1,758,255</u>

(2) Changes in lease liabilities for the nine-month periods ended September 30, 2023 and 2022 are as follows:

(In millions of Korean won)

	2023		2022
Beginning balance	₩ 1,797,081	₩	1,525,762
Acquisition	1,442,637		378,199
Interest expenses	43,780		27,540
Payments	(295,782)		(201,056)
Foreign exchange difference	36,710		93,807
Others	(608)		(19,446)
Ending balance	₩ <u>3,023,818</u>	₩	<u>1,804,806</u>

SK hynix Inc. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2023 and 2022 (Unaudited) and December 31, 2022

13. Intangible Assets

Changes in intangible assets for the nine-month periods ended September 30, 2023 and 2022 are as follows:

(In millions of Korean won)

	2023	2022
Beginning balance	₩ 3,512,107	₩ 4,797,162
Acquisition	623,177	599,098
Acquisitions of business	-	197,186
Disposal and retirement	(6,756)	(4,084)
Amortization	(429,812)	(622,465)
Impairments	(167,050)	(50,107)
Transfer	(898)	(26,896)
Others ¹	21,133	354,692
Ending balance	₩ 3,551,901	₩ 5,244,586

¹ Others include increase/decrease due to foreign exchange difference.

14. Investment Property

(1) Changes in investment property for the nine-month periods ended September 30, 2023 and 2022 are as follows:

(In millions of Korean won)

	2023	2022
Beginning balance	₩ 223	₩ 164,197
Depreciation	(9)	(1,011)
Disposal	-	(161,926)
Ending balance	₩ 214	₩ 1,260

(2) The depreciation expense of ₩9 million was charged to cost of sales for the nine-month period ended September 30, 2023 (2022: ₩1,011 million).

(3) Rental income from investment property during the nine-month period ended September 30, 2023 was ₩7 million (2022: ₩11,162 million).

SK hynix Inc. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2023 and 2022 (Unaudited) and December 31, 2022

15. Borrowings

Details of borrowings as of September 30, 2023 and December 31, 2022 are as follows:

(In millions of Korean won)

	September 30, 2023	December 31, 2022
Current		
Short-term borrowings	₩ 5,149,635	₩ 3,833,263
Current portion of long-term borrowings	2,273,147	2,620,180
Current portion of debentures ¹	3,807,096	969,804
	<u>11,229,878</u>	<u>7,423,247</u>
Non-current		
Long-term borrowings	10,578,787	9,073,567
Debentures	9,749,950	6,497,790
	<u>20,328,737</u>	<u>15,571,357</u>
	<u>₩ 31,558,615</u>	<u>₩ 22,994,604</u>

¹ The carrying amount includes exchangeable bond issued by the Group during the nine-month period ended September 30, 2023. The maturity date is in 2030, but the Group has classified the exchangeable bond as current borrowings due to the possibility of exercising conversion rights by the bondholders. The conditions of issuance are as follows:

Type of bond		Foreign exchangeable bond
Issue amount		USD 1,700,000,000
Interest rate	Coupon Rate	1.75%
	Yield Rate	1.75%
Maturity Date		April 11, 2030
Redemption measures		1) Redemption upon maturity: redemption of the remaining amounts for which conversion rights or early redemption has not been exercised upon maturity date 2) Early redemption: Redemption by the Call Option of the Issuer or redemption by the Put Option of Bondholders
Details of conversion right	Conversion Rate	100.00% of the principal amount
	Initial conversion price	₩111,180 per share
	Subject of Conversion	Ordinary shares of the SK hynix Inc. (currently held as treasury shares)
	Conversion period	May 22, 2023 - April 1, 2030
	Adjustment to Conversion Price	Adjustment of the Conversion Price in certain circumstances, including but not limited to: Free distribution, subdivision, consolidation, reclassification, rights issues of options or warrants over shares, share dividends, capital distribution, bonus issues, issues at less than Current Market Price, etc.
Put Option of Bondholders		At the end of year 4 (April 11, 2027) In the case of a change of control of the Company In the case of the Shares cease to be listed or admitted to trading or are suspended for trading for a period equal to or exceeding 20 consecutive Trading Days

SK hynix Inc. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2023 and 2022 (Unaudited) and December 31, 2022

15. Borrowings, Continued

Details of borrowings as of September 30, 2023 and December 31, 2022 are as follows, Continued

Call Option of the Issuer

On or after April 25, 2028, in the case of the closing price of the Shares for any 20 trading days in a period of 30 consecutive trading days is at least 130% of the prevailing Conversion Price

In the case of the aggregate principal amount of the Bonds outstanding is less than 10% of the aggregate principal amount originally issued (Clean Up Call)

In the case of the Issuer becomes obliged to pay any additional amounts, as a result of changes relating to tax laws in Korea.

16. Other Current and Non-current Liabilities

Details of other current and non-current liabilities as of September 30, 2023 and December 31, 2022 are as follows:

(In millions of Korean won)

	September 30, 2023	December 31, 2022
Current		
Advance receipts	₩ 441,793	₩ 18,433
Unearned income	3,504	8,070
Withholdings	207,554	150,304
Contract liabilities	256,532	345,657
Others	26,972	11,871
	<u>936,355</u>	<u>534,335</u>
Non-current		
Other long-term employee benefits	186,827	182,425
Others	66,624	22,419
	<u>253,451</u>	<u>204,844</u>
	<u>₩ 1,189,806</u>	<u>₩ 739,179</u>

SK hynix Inc. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2023 and 2022 (Unaudited) and December 31, 2022

17. Provisions

(1) Changes in provisions for the nine-month periods ended September 30, 2023 and 2022 are as follows:

(In millions of Korean won)

	2023				
	Beginning Balance	Increase	Utilization	Reversal	Ending Balance
Warranty	₩ 249,316	₩ 136,599	₩ (123,303)	₩ -	₩ 262,612
Emission allowances	2,150	-	(1,827)	(322)	1
Restoration	1,827	-	-	-	1,827
	<u>₩ 253,293</u>	<u>₩ 136,599</u>	<u>₩ (125,130)</u>	<u>₩ (322)</u>	<u>₩ 264,440</u>

(In millions of Korean won)

	2022				
	Beginning Balance	Increase	Utilization	Reversal	Ending Balance
Warranty	₩ 3,327	₩ 485,203	₩ (2,979)	₩ -	₩ 485,551
Emission allowances	6,840	5,307	-	(8,790)	3,357
	<u>₩ 10,167</u>	<u>₩ 490,510</u>	<u>₩ (2,979)</u>	<u>₩ (8,790)</u>	<u>₩ 488,908</u>

(2) Provisions for warranty

The Group estimates the expected warranty costs based on historical results and records provisions for warranty. Regarding the durability issue of certain products sold in the prior years, the Group separately estimated and recorded warranty provisions for the amount expected to be paid for product replacement and other customer supporting activities.

SK hynix Inc. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2023 and 2022 (Unaudited) and December 31, 2022

17. Provisions, Continued

(3) Provision for emission allowances

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

(a) Details of the allocated amount of emission permits and the estimated amount of emission as of September 30, 2023 are as follows:

(In ten thousand tons CO2-eq)

	<u>September 30, 2023</u>
Allocated emission permits	584
Estimated volume of emission	569

(b) Changes in the emission permits rights for the nine-month period ended September 30, 2023 are as follows:

(In ten thousand tons CO2-eq)

	<u>2022</u>
Beginning balance	9
Allocated	514
Purchase	17
Submission	(540)
Borrowings	-
Banking	-
Disposal	-
Ending balance	<u>-</u>

SK hynix Inc. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2023 and 2022 (Unaudited) and December 31, 2022

18. Defined Benefit Liabilities(Assets)

(1) Details of defined benefit liabilities(assets) as of September 30, 2023 and December 31, 2022 are as follows:

(In millions of Korean won)

	September 30, 2023		December 31, 2022	
Present value of defined benefit obligations	₩	2,448,518	₩	2,259,125
Fair value of plan assets		(3,689,951)		(3,521,426)
Net defined benefit liabilities(assets)	₩	(1,241,433)	₩	(1,262,301)
Defined benefit liabilities	₩	76,702	₩	69,952
Employee benefit assets ¹	₩	1,318,135	₩	1,332,253

¹ The Parent Company and certain subsidiaries' fair value of plan assets in excess of the present value of defined benefit obligations, presented as employee benefit assets, amounted to ₩1,318,135 million and ₩1,332,253 million as of September 30, 2023 and December 31, 2022, respectively.

(2) Changes in defined benefit obligations for the nine-month periods ended September 30, 2023 and 2022 are as follows:

(In millions of Korean won)

	2023		2022	
Beginning balance	₩	2,259,125	₩	2,392,020
Current service cost		171,935		199,836
Interest cost		100,625		70,057
Transferred from associates		13,014		75
Benefits paid		(96,232)		(74,220)
Acquisition of business		-		154,948
Others		51		109
Ending balance	₩	2,448,518	₩	2,742,825

(3) Changes in fair value of plan assets for the nine-month periods ended September 30, 2023 and 2022 are as follows:

(In millions of Korean won)

	2023		2022	
Beginning balance	₩	3,521,426	₩	2,819,782
Contributions		133,009		60,314
Interest income		162,240		82,151
Transferred from associates		11,796		815
Benefits paid		(116,044)		(87,073)
Remeasurements		(22,471)		(36,758)
Acquisition of business		-		45,310
Others		(5)		95
Ending balance	₩	3,689,951	₩	2,884,636

(4) The amounts recognized in profit or loss for the three-month and nine-month periods ended September 30, 2023 and 2022 are as follows:

(In millions of Korean won)

	2023		2022	
	Three months	Nine months	Three months	Nine months
Current service cost	₩ 57,288	₩ 171,935	₩ 67,809	₩ 199,836
Net interest income	(20,544)	(61,615)	(3,505)	(12,094)
	₩ 36,744	₩ 110,320	₩ 64,304	₩ 187,742

SK hynix Inc. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2023 and 2022 (Unaudited) and December 31, 2022

18. Defined Benefit Liabilities(Assets), Continued

(5) Contributions to defined contribution plans amounting to ₩7,502 million (2022: ₩4,684 million) were recognized as cost for the nine-month period ended September 30, 2023.

19. Derivative Financial Instruments

(1) Cross currency and interest rate swap

(a) Details of derivative financial instruments applying cash flow hedge accounting as of September 30, 2023 are as follows:

(In millions of Korean won and 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 another	2019.09.17 ~ 2024.09.17
2019.10.02	Foreign currency denominated borrowing for equipment with floating rate (Par value: USD 406,250)	Foreign currency risk and interest rate risk	Floating-to-fixed cross currency interest rate swap	Korea Development Bank	2019.10.02 ~ 2026.10.02
2023.01.17	Foreign currency denominated bond with fixed rate (Par value: USD 750,000)	Foreign currency risk	Fixed-to-fixed cross currency swap	Kookmin Bank and others	2023.01.17 ~ 2026.01.17
2023.04.04	Borrowing for equipment with floating rate (Par value: KRW 100,000)	Interest rate risk	Interest rate swap	Woori Bank	2023.04.04 ~ 2028.04.04

(b) The fair value of derivative financial assets held by the Group are presented in other financial assets in the consolidated financial statements of financial position as of September 30, 2023, 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 1,250,000)	₩ 147,275	₩ 147,275
Floating-to-fixed cross currency interest rate swap	Foreign currency denominated borrowing for equipment with floating rate (Par value: USD 406,250)	88,607	88,607
Interest rate swap	Borrowing for equipment with floating rate (Par value: KRW 100,000)	1,622	1,622
		₩	<u>237,504</u>

As of September 30, 2023, changes of fair value of the derivative are recognized in other comprehensive income or loss as all of designated hedging instruments are effective against risks.

SK hynix Inc. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2023 and 2022 (Unaudited) and December 31, 2022

19. Derivative Financial Instruments, Continued

(2) Embedded Derivatives

The fair value of derivative liabilities held by the Group are presented in other financial liabilities in the consolidated financial statements of financial position as of September 30, 2023 and December 31, 2022 are as follows:

(In millions of Korean won)

Derivative liabilities	September 30,	December 31,	Fair value
	2023	2022	
Embedded Derivatives ¹	₩ 637,174	₩ -	₩ 637,174

¹ Embedded derivatives are conversion right, call option, and put options granted on exchangeable bonds issued by the Group on April 11, 2023 (Note 15).

20. Capital Stock, Capital Surplus and Other Equity

(1) The Parent Company has 9,000,000,000 authorized shares and the face value per share is ₩5,000 as of September 30, 2023. The number of shares issued, common stock, capital surplus and other equity as of September 30, 2023 and December 31, 2022, are as follows:

(In millions of Korean won and thousands of shares)

	September 30,	December 31,
	2023	2022
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	720,320	710,373
	<u>4,346,117</u>	<u>4,336,170</u>
Other equity:		
Acquisition cost of treasury shares ²	(2,273,870)	(2,300,387)
Share options	7,032	8,011
Others	(19,030)	(19,033)
	<u>₩ (2,285,868) ₩</u>	<u>(2,311,409)</u>
Number of treasury shares	39,886	40,351

¹ As of September 30, 2023, the number of outstanding shares is 728,002 thousand shares, which differs from total issued shares due to share retirement.

² The Group disposed 465,149 treasury shares to its directors and, accordingly, gained on disposal of treasury shares of ₩12,414 million occurred.

SK hynix Inc. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2023 and 2022 (Unaudited) and December 31, 2022

20. Capital Stock, Capital Surplus and Other Equity, Continued

(2) The number of outstanding shares, which deducted treasury shares held by the Parent Company from listed shares, as of September 30, 2023 and December 31, 2022, are as follows:

(In shares)

	September 30, 2023		
	Outstanding shares	Treasury shares	Total
The number of outstanding shares	728,002,365	39,886,176	688,116,189

(In shares)

	December 31, 2022		
	Outstanding shares	Treasury shares	Total
The number of outstanding shares	728,002,365	40,351,325	687,651,040

21. Retained Earnings

Retained earnings as of September 30, 2023 and December 31, 2022 are as follows:

(In millions of Korean won)

	September 30, 2023		December 31, 2022	
Legal reserve ¹	₩	618,395	₩	535,877
Discretionary reserve ²		235,506		235,506
Unappropriated retained earnings ³		47,433,879		55,913,877
	₩	<u>48,287,780</u>	₩	<u>56,685,260</u>

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

² Discretionary reserve is the reserve for technology development.

³ Dividends amounting to ₩206,295 million, which were approved at shareholders' meeting held on March 29, 2023, and ₩206,418 million, which were approved at board of directors' meeting held on April 19, 2023, and ₩206,427 million, which were approved at board of directors' meeting held on July 26, 2023 were distributed during the nine-month period ended September 30, 2023.

SK hynix Inc. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2023 and 2022 (Unaudited) and December 31, 2022

22. Revenue

(1) Details of the Group's revenue for the three-month and nine-month periods ended September 30, 2023 and 2022 are as follows:

(In millions of Korean won)

	2023		2022	
	Three months	Nine months	Three months	Nine months
Sale of goods	₩ 9,047,470	₩ 21,398,556	₩ 10,962,408	₩ 36,891,298
Providing services	18,701	61,658	20,475	58,239
	₩ <u>9,066,171</u>	₩ <u>21,460,214</u>	₩ <u>10,982,883</u>	₩ <u>36,949,537</u>

(2) Details of the Group's revenue by product and service types for the three-month and nine-month periods ended September 30, 2023 and 2022 are as follows:

(In millions of Korean won)

	2023		2022	
	Three months	Nine months	Three months	Nine months
DRAM	₩ 6,085,615	₩ 13,418,439	₩ 6,954,326	₩ 23,593,637
NAND Flash	2,426,210	6,354,455	3,388,185	11,819,440
Others	554,346	1,687,320	640,372	1,536,460
	₩ <u>9,066,171</u>	₩ <u>21,460,214</u>	₩ <u>10,982,883</u>	₩ <u>36,949,537</u>

(3) Details of the Group's revenue information by region based on the location of selling entities for the three-month and nine-month periods ended September 30, 2023 and 2022 is as follows:

(In millions of Korean won)

	2023		2022	
	Three months	Nine months	Three months	Nine months
Korea	₩ 600,930	₩ 1,462,284	₩ 397,823	₩ 944,350
U.S.A	4,268,604	9,735,746	6,167,748	19,248,419
China	2,738,825	6,621,007	2,753,335	10,778,218
Asia (other than Korea and China)	1,228,031	3,059,423	1,219,391	4,689,194
Europe	229,781	581,754	444,586	1,289,356
	₩ <u>9,066,171</u>	₩ <u>21,460,214</u>	₩ <u>10,982,883</u>	₩ <u>36,949,537</u>

(4) Details of the Group's revenue by the timing of revenue recognition during the three-month and nine-month periods ended September 30, 2023 and 2022 are as follows:

(In millions of Korean won)

	2023		2022	
	Three Months	Nine months	Three months	Nine months
Performance obligations satisfied at a point in time	₩ 9,047,470	₩ 21,398,556	₩ 10,962,408	₩ 36,891,298
Performance obligations satisfied over time	18,701	61,658	20,475	58,239
	₩ <u>9,066,171</u>	₩ <u>21,460,214</u>	₩ <u>10,982,883</u>	₩ <u>36,949,537</u>

SK hynix Inc. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2023 and 2022 (Unaudited) and December 31, 2022

23. Selling and Administrative Expenses

Selling and administrative expenses for the three-month and nine-month periods ended September 30, 2023 and 2022 are as follows:

(In millions of Korean won)

	2023		2022	
	Three months	Nine months	Three months	Nine months
Selling and Administrative Expenses:				
Salaries	₩ 212,738	₩ 613,578	₩ 278,882	₩ 849,738
Defined benefits plan	9,199	27,542	12,265	35,437
Employee benefits	46,012	160,469	58,789	160,525
Commission	179,224	563,626	266,465	761,350
Depreciation	78,834	224,853	66,386	193,048
Amortization	84,373	225,143	85,884	354,175
Taxes and dues	19,956	66,061	27,863	77,511
Advertising	25,914	56,756	29,689	75,334
Supplies	33,992	80,706	30,683	85,321
Sales promotion expenses	28,218	82,197	43,677	150,130
Warranty costs	79,250	140,553	76,406	493,944
Others	85,246	292,468	113,014	282,823
	<u>882,956</u>	<u>2,533,952</u>	<u>1,090,003</u>	<u>3,519,336</u>
Research and developments:				
Expenditure on research and developments	1,025,682	3,069,433	1,204,215	3,562,639
Development cost capitalized	(52,551)	(286,039)	(89,161)	(199,184)
	<u>973,131</u>	<u>2,783,394</u>	<u>1,115,054</u>	<u>3,363,455</u>
	<u>₩ 1,856,087</u>	<u>₩ 5,317,346</u>	<u>₩ 2,205,057</u>	<u>₩ 6,882,791</u>

SK hynix Inc. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2023 and 2022 (Unaudited) and December 31, 2022

24. Expenses by Nature

Nature of expenses for the three-month and nine-month periods ended September 30, 2023 and 2022 are as follows:

(In millions of Korean won)

	2023		2022	
	Three Months	Nine months	Three months	Nine months
Changes in finished goods and work-in-process	₩ 1,335,555	₩ 476,974	₩ (2,326,809)	₩ (4,845,153)
Raw materials and consumables	2,946,668	7,461,391	2,962,291	8,186,038
Employee benefit	1,347,538	3,995,919	1,771,295	5,368,988
Depreciation and amortization	3,332,583	10,383,053	3,552,718	10,422,676
Commission	783,691	2,452,631	958,353	2,663,187
Utilities	632,675	1,926,015	573,335	1,563,768
Repair	291,641	868,319	401,858	1,151,774
Outsourcing	378,229	1,049,251	448,853	1,240,890
Others	(152,060)	1,199,721	1,076,190	2,694,600
Transfer: capitalized development cost and others	(38,389)	(276,713)	(95,724)	(218,877)
Total¹	₩ 10,858,131	₩ 29,536,561	₩ 9,322,360	₩ 28,227,891

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

25. Finance Income and Expenses

Finance income and expenses for the three-month and nine-month periods ended September 30, 2023 and 2022 are as follows:

(In millions of Korean won)

	2023		2022	
	Three months	Nine months	Three months	Nine months
Finance income				
Interest income	₩ 59,866	₩ 150,228	₩ 27,383	₩ 44,424
Dividend income	4,696	10,587	171	1,277
Foreign exchange differences ¹	585,064	1,951,588	2,044,908	4,079,679
Others	18,604	76,162	23,167	53,509
	<u>668,230</u>	<u>2,188,565</u>	<u>2,095,629</u>	<u>4,178,889</u>
Finance expense				
Interest expenses	397,100	1,068,155	148,733	332,288
Foreign exchange differences ¹	744,550	2,528,206	1,912,242	4,275,307
Loss on derivatives transaction	-	58,985	-	-
Others	3	719	3,190	8,293
	<u>1,141,653</u>	<u>3,656,065</u>	<u>2,064,165</u>	<u>4,615,888</u>
Net finance income (expense)	₩ (473,423)	₩ (1,467,500)	₩ 31,464	₩ (436,999)

¹ The foreign exchange differences gain from long-term investment assets amounting to ₩282,667 million (2022: ₩227,494 million) are included for the nine-month period ended September 30, 2023.

SK hynix Inc. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2023 and 2022 (Unaudited) and December 31, 2022

26. Other Income and Expenses

(1) Other income for the three-month and nine-month periods ended September 30, 2023 and 2022 are as follows:

(In millions of Korean won)

	2023		2022	
	Three months	Nine months	Three months	Nine months
Gain on disposal of property, plant and equipment	₩ 216,912	₩ 222,488	₩ 19,927	₩ 126,144
Gain on disposal of investment property	-	-	-	64,418
Others	17,245	37,770	10,170	23,687
	<u>₩ 234,157</u>	<u>₩ 260,258</u>	<u>₩ 30,097</u>	<u>₩ 214,249</u>

(2) Other expenses for the three-month and nine-month periods ended September 30, 2023 and 2022 are as follows:

(In millions of Korean won)

	2023		2022	
	Three months	Nine months	Three months	Nine months
Loss on impairment of intangible assets	₩ 167,050	₩ 167,050	₩ 24,621	₩ 50,272
Loss on disposal of property, plant and equipment	64,146	66,842	471	3,830
Donation	6,731	41,630	16,763	57,293
Loss on disposal of trade receivables	4,316	10,534	4,253	8,366
Others	202,198	232,260	14,293	60,304
	<u>₩ 444,441</u>	<u>₩ 518,316</u>	<u>₩ 60,401</u>	<u>₩ 180,065</u>

27. Income Tax Expense

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

SK hynix Inc. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2023 and 2022 (Unaudited) and December 31, 2022

28. Earnings (loss) per Share

Basic earnings (loss) per share is calculated by dividing the profit (loss) attributable to ordinary shareholders of the Parent Company by the weighted average number of outstanding ordinary shares for the three-month and nine-month periods ended September 30, 2023 and 2022.

(1) Basic earnings (loss) per share for the three-month and nine-month periods ended September 30, 2023 and 2022 are as follows:

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

	2023		2022	
	Three months	Nine months	Three months	Nine months
Profit (loss) attributable to ordinary shareholders of the Parent Company	₩ (2,183,733)	₩ (7,755,323)	₩ 1,111,705	₩ 5,970,978
Weighted average number of outstanding common shares ¹	688,106,870	688,024,496	687,651,040	687,644,127
Basic earnings (loss) per share (in Korean won)	₩ (3,174)	₩ (11,272)	₩ 1,617	₩ 8,683

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

(In shares)

	2023		2022	
	Three months	Nine months	Three months	Nine months
Outstanding common shares	728,002,365	728,002,365	728,002,365	728,002,365
Acquisition of treasury shares	(39,895,495)	(39,977,869)	(40,351,325)	(40,358,238)
Weighted average number of outstanding common shares	688,106,870	688,024,496	687,651,040	687,644,127

(2) Diluted earnings (loss) per share for the three-month and nine-month periods ended September 30, 2023 and 2022 are as follows:

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

	2023		2022	
	Three months	Nine months	Three months	Nine months
Profit (loss) attributable to ordinary shareholders of the Parent Company	₩ (2,183,733)	₩ (7,755,323)	₩ 1,111,705	₩ 5,970,978
Weighted average number of diluted outstanding common shares ¹	688,106,870	688,024,496	687,770,455	687,805,980
Diluted earnings (loss) per share (in Korean won)	₩ (3,174)	₩ (11,272)	₩ 1,616	₩ 8,681

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

(In share)

	2023		2022	
	Three months	Nine months	Three months	Nine months
Weighted average number of outstanding ordinary shares	688,106,870	688,024,496	687,651,040	687,644,127
Share options	-	-	119,415	161,853
Weighted average number of diluted outstanding common shares	688,106,870	688,024,496	687,770,455	687,805,980

SK hynix Inc. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2023 and 2022 (Unaudited) and December 31, 2022

29. Transactions with Related Parties and Others

(1) Details of related parties as of September 30, 2023 are as follows:

Type	Name of related parties
Associates ¹	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 xinfa IC industry park., Ltd. Mirae Asset Committee Semiconductor No. 1 Startup Venture Private Equity Investment Co., Ltd. L&S (No.10) Early Stage III Investment Association, SiFive Inc., YD-SK-KDB Social Value Ningbo Zhongxin Venture Capital Partnership (Limited Partnership), Jiangsu KVTS Semiconductor science and Technology Co., Ltd., SAPEON INC.
Joint ventures	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 Semiconductor Ecosystem Fund
Other related parties	SK Square Co., Ltd., which has significant influence over the Group, and its subsidiaries, SK Holdings Co., Ltd., which has control over SK Square Co., Ltd., and its subsidiaries

¹ Magnus Private Investment Co., Ltd completed its liquidation during the nine-month period ended September 30, 2023, and excluded from the list.

SK hynix Inc. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2023 and 2022 (Unaudited) and December 31, 2022

29. Transactions with Related Parties and Others, Continued

(2) Significant transactions with related parties for the three-month and nine-month periods ended September 30, 2023 and 2022 are as follows:

(In millions of Korean won)

		For the three-month period ended September 30, 2023		
Company		Sales and others	Purchase and others	Asset acquisition
Associate	SK China Company Limited	₩ 13	₩ 3,804	₩ -
	Prume Social Farm, Co., Ltd.	-	28	-
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	1,812	166,159	22,149
	Hystars Semiconductor (Wuxi) Co., Ltd.	-	7,445	-
	SK Telecom Co., Ltd.	19,828	12,007	4,760
Other related parties	SK Holdings Co., Ltd. ¹	4,727	68,741	20,184
	ESSENCORE Limited	123,516	-	-
	SK Ecoplant Co., Ltd.	8,725	170	131,385
	SK Energy Co., Ltd.	15,403	17,305	-
	SK Networks Co., Ltd.	1,734	1,558	233
	SK enpulse Co., Ltd. (formerly, SKC Solmics Co., Ltd.)	224	27,479	-
	Chungcheong energy service Co., Ltd.	3	5,762	-
	SK Specialty Co., Ltd. (formerly, SK Materials Co., Ltd.)	1,015	33,099	-
	SK Siltron Co., Ltd.	8,034	102,271	-
	SK Materials Airplus Inc.	107	18,256	-
	Techdream Co., Ltd.	-	28,257	-
	SK Tri Chem Co., Ltd.	220	23,399	-
	SK Shieldus Co., Ltd.	1,306	28,756	4,030
	SK Innovation Co., Ltd.	5,505	14,298	-
	SK Square Co., Ltd.	8	-	-
	SK REIT Co., Ltd.	-	2,253	-
	Clean Industrial REIT Co., Ltd	1,120,315	-	-
	FSK L&S Co., Ltd.	17	10,051	217
	SK E&S Co., Ltd.	78	3,960	128
	SK LNG Trading Pte., Ltd.	-	88,341	-
Others	64,252	55,090	98,086	
		₩ 1,376,842	₩ 718,489	₩ 281,172

SK hynix Inc. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2023 and 2022 (Unaudited) and December 31, 2022

29. Transactions with Related Parties and Others, Continued

(2) Significant transactions with related parties for the three-month and nine-month periods ended September 30, 2023 and 2022 are as follows, Continued:

(In millions of Korean won)

		For the nine-month period ended September 30, 2023		
Company		Sales and others	Purchase and others	Asset acquisition
Associate	SK China Company Limited	₩ 32	₩ 9,741	₩ -
	Prume Social Farm, Co., Ltd.	-	84	-
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	5,034	495,551	81,896
	Hystars Semiconductor (Wuxi) Co., Ltd.	47	19,954	-
	SK Telecom Co., Ltd.	49,461	37,559	4,827
Other related parties	SK Holdings Co., Ltd. ¹	14,615	213,390	24,426
	ESSENCORE Limited	448,256	-	-
	SK Ecoplant Co., Ltd.	24,672	170	190,167
	SK Energy Co., Ltd.	44,342	111,941	18,700
	SK Networks Co., Ltd.	4,679	6,375	837
	SK enpulse Co., Ltd. (formerly, SKC Solmics Co., Ltd.)	790	101,520	28
	Chungcheong energy service Co., Ltd.	3	42,860	-
	SK Specialty Co., Ltd. (formerly, SK Materials Co., Ltd.)	3,638	105,571	-
	SK Siltron Co., Ltd.	26,847	325,958	-
	SK Materials Airplus Inc.	207	45,073	88,105
	Techdream Co., Ltd.	-	94,507	-
	SK Tri Chem Co., Ltd.	666	108,437	-
	SK Shieldus Co., Ltd.	2,798	73,717	4,576
	SK Innovation Co., Ltd.	13,751	56,346	35
	SK Square Co., Ltd.	26	-	-
	SK REIT Co., Ltd.	-	5,430	-
	Clean Industrial REIT Co., Ltd	1,120,315	-	-
	FSK L&S Co., Ltd.	47	35,039	1,690
	SK E&S Co., Ltd.	144	12,142	1,217
	SK LNG Trading Pte., Ltd.	-	179,172	14,143
Others	170,996	166,061	110,352	
		₩ 1,931,366	₩ 2,246,598	₩ 540,999

¹ Royalty expense for the use of the SK brand for the nine-month period ended September 30, 2023 is included.

SK hynix Inc. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2023 and 2022 (Unaudited) and December 31, 2022

29. Transactions with Related Parties and Others, Continued

(2) Significant transactions with related parties for the three-month and nine-month periods ended September 30, 2023 and 2022 are as follows, Continued:

(In millions of Korean won)

		For the three-month period ended September 30, 2022		
Company		Sales and others	Purchase and others	Asset acquisition
Associate	SK China Company Limited	₩ 10	₩ 4,285	₩ -
	Prume Social Farm, Co., Ltd.	-	9	-
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	622	173,617	7,824
	Hystars Semiconductor (Wuxi) Co., Ltd.	55	10,023	-
	SK Telecom Co., Ltd.	17,178	11,328	5,324
Other related parties	SK Holdings Co., Ltd. ¹	5,980	93,041	24,815
	ESSENCORE Limited	185,127	-	-
	SK Ecoplant Co., Ltd.	9,068	8	428,621
	SK Ecoengineering Co., Ltd.	-	-	22,977
	SK Energy Co., Ltd.	15,162	24,085	-
	SK Networks Co., Ltd.	1,531	2,893	79
	SKC Solmics Co., Ltd.	318	39,244	85
	Chungcheong energy service Co., Ltd.	-	6,757	9
	SK Materials Co., Ltd.	42	53,317	-
	SK Siltron Co., Ltd.	11,112	136,529	-
	SK Materials Airplus Inc.	147	34,682	-
	Techdream Co., Ltd.	-	62,330	-
	SK Tri Chem Co., Ltd.	425	62,434	-
	SK Shieldus Co., Ltd.	1,546	23,002	4,352
	SK Innovation Co., Ltd.	5,197	15,307	-
	SK Square Co., Ltd.	-	-	-
	SK REIT Co., Ltd.	-	1,763	-
	FSK L&S Co., Ltd.	22	28,904	10,730
	Others	41,316	63,876	7,321
	₩	₩ 294,858	₩ 847,434	₩ 512,137

SK hynix Inc. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2023 and 2022 (Unaudited) and December 31, 2022

29. Transactions with Related Parties and Others, Continued

(2) Significant transactions with related parties for the three-month and nine-month periods ended September 30, 2023 and 2022 are as follows, Continued:

(In millions of Korean won)

		For the nine-month period ended September 30, 2022		
		Sales and others	Purchase and others	Asset acquisition
Associate	SK China Company Limited	₩ 25	₩ 9,194	₩ -
	Prume Social Farm, Co., Ltd.	-	31	-
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	1,769	495,359	15,643
	Hystars Semiconductor (Wuxi) Co., Ltd.	175	26,568	-
	SK Telecom Co., Ltd.	60,840	26,654	8,951
Other related parties	SK Holdings Co., Ltd. ¹	16,146	263,590	114,900
	ESSENCORE Limited	503,927	-	-
	SK Ecoplant Co., Ltd.	30,185	8	1,332,590
	SK Ecoengineering Co., Ltd.	-	-	111,215
	SK Energy Co., Ltd.	37,737	97,059	-
	SK Networks Co., Ltd.	4,752	6,964	260
	SKC Solmics Co., Ltd.	1,007	113,975	537
	Chungcheong energy service Co., Ltd.	13	36,527	9
	SK Materials Co., Ltd.	2,261	143,504	-
	SK Siltron Co., Ltd.	30,981	332,674	-
	SK Materials Airplus Inc.	654	98,948	5,751
	Techdream Co., Ltd.	-	151,544	-
	SK Tri Chem Co., Ltd.	978	157,953	-
	SK Shieldus Co., Ltd.	3,797	74,238	7,587
	SK Innovation Co., Ltd.	12,621	58,760	36
	SK Square Co., Ltd.	461	-	-
	SK REIT Co., Ltd.	507,200	1,763	113,377
FSK L&S Co., Ltd.	42	97,426	51,213	
Others	126,228	174,405	48,479	
	₩	₩ 1,341,799	₩ 2,367,144	₩ 1,810,548

¹ Royalty expense for the use of the SK brand for the nine-month period ended September 30, 2022 is included.

SK hynix Inc. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2023 and 2022 (Unaudited) and December 31, 2022

29. Transactions with Related Parties and Others, Continued

(3) The balances from significant transactions as of September 30, 2023 and December 31, 2022 are as follows:

(In millions of Korean won)

		September 30, 2023	
Company		Trade receivables and others	Other payables and others
Associate	SK China Company Limited	₩ -	₩ 10,335
	Prume Social Farm, Co., Ltd.	-	9
Joint ventures	HITECH Semiconductor (Wuxi) Co., Ltd.	634	441,325
	Hystars Semiconductor (Wuxi) Co., Ltd. ¹	-	91,862
Other related parties	SK Telecom Co., Ltd.	460	10,348
	SK Holdings Co., Ltd.	29,826	140,945
	ESSENCORE Limited	23,735	-
	SK Ecoplant Co., Ltd.	5,168	153,920
	SK Energy Co., Ltd.	1,569	31,020
	SK Networks Co., Ltd.	176	8,249
	SK enpulse Co., Ltd. (formerly, SKC Solmics Co., Ltd.)	66	31,354
	Chungcheong energy service Co., Ltd.	3	1,798
	SK Specialty Co., Ltd. (formerly, SK Materials Co., Ltd.)	278	19,449
	SK Siltron Co., Ltd.	141,075	47,056
	SK Materials Airplus Inc.	43	519,922
	Techdream Co., Ltd.	-	1,952
	SK Tri Chem Co., Ltd.	202	13,242
	SK Shieldus Co., Ltd.	459	24,351
	SK Innovation Co., Ltd.	577	5,481
	SK Square Co., Ltd.	3	-
	SK REIT Co., Ltd.	17,330	166,323
	FSK L&S Co., Ltd.	13	3,616
	SK E&S Co., Ltd.	41,274	-
	SK LNG Trading Pte., Ltd.	-	45,929
Others	33,298	156,366	
		₩ 296,189	₩ 1,924,852

¹ Other payables and others include ₩41,319 million of borrowings.

SK hynix Inc. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2023 and 2022 (Unaudited) and December 31, 2022

29. Transactions with Related Parties and Others, Continued

(3) The balances from significant transactions as of September 30, 2023 and December 31, 2022 are as follows, Continued:

(In millions of Korean won)

		December 31, 2022	
Company		Trade receivables and others	Other payables and others
Associate	SK China Company Limited	₩ 4	₩ 12,144
	Prume Social Farm, Co., Ltd.	-	6
Joint ventures	HITECH Semiconductor (Wuxi) Co., Ltd.	341	389,625
	Hystars Semiconductor (Wuxi) Co., Ltd. ¹	15	119,209
Other related parties	SK Telecom Co., Ltd.	30,681	15,840
	SK Holdings Co., Ltd.	1,716	216,014
	ESSENCORE Limited	30,587	-
	SK Ecoplant Co., Ltd.	8,047	1,167,535
	SK Ecoengineering Co., Ltd.	-	166,191
	SK Energy Co., Ltd.	2,560	41,114
	SK Networks Co., Ltd.	674	10,292
	SKC Solmics Co., Ltd.	183	40,299
	Chungcheong energy service Co., Ltd.	149	10,540
	SK Specialty Co., Ltd. (formerly, SK Materials Co., Ltd.)	597	19,560
	SK Siltron Co., Ltd.	4,299	47,185
	SK Materials Airplus Inc.	71	457,182
	Techdream Co., Ltd.	-	8,556
	SK Tri Chem Co., Ltd.	471	15,441
	SK Shieldus Co., Ltd.	602	43,261
	SK Innovation Co., Ltd.	857	7,217
	SK Square Co., Ltd.	690	1,175
	SK REIT Co., Ltd.	-	177,311
	FSK L&S Co., Ltd	2	9,430
Others	43,959	59,757	
		₩ 126,505	₩ 3,034,884

¹ Other payables and others include ₩41,399 million of borrowings.

SK hynix Inc. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2023 and 2022 (Unaudited) and December 31, 2022

29. Transactions with Related Parties and Others, Continued

(4) Key management compensation

The Group considers registered directors who have authority and responsibility for planning, directing and controlling the activities of the Group as key management. The compensation paid to key management for employee services for the three-month and nine-month periods ended September 30, 2023 and 2022 are as follows:

(In millions of Korean won)

	2023		2022	
	Three months	Nine months	Three months	Nine months
Salaries	₩ 1,888	₩ 4,987	₩ 1,283	₩ 4,610
Defined benefit plan	100	368	75	336
Share-based payment	(6,202)	(970)	2,767	5,646
	₩ (4,214)	₩ 4,385	₩ 4,125	₩ 10,592

(5) The significant transactions between the Group and the companies that are in the same conglomerate group according to 'Fair Trade Law' for the three-month and nine-month periods ended September 30, 2023 and 2022 are as follows. These entities are not related parties according to Korean IFRS 1024 *Related Party Disclosures*.

(In millions of Korean won)

Company	2023					
	Sales and others		Purchase and others		Asset acquisition	
	Three months	Nine months	Three months	Nine months	Three months	Nine months
SK Chemicals Co., Ltd.	₩ 1,545	₩ 5,808	₩ 75	₩ 822	₩ -	-
SK Bioscience Co., Ltd.	630	1,919	5	18	-	-
ANTS Co., Ltd.	4	4	5,123	8,709	-	-
SMCore. Inc	4	10	200	2,435	705	2,737
Korea Nexlene Company	1,249	3,460	-	-	-	-
Others	377	1,136	-	-	-	-
	₩ 3,809	₩ 12,337	₩ 5,403	₩ 11,984	₩ 705	₩ 2,737

(In millions of Korean won)

Company	2022					
	Sales and others		Purchase and others		Asset acquisition	
	Three months	Nine months	Three months	Nine months	Three months	Nine months
SK Chemicals Co., Ltd.	₩ 2,081	₩ 6,615	₩ 354	₩ 1,045	₩ -	-
SK Bioscience Co., Ltd.	783	2,174	3	9	-	-
ANTS Co., Ltd.	2	6	7,924	7,924	-	-
SMCore. Inc	2	14	4,064	4,575	4,791	38,746
Korea Nexlene Company	1,307	3,413	-	-	-	-
Others	493	1,265	463	1,274	-	-
	₩ 4,668	₩ 13,487	₩ 12,808	₩ 14,827	₩ 4,791	₩ 38,746

SK hynix Inc. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2023 and 2022 (Unaudited) and December 31, 2022

29. Transactions with Related Parties and Others, Continued

(6) The balances of significant transactions between the Group and the companies that are in the same conglomerate group designated by 'Fair Trade Law' as of September 30, 2023 and December 31, 2022 are as follows. These entities are not related parties according to Korean IFRS 1024 *Related Party Disclosures*.

(In millions of Korean won)

Company	September 30, 2023	
	Trade receivables and others	Other payables and others
SK Chemicals Co., Ltd.	₩ 571	₩ -
SK Bioscience Co., Ltd.	130	1
ANTS Co., Ltd.	1	-
SMCore Inc.	2	353
Korea Nexlene Company	204	-
Others	79	-
	₩ 987	₩ 354

(In millions of Korean won)

Company	December 31, 2022	
	Trade receivables and others	Other payables and others
SK Chemicals Co., Ltd.	₩ 871	₩ 69
SK Bioscience Co., Ltd.	264	-
ANTS Co., Ltd.	2	1,082
SMCore Inc.	-	18,644
Korea Nexlene Company	512	-
Others	234	18
	₩ 1,883	₩ 19,813

(7) The right-of-use assets and lease liabilities recognized regarding the lease agreements with HITECH Semiconductor (Wuxi) Co., Ltd., a joint venture for the nine-month period ended September 30, 2023 amount to ₩77,732 million (2022: ₩14,040 million) and ₩77,732 million (2022: ₩14,040 million), respectively, and lease payments to HITECH Semiconductor (Wuxi) Co., Ltd., a joint venture for the nine-month period ended September 30, 2023 amount to ₩59,752 million (2022: ₩65,541 million). The right-of-use assets and lease liabilities recognized regarding the lease agreements with other related parties including SK Materials Airplus Inc. for the nine-month period ended September 30, 2023 amount to ₩143,053 million (2022: ₩149,039 million) and ₩143,053 million (2022: ₩220,046 million), respectively, and lease payments to the related parties amount to ₩65,446 million (2022: ₩39,624 million).

(8) The Group provides a payment guarantee amounting to RMB 701 million to Wuxi Xinfa Group Co., Ltd. on behalf of Hystars Semiconductor (Wuxi) Co., Ltd., a joint venture.

(9) The establishment of the subsidiary is explained in Note 1, and the acquisitions and additional investments of associates are explained in Note 10.

SK hynix Inc. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2023 and 2022 (Unaudited) and December 31, 2022

29. Transactions with Related Parties and Others, Continued

(10) Financial transactions with related parties for the nine-month periods ended September 30, 2023 and 2022 are as follows:

(In millions of Korean won)

		2023	
	Company	Dividend received	Dividend Paid
Associate	Magnus Private Investment Co., Ltd.	₩ 262	₩ -
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd. Specialized Investment-type Private Equity Investment Trust For Growth Of Semiconductor	15,863	-
Other related parties	SK Square Co., Ltd.	-	87,660
		<u>₩ 16,278</u>	<u>₩ 87,660</u>

(In millions of Korean won)

		2022		
	Company	Repayment	Dividend received	Dividend paid
Joint venture	Hystars Semiconductor (Wuxi) Co., Ltd.	₩ 37,409	₩ -	₩ -
	HITECH Semiconductor (Wuxi) Co., Ltd.	-	17,383	-
Other related parties	SK Square Co., Ltd.	-	-	312,654
		<u>₩ 37,409</u>	<u>₩ 17,383</u>	<u>₩ 312,654</u>

SK hynix Inc. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2023 and 2022 (Unaudited) and December 31, 2022

30. Commitments and Contingencies

(1) Significant pending litigations and claims of the Group as of September 30, 2023 are as follows:

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

On April 27, 2018, a class action lawsuit against the Parent Company and its subsidiary, SK hynix America Inc., for price fixing by major DRAM companies (period from September 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.

In December 2020 and September 2021, the U.S. District Court for the Northern District of California ruled dismissal all lawsuits filed by direct purchasers and indirect purchasers in the United States, and the plaintiffs in the United States later filed for an appeal, but all lawsuits in U.S.A have been finalized by maintaining the decision to dismiss from the first trial as of September 30, 2023.

Meanwhile, in September 2021 and November 2021, the Quebec District Court in Canada and the Federal Court of Ontario decided to dismiss a lawsuit filed by a group of purchasers in Canada, and the decision to dismiss the lawsuit was upheld in the appeal. The Quebec District Court has finalized with the judgement of appeal, while the appeal process is ongoing in the Ontario Federal Court as of September 30, 2023.

(b) 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. The pending case currently is under investigation. As of September 30, 2023, the Group cannot predict the outcome of these investigation.

(c) Other patent infringement claims and litigation

In addition to the above litigations, the Group has responded to various disputes related to intellectual property rights and 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) Back-end process service contract with HITECH Semiconductor (Wuxi) Co., Ltd. (HITECH)

The Group 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 Group has paid a certain level of margin guaranteed to HITECH as the Group has priority to use HITECH's equipment.

SK hynix Inc. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2023 and 2022 (Unaudited) and December 31, 2022

30. Commitments and Contingencies, Continued

(3) Assets provided as collateral

Details of assets provided as collateral as of September 30, 2023 are as follows:

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

Category	Book value		Pledged amount		Remark
	Amount	Currency	Amount in USD	Amount in KRW	
Land and buildings	₩ 104,972	USD	70	94,139	Borrowings for equipment and others
Machinery		KRW	-	14,854	
		USD	4,286	5,763,870	
	3,760,483	KRW	-	450,000	
	₩ 3,865,455	USD	4,356	5,858,009	
		KRW	-	464,854	

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

Category	Book value		Collateral liabilities amount		Remark
	Amount	Currency	Amount in USD	Amount in KRW	
Land and buildings	₩ 104,972	USD	23	30,662	Borrowings for equipment and others
Machinery		KRW	-	3,766	
		USD	2,007	2,699,348	
	3,760,483	KRW	-	533,333	
	₩ 3,865,455	USD	2,030	2,730,010	
		KRW	-	537,099	

SK hynix Inc. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2023 and 2022 (Unaudited) and December 31, 2022

30. Commitments and Contingencies, Continued

(4) Financing agreements

Details of credit lines with financial institutions as of September 30, 2023 are as follows:

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

	Financial Institution	Commitment	Currency	Amount
		Import finance including usance Comprehensive limit contract for import and export including	USD	830
The Parent Company	Hana Bank and others	usance Overdrafts with banks Accounts receivable factoring contracts which have no right to recourse	USD KRW KRW	1,470 20,000 70,000
SK hynix Semiconductor (China) Ltd.	Agricultural Bank of China and others	Import finance including usance	RMB USD	950 490
SK hynix America Inc. and other sales entities	Citibank and others	Accounts receivable factoring contracts which have no right to recourse	USD	947
Domestic subsidiaries	Hana Bank and others	Import finance Import finance including usance	KRW USD	7,500 15

(5) The Group's commitments in relation to future capital expenditures on property, plant and equipment that have not been recognized as of September 30, 2023 are ₩12,221,144 million (as of December 31, 2022: ₩11,695,696 million).

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

In regard to the Group's interests in KIOXIA through its investments in BCPE Pangea Intermediate holdings Cayman, L.P. and BCPE Pangea Cayman2 Limited, equity shares in KIOXIA owned, directly or indirectly, by the Group are limited to a certain percentage during certain periods after the date of acquisition. In addition, during the same periods, the Group 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.

SK hynix Inc. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

September 30, 2023 and 2022 (Unaudited) and December 31, 2022

30. Commitments and Contingencies, Continued

(7) Acquisition of the Intel NAND business

The Group entered into a master purchase agreement with Intel Corporation (“Intel”) to acquire the entire NAND business of Intel excluding the Optane division of Non-Volatile Memory Solutions Group during the year ended December 31, 2020. Pursuant to the master purchase agreement, the entire business shall be transferred in two separate processes through subsidiaries that newly established overseas, and payment shall be made in two installments. Total consideration to be paid amount to US\$ 8,844 million and US\$ 2,235 million, out of total consideration, will be paid after the first deal closing by March 2025, at the second deal closing. The second installment of US\$ 2,235 million shall be paid by March 2025, when second deal closing is expected. The second deal 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. However, the Group believes that the possibility that the second deal closing will not occur is low.

In the process of obtaining a conditional business combination approval for the Intel NAND business acquisition from the Chinese competition authority (Chinese State Administration for Market Regulation) in connection with the first closing of the Intel NAND business completed during the year ended December 31, 2021, the Group was imposed with certain conditions, mainly including the obligation to maintain a reasonable pricing policy, increase production and to support the entry of third-party competitors into the Chinese eSSD market over the next five years. Therefore, the Group must comply with these obligations for the next five years and may apply to waive them after five years. If the Group makes such an application, the Chinese competition authorities will decide whether to accept the application in consideration of the competition in the Chinese eSSD market.

(8) Contracts for corporate purchasing card

The Group signed contracts for corporate purchasing card with financial institutions for paying national taxes and electricity bills. The Group makes the payment to the credit card companies at the end of the credit period stipulated in the contracts and the balance of the payables to the credit card companies as of September 30, 2023 is ₩1,241,831 million.

(9) On October 7, 2022, the U.S. Department of Commerce's Bureau of Industry and Security (BIS) announced new export regulations that strengthen restrictions on exports of high-performance semiconductors to China and semiconductor production equipment exports and semiconductor production activities in China. The Group has actively discussed with the US government for the smooth operation of its semiconductor plants in China, and as a result, the Group has been granted a one-year grace period on this restriction until October 10, 2023. Afterwards, on September 29, 2023, the U.S. Department of Commerce's Bureau of Industry and Security (BIS) designated the Group's semiconductor plants in China as a VEU (Validated End-User), permitting the designated items to be imported without approval and expiration date.

SK hynix Inc. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2023 and 2022 (Unaudited) and December 31, 2022

31. Consolidated Interim Statements of Cash Flows

(1) Reconciliations between profit and cash generated from operations for the nine-month periods ended September 30, 2023 and 2022 are as follows:

(In millions of Korean won)

	<u>2023</u>	<u>2022</u>
Profit (Loss) for the period	₩ (7,758,097)	₩ 5,976,256
Adjustment		
Income tax expense (benefit)	(2,024,950)	2,461,819
Interest expense	1,068,155	332,288
Depreciation	9,726,469	9,567,757
Amortization of intangible assets	429,812	622,465
Depreciation of right-of-use assets	266,464	243,009
Gain on disposal of property, plant and equipment	(222,488)	(126,144)
Gain on disposal of investment property	-	(64,418)
Loss on impairment of intangible assets	167,050	50,272
Defined benefit plan	110,320	187,742
Gain on foreign currency translation	(872,709)	(2,148,669)
Loss on foreign currency translation	1,648,377	3,250,032
Gain on equity method investments, net	(18,858)	(119,245)
Gain on disposal of short-term investment assets	(55,538)	(44,529)
Others, net	(27,915)	(3,952)
Changes in operating assets and liabilities		
Decrease (increase) in trade receivables	(15,552)	203,143
Decrease (increase) in loans and other receivables	(129,349)	10,162
Decrease (increase) in inventories	939,085	(4,957,386)
Decrease (increase) in other assets	198,981	(305,644)
Increase (decrease) in trade payables	(227,937)	1,143,206
Increase in other payables	188,526	1,393
Increase (decrease) in other non-trade payables	(1,406,975)	155,131
Increase in provisions	13,858	441,159
Increase (decrease) in other liabilities	416,728	(51,493)
Payment of defined benefit liabilities	(3,976)	(710)
Contributions to plan assets	(133,009)	(60,314)
Cash generated from operating activities	<u>₩ 2,276,472</u>	<u>₩ 16,763,330</u>

(2) Details of significant transactions without inflows and outflows of cash for the nine-month periods ended September 30, 2023 and 2022 are as follows:

(In millions of Korean won)

	<u>2023</u>	<u>2022</u>
Increase in other payables related to property, plant and equipment	₩ -	₩ 2,472,056
Decrease in borrowings related to sale and leaseback contract	(342,070)	-

(3) The Group presented the inflow and outflow of cash from short-term investment assets, and etc., which are frequently traded and have a large total amount and mature in a short period of time, as net increases and decreases.

SK hynix Inc. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2023 and 2022 (Unaudited) and December 31, 2022

32. Share-based Payment

(1) The Parent Company accounts for share-based payment, with options granted to employees to choose either cash-settled or equity-settled share-based payment, in accordance with the substance of transactions and the details of the share options as of September 30, 2023 are as follows:

(In shares)

	Total numbers of share option granted	Forfeited or Cancelled	Exercised	Outstanding at September 30, 2023
1 st	99,600	-	99,600	-
2 nd ¹	99,600	-	99,600	-
3 rd	99,600	-	-	99,600
4 th	7,747	-	7,747	-
5 th ¹	7,223	-	7,223	-
6 th	8,171	8,171	-	-
7 th ¹	61,487	-	61,487	-
8 th ¹	61,487	-	61,487	-
9 th	61,487	-	-	61,487
10 th ²	54,020	10,764	-	43,256
11 th	6,397	-	-	6,397
12 th	6,469	-	-	6,469
13 th ²	75,163	29,851	-	45,312
14 th ²	195,460	19,621	-	175,839
	843,911	68,407	337,144	438,360

	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 ¹	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 ¹	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 ¹	March 22, 2019	March 22, 2019 - March 22, 2021	March 23, 2021 - March 22, 2024	71,560
8 th ¹	March 22, 2019	March 22, 2019 - March 22, 2021	March 23, 2022 - March 22, 2025	77,290
9 th	March 22, 2019	March 22, 2019 - March 22, 2022	March 23, 2023 - March 22, 2026	83,470
10 th ²	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
12 th	March 30, 2021	March 30, 2021 - March 30, 2023	March 31, 2023 - March 30, 2026	136,060
13 th ²	March 30, 2021	March 30, 2021 - March 30, 2023	March 31, 2023 - March 30, 2026	136,060
14 th ²	March 30, 2022	March 30, 2022 - March 30, 2024	March 31, 2024 - March 30, 2027	121,610

¹ During the nine-month period ended September 30, 2023, the share options were exercised as cash-settled share-based payment.

² During the nine-month period ended September 30, 2023, 15,001 shares of options have forfeited.

SK hynix Inc. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2023 and 2022 (Unaudited) and December 31, 2022

32. Share-based Payment, Continued

(2) In addition to above share options granted by the Parent Company, restricted stock units (RSUs) for the Parent Company's subsidiary, SK hynix NAND product Solutions Corp., are also granted to the subsidiary and its employees.

(In shares)

Grant cycle	Total numbers of share option granted	Forfeited or Cancelled	Exercised
Annually or Quarterly	46,878,674	6,546,258	8,749,649

(3) Details of liabilities recognized for stock appreciation rights as of September 30, 2023 are as follows:

(In millions of Korean won)

	September 30, 2023
Stock appreciation rights liabilities ¹	₩ 40,219

¹ As of September 30, 2023, stock appreciation rights liabilities include RSU for the subsidiaries' shares amount to ₩32,575 million.

(4) Measurement of fair value

The compensation cost is calculated by applying a binomial option-pricing model in estimating the fair value of the option as of September 30, 2023. The inputs used are as follows:

	2 nd	3 rd	5 th	7 th	8 th	9 th
Share price (in Korean won)	₩ 85,000	₩ 85,000	₩ 85,000	₩ 85,000	₩ 85,000	₩ 85,000
Expected volatility	33.00%	33.00%	33.00%	33.00%	33.00%	33.00%
Estimated fair value of share option (in Korean won)	₩ 32,745	₩ 30,363	₩ 7,479	₩ 19,868	₩ 20,275	₩ 20,577
Dividend yield ratio	1.80%	1.80%	1.80%	1.80%	1.80%	1.80%
Risk free ratio	3.51%	3.77%	3.55%	3.77%	3.69%	3.74%

	10 th	11 th	12 th	13 th	14 th
Share price (in Korean won)	₩ 85,000	₩ 85,000	₩ 85,000	₩ 85,000	₩ 85,000
Expected volatility	33.00%	33.00%	33.00%	33.00%	33.00%
Estimated fair value of share option (in Korean won)	₩ 22,449	₩ 22,449	₩ 8,162	₩ 8,162	₩ 13,065
Dividend yield ratio	1.80%	1.80%	1.80%	1.80%	1.80%
Risk free ratio	3.75%	3.75%	3.75%	3.75%	3.75%

(5) The compensation expense for the nine-month period ended September 30, 2023 is ₩6,970 million (2022: ₩52,874 million).

SK hynix Inc. and Subsidiaries
Notes to the Condensed Consolidated Interim Financial Statements
September 30, 2023 and 2022 (Unaudited) and December 31, 2022

33. Business Combinations

(1) Acquisition of the Intel NAND business

Impact on consolidated interim statements of comprehensive income for the nine-month period ended September 30, 2022.

(In millions of Korean won)

	<u>Provisional Amounts</u>	<u>Adjustments¹</u>	<u>September 30, 2022</u>
Revenue	₩ 36,949,537	₩ -	₩ 36,949,537
Cost of sales	21,324,758	20,342	21,345,100
Gross profit	15,624,779	(20,342)	15,604,437
Selling and administrative expenses	6,916,988	(34,197)	6,882,791
Operating profit	8,707,791	13,855	8,721,646
Finance income	4,178,889	-	4,178,889
Finance expenses	4,615,888	-	4,615,888
Share of profit of equity-accounted investees	119,245	-	119,245
Other income	214,249	-	214,249
Other expenses	180,065	-	180,065
Profit before income tax	8,424,221	13,855	8,438,076
Income tax expense	2,461,820	-	2,461,820
Profit for the period	₩ 5,962,401	₩ 13,855	₩ 5,976,256
Total comprehensive income	₩ 8,025,820	₩ 15,666	₩ 8,041,486
Basic earnings per share (in Korean won)	₩ 8,663	₩ 20	₩ 8,683
Diluted earnings per share (in Korean won)	8,661	20	8,681

¹ Initial accounting for business combinations was incomplete as of December 31, 2021, and provisional amounts were reported in the consolidated financial statements as of and for the year then ended. During the year ended December 31, 2022, the provisional amounts recognized at the acquisition date were adjusted retrospectively based on newly obtained information about facts and circumstances that existed as of the acquisition date to complete the accounting for business combinations. The consolidated interim statements of comprehensive income for the nine-month period ended September 30, 2022, presented for comparative purposes, were restated to reflect these adjustments.

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 consolidated financial statements of SK hynix Inc. and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statements of financial position as at December 31, 2022 and 2021, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS).

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 consolidated Financial Statements* section of our report. We are independent of the Group 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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated 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 Group'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 Group has equity investment in a special purpose entity ("SPC1") and convertible bonds ("SPC2") in relation to investments in KIOXIA Holdings Corporation ("KIOXIA") with total amount of ₩ 5,286,084 million, which represents 5.09% of consolidated total assets as at December 31, 2022, and the Group recognized ₩ 1,088,280 million as loss on valuation of the financial assets for the year ended December 31, 2022 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 Group used an independent external expert for the fair value measurement.

The carrying amount of the financial assets is material in the consolidated 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 impacts on the fair value measurement involve the Group 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 Group'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 to review whether KIOXIA equity value measurement includes any optimistic assumptions
- Reviewed the consistency of the sales growth rate, operating profit margin rate and capital expenditure forecasts applied in the equity value measurement of KIOXIA with the past growth and market conditions
- Evaluated the results of a 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 Group's property, plant and equipment amount to ₩ 60,228,528 million, of which the machinery accounts for ₩ 38,941,841 million. Regarding the recognition of depreciation expenses for machinery, the Group starts depreciating machinery when the acquisition and installation of the machinery is complete, and it is ready for its intended use. During the current year ended December 31, 2022, the Group has started to depreciate the machinery amounting to ₩ 16,451,048 million after determining that the machinery is ready for its intended use.

The size of the investment in machinery that the Group makes annually for the maintenance and expansion of production plants is significant and the effect of depreciation amount on the consolidated financial statements is significant depending on the determination when it is ready for its intended 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 Group's policy, process and internal controls in relation to the determination on when to start depreciation of the machinery
- Evaluated the Group's internal controls in relation to the determination on when the machinery is ready for its intended use and when its depreciation begins including the machinery transferred from construction-in-progress
- Assessed internal controls for identifying and reviewing the reasons for assets remaining as assets under constructions for long time
- Inspected evidence documents used by the Group in determining the depreciation starting point of the machinery
- Observed and made inquiries on operations status of key production facilities invested during the current year
- Made inquiries on when certain construction-in-progress is expected to be ready for its intended use and start depreciation and reviewed the relevant evidence documents

(3) Impairment test of CGUs

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

As described in Note 14 to the consolidated financial statements, the management determined that these represent indications of impairment on the Cash Generating Units (CGUs) that semiconductor market conditions are sharply declined for the year ended December 31, 2022 and the market capitalization of the Group is significantly less than the carrying amount of its net assets as at December 31, 2022. The Group performed impairment assessment for the CGUs consisting of its existing business ("existing CGU") and the CGUs consisting of entities such as SK hynix NAND Product Solutions Corp. and others, which were incorporated into the scope of the consolidation through the acquisition the Intel NAND business ("Solidigm CGU"), by estimating recoverable amounts in accordance with Korean IFRS 1036 *Impairment of Assets*. As a result of the impairment assessment, the Group recognized as impairment loss on intangible assets of ₩ 1,344,440 million in the consolidated financial statements, judging that there was an impairment in Solidigm CGU.

We considered that the impairment test of CGUs was a key audit matter given that the size of each CGUs was significant level and the management's judgments were involved in the assessment of recoverable amount when performing an impairment test.

How our audit addressed the Key Audit Matter

We have performed the following audit procedures to address the Key Audit Matter.

- Assessed the qualification and independence of external experts engaged by management
- Reviewed the business plan presented by management and reviewed whether it is appropriately reflected in management's valuation details
- Assessed the appropriateness of valuation technique model used by management and external experts in estimating the recoverable amount
- Assessed the reasonableness of the key assumptions including sales growth rate, operating profit rate and capital expenditures applied in estimating the recoverable amount
- Reviewed the management's assumption and calculation process to determine discount rate using observable information

- Assessed the result of sensitivity analysis of the discount rates and permanent growth rates used by management in order to assess the impacts of changes in key assumptions on the valuation.

Emphasis of Matters

As described in Note 37 (3), the Group acquired Intel Nand business during the prior year and could not complete its fair value measurement of the assets acquired and liabilities assumed since the deal closing was consummated nearby the year end. Accordingly, provisional amounts of assets and liabilities were reported in the consolidated financial statements for the year ended December 31, 2021. During the year ended December 31, 2022, the provisional amount recognized at the acquisition date was adjusted retrospectively and adjusted assets and liabilities were recognized based on newly obtained information about facts and circumstances that existed as of the acquisition date. The prior year consolidated financial statements presented for comparison purpose are restated to reflect such adjustments.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- 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 Group'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

consolidated 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 Group 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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 consolidated 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.

/s/ Samil PricewaterhouseCoopers

Seoul, Korea

March 10, 2023

<p>This report is effective as of March 10, 2023, 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 consolidated 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.</p>

SK hynix Inc. and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2022 and 2021

(In millions of Korean won)

	<u>Notes</u>	<u>2022</u>	<u>2021</u>
Assets			
Current assets			
Cash and cash equivalents	5,6 ₩	4,977,007 ₩	5,057,982
Short-term financial instruments	5,6,7	415,625	474,637
Short-term investment assets	5,6	1,016,360	3,139,923
Trade receivables, net	5,6,8,33	5,186,054	8,267,111
Loans and other receivables, net	5,6,8,33	272,512	171,464
Inventories, net	9	15,664,707	8,950,087
Current tax assets		14,523	4,113
Other current assets	10	1,186,544	841,728
Other financial assets	5,6,7	-	30
		<u>28,733,332</u>	<u>26,907,075</u>
Non-current assets			
Investments in associates and joint ventures	11	1,352,845	1,410,428
Long-term investment assets	5,6	5,733,544	6,665,513
Loans and other receivables, net	5,6,8,33	354,167	339,517
Other financial assets	5,6,7,22	115,712	91,139
Property, plant and equipment, net	12,15,34	60,228,528	53,225,667
Right-of-use assets, net	13,33	1,779,985	1,597,344
Intangible assets, net	14	3,512,107	4,797,162
Investment property, net	12,15	223	164,197
Deferred tax assets	21,31	657,115	590,244
Employee benefit assets	20	1,332,253	428,962
Other non-current assets	10	71,701	129,277
		<u>75,138,180</u>	<u>69,439,450</u>
Total assets		<u>₩ 103,871,512</u>	<u>₩ 96,346,525</u>

SK hynix Inc. and Subsidiaries
Consolidated Statements of Financial Position, Continued
December 31, 2022 and 2021

(In millions of Korean won)

	Notes	2022	2021
Liabilities			
Current liabilities			
Trade payables	5,6,33	₩ 2,186,230	₩ 1,359,247
Other payables	5,6,33,34,37	5,445,335	4,606,716
Other non-trade payables	5,6,16,33	3,024,648	2,278,316
Borrowings	5,6,17,33,34	7,423,247	2,880,763
Provisions	19	251,889	10,167
Current tax liabilities		696,553	3,002,734
Lease liabilities	5,6,13,33	280,873	302,059
Other current liabilities	18	534,335	294,780
Other financial liabilities	5,6,34	586	613
		<u>19,843,696</u>	<u>14,735,395</u>
Non-current liabilities			
Long-term other payables	5,6,34,37	2,958,659	2,693,301
Other non-trade payables	5,6,16,33	28,083	32,215
Borrowings	5,6,17,34	15,571,357	14,743,046
Provisions	19	1,404	-
Defined benefit liabilities, net	20	69,952	1,200
Deferred tax liabilities	21	382,477	627,995
Lease liabilities	5,6,13,33	1,516,208	1,223,703
Other financial liabilities	5,6,22,34	4,290	4,606
Other non-current liabilities	18	204,844	94,006
		<u>20,737,274</u>	<u>19,420,072</u>
Total liabilities		<u>40,580,970</u>	<u>34,155,467</u>
Equity			
Equity attributable to owners of the Parent Company			
Capital stock	23	3,657,652	3,657,652
Capital surplus	23	4,336,170	4,334,643
Other equity	23,36	(2,311,409)	(2,294,562)
Accumulated other comprehensive income	24	898,682	675,271
Retained earnings	25	56,685,260	55,784,068
Total equity attributable to owners of the Parent Company		<u>63,266,355</u>	<u>62,157,072</u>
Non-controlling interests		<u>24,187</u>	<u>33,986</u>
Total equity		<u>63,290,542</u>	<u>62,191,058</u>
Total liabilities and equity		<u>₩ 103,871,512</u>	<u>₩ 96,346,525</u>

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

SK hynix Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2022 and 2021

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

	Notes	2022	2021
Revenue	4,26,33 ₩	44,621,568 ₩	42,997,792
Cost of sales	28,33	28,993,713	24,045,600
Gross profit		15,627,855	18,952,192
Selling and administrative expenses	27,28	8,818,438	6,541,852
Operating profit		6,809,417	12,410,340
Finance income	5,29	3,714,278	2,377,516
Finance expenses	5,29	5,091,553	1,469,860
Share of profit of equity-accounted investees	11	131,186	162,280
Other income	30	241,371	116,135
Other expenses	30	1,801,919	180,424
Profit before income tax		4,002,780	13,415,987
Income tax expense	31	1,761,111	3,799,799
Profit for the year		2,241,669	9,616,188
Other comprehensive income (loss)			
Item that will never be reclassified to profit or loss:			
Remeasurements of defined benefit liability, net of tax	20	349,453	(13,694)
Items that are or may be reclassified to profit or loss:			
Foreign operations – foreign currency translation differences, net of tax	24	154,321	963,288
Gain on valuation of derivatives, net of tax	22,24	5,725	10,143
Equity-accounted investees – share of other comprehensive income, net of tax	11,24	71,000	111,593
Other comprehensive income for the year, net of tax		580,499	1,071,330
Total comprehensive income for the year		₩ 2,822,168 ₩	₩ 10,687,518
Profit attributable to:			
Owners of the Parent Company		₩ 2,229,560 ₩	₩ 9,602,316
Non-controlling interests		12,109	13,872
Total comprehensive income attributable to:			
Owners of the Parent Company		2,802,424	10,669,346
Non-controlling interests		19,744	18,172
Earnings per share			
	32		
Basic earnings per share (in won)		3,242	13,989
Diluted earnings per share (in won)		3,242	13,984

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

SK hynix Inc. and Subsidiaries
Consolidated Statements of Changes in Equity
Years Ended December 31, 2022 and 2021

Attributable to owners of the Parent Company

(In millions of Korean won)

	Notes	Attributable to owners of the Parent Company						Non-controlling interests	Total equity
		Capital stock	Capital surplus	Other equity	Accumulated other comprehensive income (loss)	Retained earnings	Total		
Balance at January 1, 2021		₩ 3,657,652	₩ 4,143,736	₩ (2,503,122)	₩ (405,453)	₩ 46,995,728	₩ 51,888,541	₩ 20,556	₩ 51,909,097
Comprehensive income:									
Profit for the year		-	-	-	-	9,602,316	9,602,316	13,872	9,616,188
Remeasurements of defined benefit liabilities, net of tax	20	-	-	-	-	(13,694)	(13,694)	-	(13,694)
Other comprehensive income of associates, net of tax	11,24	-	-	-	111,593	-	111,593	-	111,593
Loss on valuation of derivatives, net of tax	22,24	-	-	-	10,143	-	10,143	-	10,143
Foreign operations – foreign currency translation differences, net of tax	24	-	-	-	958,988	-	958,988	4,300	963,288
Total comprehensive income for the year		-	-	-	1,080,724	9,588,622	10,669,346	18,172	10,687,518
Transactions with owners of the Parent Company:									
Dividends paid	25	-	-	-	-	(800,282)	(800,282)	(4,742)	(805,024)
Disposal of treasury shares	23	-	191,247	206,308	-	-	397,555	-	397,555
Share-based payment	36	-	(340)	2,252	-	-	1,912	-	1,912
Total transactions with owners of the Parent Company		-	190,907	208,560	-	(800,282)	(400,815)	(4,742)	(405,557)
Balance at December 31, 2021		₩ 3,657,652	₩ 4,334,643	₩ (2,294,562)	₩ 675,271	₩ 55,784,068	₩ 62,157,072	₩ 33,986	₩ 62,191,058

SK hynix Inc. and Subsidiaries
Consolidated Statements of Changes in Equity, Continued
Years Ended December 31, 2022 and 2021

Attributable to owners of the Parent Company

(In millions of Korean won)

	Notes	Attributable to owners of the Parent Company						Non-controlling interests	Total equity
		Capital stock	Capital surplus	Other equity	Accumulated other comprehensive income (loss)	Retained earnings	Total		
Balance at January 1, 2022		₩ 3,657,652	₩ 4,334,643	₩ (2,294,562)	₩ 675,271	₩ 55,784,068	₩ 62,157,072	₩ 33,986	₩ 62,191,058
Comprehensive income:									
Profit for the year		-	-	-	-	2,229,560	2,229,560	12,109	2,241,669
Remeasurements of defined benefit liabilities, net of tax	20	-	-	-	-	349,453	349,453	-	349,453
Other comprehensive income of associate, net of tax	11,24	-	-	-	71,000	-	71,000	-	71,000
Gain on valuation of derivatives, net of tax	22,24	-	-	-	5,725	-	5,725	-	5,725
Foreign operations – foreign currency translation differences, net of tax	24	-	-	-	146,686	-	146,686	7,635	154,321
Total comprehensive income for the year		-	-	-	223,411	2,579,013	2,802,424	19,744	2,822,168
Transactions with owners of the Parent Company:									
Decrease of non-controlling interests		-	-	-	-	-	-	(26,459)	(26,459)
Dividends paid	25	-	-	-	-	(1,677,821)	(1,677,821)	(3,084)	(1,680,905)
Disposal of treasury stock	23	-	1,527	1,731	-	-	3,258	-	3,258
Share-based payment	36	-	-	7,241	-	-	7,241	-	7,241
Changes in terms and conditions of share-based payment.	23,36	-	-	(25,819)	-	-	(25,819)	-	(25,819)
Total transactions with owners of the Parent Company		-	1,527	(16,847)	-	(1,677,821)	(1,693,141)	(29,543)	(1,722,684)
Balance at December 31, 2022		₩ 3,657,652	₩ 4,336,170	₩ (2,311,409)	₩ 898,682	₩ 56,685,260	₩ 63,266,355	₩ 24,187	₩ 63,290,542

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

SK hynix Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2022 and 2021

(In millions of Korean won)

	Notes	2022	2021
Cash flows from operating activities			
Cash generated from operations	35	₩ 19,083,888	₩ 20,951,478
Interest received		77,430	17,341
Interest paid		(494,513)	(240,942)
Dividends received		93,067	84,679
Income tax paid		(3,979,355)	(1,014,908)
Net cash inflow from operating activities		<u>14,780,517</u>	<u>19,797,648</u>
Cash flows from investing activities			
Decrease in short-term financial instruments		2,022,053	2,572,550
Increase in short-term financial instruments		(1,966,360)	(2,600,586)
Increase in short-term investment assets, net		2,195,111	(1,548,448)
Decrease in other financial assets		29,950	213
Increase in other financial assets		(600)	(29,830)
Decrease in loans and other receivables		39,051	47,027
Increase in loans and other receivables		(72,248)	(79,537)
Proceeds from disposal of long-term investment assets		4,306	45,972
Acquisitions of long-term investment assets		(115,537)	(130,318)
Proceeds from disposal of property, plant and equipment		323,718	79,940
Acquisitions of property, plant and equipment		(19,010,261)	(12,486,635)
Proceeds from disposal of intangible assets		1,018	2,073
Acquisitions of intangible assets		(738,621)	(973,893)
Proceeds from disposal of investment properties		263,211	-
Proceeds from disposal of investments in associates		209,843	-
Acquisitions of investments in associates		(40,717)	(44,862)
Acquisitions of business		(1,027,663)	(7,250,087)
Others		-	4,144
Net cash outflow from investing activities		<u>(17,883,746)</u>	<u>(22,392,277)</u>
Cash flows from financing activities			
Proceeds from borrowings	35	11,917,454	8,933,737
Repayments of borrowings	35	(7,124,565)	(3,320,911)
Repayments of lease liabilities	35	(301,858)	(323,975)
Dividends paid		(1,680,905)	(805,024)
Disposal of treasury stock		11,653	8,484
Exercise stock-option		17	2
Net cash inflow from financing activities		<u>2,821,796</u>	<u>4,492,313</u>
Effects of exchange rate changes on cash and cash equivalents		<u>200,458</u>	<u>184,309</u>
Net increase (decrease) in cash and cash equivalents		<u>(80,975)</u>	<u>2,081,993</u>
Cash and cash equivalents at the beginning of the year		<u>5,057,982</u>	<u>2,975,989</u>
Cash and cash equivalents at the end of the year		<u>₩ 4,977,007</u>	<u>₩ 5,057,982</u>

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

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

1. General Information

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

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

As of December 31, 2022, the shareholders of the Parent Company are as follows:

Shareholder	Number of shares	Percentage of ownership (%)
SK Square Co., Ltd.	146,100,000	20.07
Other investors	541,551,040	74.39
Treasury shares	40,351,325	5.54
	<u>728,002,365</u>	<u>100</u>

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

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

1. General Information, Continued

(2) Details of the Group's consolidated subsidiaries as of December 31, 2022 and 2021 are as follows:

Company	Location	Business	Ownership (%)	
			2022	2021
SK hyeng Inc.	Korea	Construction and service	100	100
SK hystec Inc.	Korea	Business support and service	100	100
HappyNarae Co., Ltd.	Korea	Industrial material supply	100	100
Happymore Inc.	Korea	Semiconductor apparel manufacturing, baking and services	100	100
SK hynix system ic Inc.	Korea	Semiconductor research and development and business support	100	100
SK hynix America Inc.	U.S.A	Semiconductor sales	97.74	97.74
SK hynix Deutschland GmbH	Germany	Semiconductor sales	100	100
SK hynix Asia Pte.Ltd.	Singapore	Semiconductor sales	100	100
SK hynix Semiconductor Hong Kong Ltd.	Hong Kong	Semiconductor sales	100	100
SK hynix Japan Inc.	Japan	Semiconductor sales	100	100
SK hynix U.K. Ltd.	U.K	Semiconductor sales	100	100
SK hynix Semiconductor India Private Ltd. ¹	India	Semiconductor sales	100	100
SK hynix Semiconductor (Shanghai) Co.,Ltd.	China	Semiconductor sales	100	100
SK hynix(Wuxi) Semiconductor Sales Ltd.	China	Semiconductor sales	100	100
SK hynix Semiconductor Taiwan Inc.	Taiwan	Semiconductor sales	100	100
SK hynix Semiconductor (China) Ltd.	China	Semiconductor manufacturing	100	100
SK hynix Semiconductor (Chongqing) Ltd. ²	China	Semiconductor manufacturing	100	100
SK APTECH Ltd.	Hong Kong	Overseas investment	100	100
SK hynix Ventures Hong Kong Ltd.	Hong Kong	Overseas investment	100	100
SK hynix Italy S.r.l	Italy	Semiconductor research and development	100	100
SK hynix memory solutions America Inc. ^{12, 13}	U.S.A	Semiconductor research and development	99.89	100
SK hynix memory solutions Taiwan Ltd.	Taiwan	Semiconductor research and development	100	100
SK hynix memory solutions Eastern Europe, LLC.	Belarus	Semiconductor research and development	100	100
SK hynix (Wuxi) Investment Ltd. ³	China	Overseas investment	100	100
SK hynix (Wuxi) Industry Development Ltd. ⁴	China	Foreign hospital construction	100	100
SK hynix Happiness (Wuxi) Hospital Management Ltd. ⁴	China	Foreign hospital operation	70	70
SK hynix cleaning (Wuxi) Ltd. ⁴	China	Building maintenance	100	100
SK hynix system ic (Wuxi) Co., Ltd. ⁵	China	Overseas Semiconductor manufacturing and sales	100	100
SUZHOU HAPPYNARAE Co., Ltd. ⁶	China	Overseas industrial material supply	100	100
CHONGQING HAPPYNARAE Co. Ltd. ⁷	China	Overseas industrial material supply	100	100

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

SK hynix (Wuxi) Education Technology Co.,Ltd ⁴	China	Overseas Education	100	100
SkyHigh Memory Limited ⁵	Hong Kong	Overseas Semiconductor manufacturing and sales	60	60
Gauss Labs Inc.	U.S.A	Overseas telecommunication of information	100	100
SkyHigh Memory China Limited ⁹	China	Semiconductor sales support	60	60
SkyHigh Memory Limited Japan ⁹	Japan	Semiconductor sales support	60	60
HappyNarae America LLC ⁶	U.S.A	Overseas industrial material supply	100	100
HappyNarae Hungary Kft ⁶	Hungary	Overseas industrial material supply	100	100
SK hynix Ventures America LLC	U.S.A	Overseas investment	100	100
SK hynix (Wuxi) Education Service Development Co., Ltd. ¹⁰	China	Overseas education	100	100
SK hynix NAND Product Solutions Corp. ¹³	U.S.A	Semiconductor sales and research and development	99.89	100
SK hynix NAND Product Solutions Taiwan Co., Ltd. ^{8, 13}	Taiwan	Semiconductor research and development and sales	99.89	100
SK hynix NAND Product Solutions Canada Ltd. ^{8, 13}	Canada	Semiconductor research and development	99.89	100
SK hynix NAND Product Solutions Mexico, S. DE R.L. DE C.V. ^{8, 13}	Mexico	Semiconductor research and development	99.89	100
SK hynix Semiconductor (Dalian) Co., Ltd.	China	Semiconductor manufacturing	100	100
SK hynix NAND Product Solutions UK Limited ^{8, 13}	U.K	Semiconductor sales	99.89	100
SK hynix NAND Product Solutions Israel Ltd. ^{8, 13}	Israel	Semiconductor sales	99.89	100
SK hynix NAND Product Solutions Japan G.K. ^{8, 13}	Japan	Semiconductor sales	99.89	100
SK hynix NAND Product Solutions International LLC ^{8, 13}	U.S.A	Semiconductor sales	99.89	100
SK hynix NAND Product Solutions Asia Pacific LLC ^{8, 13}	U.S.A	Semiconductor sales	99.89	100
SK hynix NAND Product Solutions Singapore Pte. Ltd. ^{8, 13}	Singapore	Semiconductor sales	99.89	100
SK hynix NAND Product Solutions Malaysia Sdn. Bhd. ^{8, 13}	Malaysia	Semiconductor sales	99.89	100
SK HYNIX NAND PRODUCT SOLUTIONS POLAND sp. z o.o. ^{8, 13}	Poland	Semiconductor research and development	99.89	100
SK hynix NAND Product Solutions (Beijing) Co., Ltd. ^{8, 13}	China	Semiconductor sales	99.89	100

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

SK Hynix NAND Product Solutions (Shanghai) Co., Ltd. ^{8,13}	China	Semiconductor research and development	99.89	100
Key Foundry Co., Ltd. ¹⁴	Korea	Semiconductor sales	100	-
KEY FOUNDRY, INC. ¹⁴	U.S.A	Semiconductor sales	100	-
KEY FOUNDRY SHANGHAI CO.,LTD. ¹⁴	China	Semiconductor sales	100	-
KEY FOUNDRY LTD. ¹⁴	Taiwan	Semiconductor sales	100	-
Intel NDTM US LLC ¹¹	U.S.A	Semiconductor research and development	-	-
Intel Semiconductor Storage Technology (Dalian) Ltd. ¹¹	China	Semiconductor manufacturing support	-	-
MMT (Money Market Trust)	Korea	Money Market Trust	100	100

¹ Subsidiary of SK hynix Asia Pte. Ltd.

² Subsidiary of SK APTECH Ltd.

³ Subsidiary of SK hynix Semiconductor (China) Ltd.

⁴ Subsidiary of SK hynix (Wuxi) Investment Ltd.

⁵ Subsidiary of SK hynix system ic

⁶ Subsidiary of HappyNarae Co., Ltd.

⁷ Subsidiary of SUZHOU HAPPYNARAE Co., Ltd.

⁸ Subsidiary of SK hynix NAND Product Solutions Corp.

⁹ Subsidiary of SkyHigh Memory Limited

¹⁰ Subsidiary of SK hynix (Wuxi) Education Technology Co., Ltd.

¹¹ Intel holds the legal ownership of these entities as of December 31, 2022 and the Group is expected to acquire ownership through the 2nd Closing of Intel NAND business acquisition expected in 2025. However, the Group consolidated these entities as of December 31, 2022 since the Group determined that it has control over these entities.

¹² The Parent Company transferred its interests to SK hynix Nand Product Solutions Corp., its subsidiary, and employees of the subsidiary during the years period ended December 31, 2022.

¹³ The Parent Company's ownership interest decreases due to payments of stock options to employees of SK hynix NAND Product Solutions Corp. and its subsidiary during the year ended December 31, 2022.

¹⁴ The Group consolidated four entities with 100% equity acquisition completed, as of December 31, 2022.

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

1. General Information, Continued

(3) Changes in the Group's consolidated subsidiaries for the year ended December 31, 2021 are as follows:

<u>Type</u>	<u>Company</u>	<u>Reason</u>
Addition	Key Foundry Co., Ltd.	Acquisition of equity shares
Addition	KEY FOUNDRY, INC.	Acquisition of equity shares
Addition	KEY FOUNDRY SHANGHAI CO.,LTD.	Acquisition of equity shares
Addition	KEY FOUNDRY LTD.	Acquisition of equity shares

(4) Major subsidiaries' summarized statements of financial position as of December 31, 2022 and December 31, 2021 are as follows:

(In millions of Korean won)

	<u>December 31, 2022</u>			<u>December 31, 2021</u>		
	<u>Assets</u>	<u>Liabilities</u>	<u>Equity</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Equity</u>
SK hynix America Inc.	₩ 3,407,756	₩ 2,820,013	₩ 587,743	₩ 4,454,161	₩ 3,957,705	₩ 496,456
SK hynix Asia Pte. Ltd.	388,934	281,014	107,920	730,395	633,206	97,189
SK hynix Semiconductor Hong Kong Ltd.	236,723	58,074	178,649	584,669	421,736	162,933
SK hynix U.K. Ltd.	313,691	286,308	27,383	455,626	432,541	23,085
SK hynix Semiconductor Taiwan Inc.	156,135	130,036	26,099	580,449	550,944	29,505
SK hynix (Wuxi) Semiconductor Sales Ltd.	871,993	383,653	488,340	1,537,853	1,159,683	378,170
SK hynix Semiconductor (China) Ltd.	12,127,232	6,015,062	6,112,170	13,097,483	7,006,089	6,091,394
SK hynix Semiconductor (Chongqing) Ltd.	1,033,694	244,180	789,514	1,061,317	314,466	746,851
SK hynix Japan Inc.	385,040	307,751	77,289	448,018	374,525	73,493
SK hynix system ic (Wuxi) Co., Ltd.	1,423,602	1,331,480	92,122	865,599	813,143	52,456
HappyNarae Co., Ltd	205,797	145,968	59,829	200,002	141,881	58,121
SK hynix NAND Product Solutions Corp. and subsidiaries	13,475,178	10,333,565	3,141,614	13,055,743	9,586,679	3,469,064

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

1. General Information, Continued

(5) Major subsidiaries' summarized statements of comprehensive income (loss) for the years ended December 31, 2022 and 2021 are as follows:

(In millions of Korean won)

	2022		2021	
	Revenue	Net profit (loss)	Revenue	Net profit (loss)
SK hynix America Inc.	₩ 19,591,498	₩ 58,142	₩ 17,211,443	₩ 67,238
SK hynix Asia Pte. Ltd.	2,686,840	4,139	3,205,036	2,700
SK hynix Semiconductor Hong Kong Ltd.	2,045,409	4,508	2,566,377	2,267
SK hynix U.K. Ltd.	1,261,079	2,758	1,328,193	1,357
SK hynix Semiconductor Taiwan Inc.	2,245,733	2,523	3,016,752	5,219
SK hynix (Wuxi) Semiconductor Sales Ltd.	9,524,281	126,654	12,938,905	119,984
SK hynix Semiconductor (China) Ltd.	5,694,063	(464,894)	4,789,444	43,552
SK hynix Semiconductor (Chongqing) Ltd.	1,100,948	67,758	971,721	71,559
SK hynix Japan Inc.	696,050	9,478	759,183	5,448
SK hynix system ic (Wuxi) Co., Ltd.	847,493	43,314	154,914	(168,192)
HappyNarae Co., Ltd	988,710	1,782	925,675	4,354
SK hynix NAND Product Solutions Corp. and subsidiaries	4,695,752	(3,325,656)	-	(107,483)

(6) There are no significant non-controlling interests to the Group as of December 31, 2022 and December 31, 2021.

SK hynix Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

2. Significant Accounting Policies

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

2.1 Basis of measurement

The Group 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 consolidated financial statements have been condensed, restructured, and translated into English from the Korean language financial statements.

The consolidated financial statements have been prepared on the historical cost basis, except for the following material items in the consolidated 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
- financial instruments at fair value through other comprehensive income 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 consolidated 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 consolidated financial statements, are disclosed in Note 3.

2.2 Changes in Accounting Policies and Disclosure

2.2.1 New and amended standards or interpretations adopted by the Group

The Group has applied the following new and revised IFRS Standards that are effective from January 1, 2022.

(a) Amendments to Korean IFRS 1116 Lease - *Covid-19 - Related Rent Concessions beyond June 30, 2021*

The application of the 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, is extended to lease payments originally due on or before June 30, 2022. A lessee shall apply the practical expedient consistently to eligible contracts with similar characteristics and in similar circumstances. The amendment does not have a significant impact on the financial statements.

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

The amendments update a reference of definition of assets and liabilities to be recognized in a business combination 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 clarify that contingent assets should not be recognized at the acquisition date. The amendment does not have a significant impact on the financial statements.

SK hynix Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

2. Significant Accounting Policies, Continued

2.2.1 New and amended standards or interpretations adopted by the Group, continued.

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

The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while the entity is preparing the asset for its intended use. Instead, the entity will recognize the proceeds from selling such items, and the costs of producing those items, in profit or loss. The amendment does not have a significant impact on the financial statements.

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

The amendments clarify that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts when assessing whether the contract is onerous. The amendment does not have a significant impact on the financial statements.

(e) Annual improvements to Korean 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 amendment does not have a significant impact on the financial statements.

- 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 1041 Agriculture – Measuring fair value

2.2.2 New and amended standards or interpretations not yet adopted by the Group

The following new accounting standards and interpretations that have been published that are not mandatory for December 31, 2022 reporting periods and have not been early adopted by the Group.

(a) Amendments to Korean IFRS 1001 Presentation of Financial Statements - Classification of Liabilities as Current or Non-current

The amendments clarify that liabilities are classified as either current or non-current, depending on the substantive rights that exist at the end of the reporting period. Classification is unaffected by the likelihood that an entity will exercise right to defer settlement of the liability or the expectations of management. Also, the settlement of liability includes the transfer of the entity's own equity instruments, however, it would be excluded if an option to settle them by the entity's own equity instruments if compound financial instruments is met the definition of equity instruments and recognized separately from the liability. The amendments should be applied for annual periods beginning on or after January 1, 2024, and earlier application is permitted. The Group is in review for the impact of these amendments on the financial statements.

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

2. Significant Accounting Policies, Continued

2.2.2 New and amended standards or interpretations not yet adopted by the Group, continued.

(b) Korean IFRS 1001 Presentation of Financial Statements - Disclosure of Accounting Policies

The amendments to Korean IFRS 1001 define and require entities to disclose their material accounting policies. The amendments should be applied for annual periods beginning on or after January 1, 2023, and earlier application is permitted. The Group is in review for the impact of these amendments on the financial statements.

(c) Korean IFRS 1008 Accounting policies, changes in accounting estimates and errors - Definition of Accounting Estimates

The amendments define accounting estimates and clarify how to distinguish them from changes in accounting policies. The amendments should be applied for annual periods beginning on or after January 1, 2023, and earlier application is permitted. The Group does not expect that these amendments have a significant impact on the financial statements.

(d) Korean IFRS 1012 Income Taxes - Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments include an additional condition to the exemption to initial recognition of an asset or liability that a transaction does not give rise to equal taxable and deductible temporary differences at the time of the transaction. The amendments should be applied for annual periods beginning on or after January 1, 2023, and earlier application is permitted. The Group does not expect that these amendments have a significant impact on the financial statements.

SK hynix Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

2. Significant Accounting Policies, Continued

2.2.2 New and amended standards or interpretations not yet adopted by the Group, Continued

(e) New Standard: Korean IFRS 1117 Insurance Contract

Korean IFRS 1117 Insurance Contracts replaces Korean IFRS 1104 Insurance Contracts. This Standard estimates future cash flows of an insurance contract and measures insurance liabilities using discount rates applied with assumptions and risks at the measurement date. The entity recognizes insurance revenue on an accrual basis including services (insurance coverage) provided to the policyholder by each annual period. In addition, investment components (Refunds due to termination/maturity) repaid to a policyholder even if an insured event does not occur, are excluded from insurance revenue, and insurance financial income or expense and the investment income or expense are presented separately to enable users of the information to understand the sources of income or expenses. This Standard should be applied for annual periods beginning on or after January 1, 2023, and earlier application is permitted for entities that applied Korean IFRS 1109 Financial Instruments. The Group does not expect that these amendments have a significant impact on the financial statements.

Further amendments made in December 2021 added a transition option that permits an entity to apply an optional classification overlay in the comparative period(s) presented on initial application of Korean IFRS 1117. The classification overlay applies to all financial assets, including those held in respect of activities not connected to contracts within the scope of Korean IFRS 1117. It allows those assets to be classified in the comparative period(s) in a way that aligns with how the entity expects those assets to be classified on initial application of Korean IFRS 1109. The classification can be applied on an instrument-by-instrument basis.

(f) Korean IFRS 1001 Presentation of Financial Statements - Disclosure of gain or loss on valuation of financial liabilities subject to adjustment of exercise price

If the entire or a part of financial instrument, whose exercise price is subject to change due to the issuer's share price, is classified as a financial liability, the carrying amount of the financial liability and related gains and losses shall be disclosed. The amendments should be applied for annual periods beginning on or after January 1, 2023, and earlier application is permitted. The Group does not expect that these amendments have a significant impact on the financial statements

2.3 Operating Segments

An operating segment is a component of the Group that: 1) engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with other components of the Group, 2) whose operating results are reviewed regularly by the Group's chief operating decision maker ("CODM") in order to allocate resources and assess its performance, and 3) for which discrete financial information is available. The Group's CODM is the board of directors, who do not receive and therefore do not review discrete financial information for any component of the Group. Accordingly, no operating segment information is included in these consolidated financial statements. Entity wide disclosures of geographic, product and customer information are provided in note 4 and 26.

SK hynix Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

2. Significant Accounting Policies, Continued

2.4 Consolidation

(a) Business combination

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control.

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in profit or loss immediately. Transaction costs are expensed as incurred and during period of service, except if related to the issue of debt or equity securities according to K-IFRS No. 1032 and K-IFRS No. 1109.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards), then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with the market-based measure of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

(b) Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

SK hynix Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

2. Significant Accounting Policies, Continued

2.4 Consolidation, Continued

(c) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the entity. Consolidation of an investee begins from the date the Group obtains control of the investee and ceases when the Group loses control of the investee.

(d) Loss of control

If the Group loses control of a subsidiary, the Group derecognizes the assets and liabilities of the former subsidiary from the consolidated statement of financial position and recognizes gain or loss associated with the loss of control attributable to the former controlling interest. Any investment retained in the former subsidiary is recognized at its fair value when control is lost.

(e) Interests in equity-accounted investees

The Group's interest in equity-accounted investees comprises interests in an associate and a joint venture. An associate are these entities in which the Group has significant influence, but not control or joint control, over the entity's financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and the joint venture are initially recognized at cost including transaction costs. Subsequent to initial recognition, their carrying amounts are increased or decreased to recognize the Group's share of the profit or loss and changes in equity of the associate or the joint venture. Distributions from equity-accounted investees are accounted for as deduction from the carrying amounts.

(f) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. The Group's share of unrealized gain incurred from transactions with equity-accounted investees are eliminated and unrealized loss are eliminated using the same basis if there are no evidence of asset impairments.

(g) Business combinations under common control

The assets and liabilities acquired in the combination of entities or business under common control are recognized at the carrying amounts recognized previously in the consolidated financial statements of the ultimate parent. The difference between consideration transferred and carrying amounts of net assets acquired is added to or deducted from other capital adjustments.

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, and are used by the Group in the management of its short-term commitments.

SK hynix Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

2. Significant Accounting Policies, Continued

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

The 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 8 for additional information on the accounting for the Group's trade receivables, and 6.(1) for accounting for impairment)

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 Group 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

SK hynix Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

2. Significant Accounting Policies, Continued

2.8 Non-derivative financial assets, Continued

(b) Classification and subsequent measurements, Continued

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

The Group 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 Group's continuing recognition of the assets.

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 Group 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 Group 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 Group's claim to cash flows from specified assets (e.g. non-recourse features).

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

2. Significant Accounting Policies, Continued

2.8 Non-derivative financial assets, Continued

(b) Classification and subsequent measurements, Continued

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.

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 Group 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 Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group 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. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

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 consolidated statement of financial position only when the Group 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 Group 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 Group 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.

SK hynix Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

2. Significant Accounting Policies, Continued

2.10 Impairment of financial assets

(a) Recognition of impairment on financial assets

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

- financial assets measured at amortized costs; and
- Korean IFRS 1115 contract assets.

The Group 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 Group 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 Group 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 Group 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 Group 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 Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Group 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. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

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 Group 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 Group 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 Group'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 Group 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 Group'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. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

2. Significant Accounting Policies, Continued

2.12 Borrowing costs

The Group 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 Group borrows funds specifically for the purpose of obtaining a qualifying asset, the Group 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 Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Group 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 Group 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 Group 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 Group'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 Group 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.

SK hynix Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

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.

As of December 31, 2022, the Group has entered into a number of patent license agreements related to the design and production of its products. Royalties under this contract are paid in the form of either of lump-sum royalty or running royalty, and the payment amount of the lump-sum royalty is recognized as intangible assets and amortized in a straight-line manner according to the patent license period.

2.14 Government grants

Government grants are not recognized unless there is reasonable assurance that the Group 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 Group 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 Group 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 Group 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 Group'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.

SK hynix Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

2. Significant Accounting Policies, Continued

2.16 Impairment of non-financial assets, continued

The Group estimates the recoverable amount of an individual asset; however if it is impossible to measure the individual recoverable amount of an asset, the Group 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.

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 Group has received but have not been paid for goods or services before the end of the reporting period. 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 Group 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 Group 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.

SK hynix Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

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 Group's incremental borrowing rate. The Group 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 Group is reasonably certain to exercise
- lease payments in an optional renewal period, if the Group is reasonably certain to exercise extension option, and penalties for early termination of a lease unless the Group 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 Group's estimate of the amount expected to be paid under a residual value guarantee, or if the Group 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 Group has elected not to recognize right-of-use assets and lease liabilities for some leases of low-value assets and short-term leases. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

SK hynix Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

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 Group 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 Group 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 Group 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 Group determines whether the lease is a finance lease or an operating lease at the inception of the lease.

To classify each lease, the Group 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 Group considers whether the lease term represents a significant portion of the economic life of the underlying asset.

When the Group 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 Group applies the recognition exemption, then the sub-lease is classified as an operating lease.

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

SK hynix Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

2. Significant Accounting Policies, Continued

2.19 Non-derivative financial liabilities

The Group 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 Group recognizes financial liabilities in the consolidated statement of financial position when the Group 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 Group derecognizes financial liability when its contractual obligations are discharged, cancelled or expire. The Group 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 Group during an accounting period, the Group 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 Group 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. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

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 Group 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 Group 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 Group recognizes a liability and expense for termination benefits at the earlier of the period when the Group can no longer withdraw the offer of those benefits and the period when the Group 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 Group 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 Group 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. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

2. Significant Accounting Policies, Continued

2.22 Emissions Rights

The Group 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 Group 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.

2.23 Foreign currencies

(a) Foreign currency transactions

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

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

(b) Foreign operations

If the presentation currency of the Group is different from a foreign operation's functional currency, the financial statements of the foreign operation are translated into the presentation currency using the following methods:

The assets and liabilities of foreign operations, whose functional currency is not the currency of a hyperinflationary economy, are translated to presentation currency at exchange rates at the end of reporting period. The income and expenses of foreign operations are translated to functional currency at average exchange rates. Foreign currency differences are recognized in other comprehensive income.

SK hynix Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

2. Significant Accounting Policies, Continued

2.23 Foreign currencies, Continued

(b) Foreign operations, Continued

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation is treated as assets and liabilities of the foreign operation. Thus, they are expressed in the functional currency of the foreign operation and translated at the exchange rates at the end of reporting date.

When a foreign operation is disposed of, the relevant amount in the translation is transferred to profit or loss as part of the profit or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

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 Group 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 Group acquires and disposes treasury shares, the consideration paid or received is directly recognized in equity.

2.25 Share-based payment

The Group has granted shares or share options to its employees. For equity-settled share-based payment transactions, the Group 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 Group cannot reliably estimate the fair value of the goods or services received, the Group 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 Group 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 Group measures the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the Group 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 Group 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. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

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 Group recognizes revenue when the Group 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 Group'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 10). The Group reviews its estimate of expected returns at the end of each reporting period and updates the amounts of the asset and liabilities accordingly.

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.

2.27 Finance income and finance expenses

The Group'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 Group uses effective interest rate method for recognizing interest income and expense. Dividend income is recognized in profit or loss on the date that the Group'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. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

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.

The Group 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 Group 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 Group 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 Group 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. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

2. Significant Accounting Policies, Continued

2.29 Earnings per share

The Group 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 Approval of the Consolidated Financial Statements

The consolidated financial statements were authorized for issuance by the board of directors on February 22, 2023, which will be submitted for approval at the shareholders' meeting to be held on March 29, 2023.

SK hynix Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

3. Critical Accounting Estimates and Assumptions

Preparation of financial statements requires assumptions and estimates of the future, and the management requires judgement to apply the Group's accounting policies. The estimates and assumptions are continuously assessed, considering historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

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 Group is making judgments on the selection and assumptions of various evaluation techniques based on important market conditions as of the end of the reporting period. (see footnote 6)

(2) Corporate tax

There is uncertainty in determining the final tax effect as corporate tax on the Group's taxable income is calculated by applying various national tax laws and tax authorities' decisions. The Group 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 Group 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 Group 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 Group 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;

SK hynix Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

3. Critical Accounting Estimates and Assumptions, Continued

(3) Provisions

The Group calculates provisions related to litigation costs and recovery 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 Group 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.

The Group recognizes revenue from the sale of goods as a reduction in specific sales promotion activities from the consideration of the contract at the time of control transfer. Based on past experiences and contracts, the Group reasonably estimates sales losses, and the Group's revenue is affected by the estimated sales losses.

(7) Development cost

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

(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) Cash Generating Unit impairment test

The recoverable amount of the cash-generating unit including goodwill to examine whether any impairment exist is determined as the higher of the cash-generating unit's fair value less costs of disposal and its value in use.

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

3. Critical Accounting Estimates and Assumptions, Continued

(10) Lease

In determining the lease term, the Group 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 and equipment leases, the most relevant factors are generally as follows:

- If a significant penalty is to be paid to terminate (not to extend), it is generally quite certain that the Group exercises the option to extend (not to extend).
- It is generally fairly certain that the Group 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 Group will consider other factors, including the lease duration 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 Group can replace the asset without significant cost or business interruption.

Reevaluate the lease term if the option is actually exercised (or not exercised) or the Group 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 Group changes its judgment to ensure that the option to extend (or will not be exercised) is significant.

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

4. Operating Segment Information

The Group has a single reportable segment that is engaged in the manufacture and sale of semiconductor products. Chief Sales Decision Maker of the Group reviews the operational results of the semiconductor business with the reporting information which is prepared in the same manner as management reviews during the establishment of the Group's business strategy.

(1) The Group's non-current assets (excluding long-term trade receivables, financial assets, loans and other receivables, investment in associates and joint ventures and deferred tax assets) information by region based on the location of the Parent Company and its subsidiaries as of December 31, 2022 and 2021 are as follows:

(In millions of Korean won)

	December 31, 2022	December 31, 2021
Korea	₩ 48,935,513	₩ 40,474,770
China	17,486,061	19,407,820
Asia (other than China)	19,397	17,065
U.S.A.	469,699	426,723
Europe	14,128	16,230
	<u>₩ 66,924,798</u>	<u>₩ 60,342,608</u>

(2) For the year ended December 31, 2022, revenue of ₩ 5,153,294 million, ₩ 5,105,879 million, over 10% of the Group's revenue, are derived from external customers A and B, respectively and for the year ended December 31, 2021, revenues of ₩ 5,014,368 million and ₩ 4,581,712, over 10% of the Group's revenue, are derived from external customers B and C, respectively.

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

5. Carrying Amounts of Financial Instruments by Categories

(1) Carrying amounts of financial assets by categories as of December 31, 2022 and 2021 are as follows:

(In millions of Korean won)

	December 31, 2022	
	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	222,500	-
Short-term investment assets	1,016,360	-
Trade receivables ¹	-	207,072
Loans and other receivables	-	-
Other financial assets	-	-
Long-term investment assets	5,733,544	-
	₩ 6,972,404	₩ 207,072

(In millions of Korean won)

	December 31, 2022		
	Financial assets at amortized cost	Other financial assets	Total
Cash and cash equivalents	₩ 4,977,007	₩ -	₩ 4,977,007
Short-term financial instruments	193,125	-	415,625
Short-term investment assets	-	-	1,016,360
Trade receivables ¹	4,978,982	-	5,186,054
Loans and other receivables	626,679	-	626,679
Other financial assets	695	115,017	115,712
Long-term investment assets	-	-	5,733,544
	₩ 10,776,488	₩ 115,017	₩ 18,070,981

¹ The Group transferred certain portion of trade receivables, which are from specific customers, and derecognized the trade receivables from the financial statements as all the risks and rewards are substantially transferred. Accordingly, the Group recognized gain or loss on disposal of trade receivables.

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

5. Carrying Amounts of Financial Instruments by Categories

(1) Carrying amounts of financial assets by categories as of December 31, 2022 and 2021 are as follows, Continued:

(In millions of Korean won)

	December 31, 2021	
	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	222,500	-
Short-term investment assets	3,139,923	-
Trade receivables ¹	-	980,487
Loans and other receivables	-	-
Other financial assets	-	-
Long-term investment assets	6,665,513	-
	₩ <u>10,027,936</u>	₩ <u>980,487</u>

(In millions of Korean won)

	December 31, 2021		
	Financial assets at amortized cost	Other financial assets	Total
Cash and cash equivalents	₩ 5,057,982	₩ -	₩ 5,057,982
Short-term financial instruments	252,137	-	474,637
Short-term investment assets	-	-	3,139,923
Trade receivables ¹	7,286,624	-	8,267,111
Loans and other receivables	510,981	-	510,981
Other financial assets	30,076	61,093	91,169
Long-term investment assets	-	-	6,665,513
	₩ <u>13,137,800</u>	₩ <u>61,093</u>	₩ <u>24,207,316</u>

¹ The Group transferred certain portion of trade receivables, which are from specific customers, and derecognized the trade receivables from the financial statements as all the risks and rewards are substantially transferred. Accordingly, the Group recognized gain or loss on disposal of trade receivables.

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

5. Carrying Amounts of Financial Instruments by Categories, Continued

(2) Carrying amounts of financial liabilities by categories as of December 31, 2022 and 2021 are as follows:

(In millions of Korean won)

	December 31, 2022	
	Financial liabilities at amortized cost	
Trade payables	₩	2,186,230
Other payables		8,403,994
Other non-trade payables ¹		1,415,197
Borrowings		22,994,604
Lease liabilities		1,797,081
Other financial liabilities		4,876
	₩	<u>36,801,982</u>

¹ Among other obligations, employee benefits liabilities that respond to the Group's obligations under the employee benefit plan were excluded because they were not subject to disclosure of financial instruments.

(In millions of Korean won)

	December 31, 2021		
	Financial liabilities at amortized cost	Other financial liabilities	Total
Trade payables	₩ 1,359,247	₩ -	₩ 1,359,247
Other payables	7,300,017	-	7,300,017
Other non-trade payables ¹	794,272	-	794,272
Borrowings	17,623,809	-	17,623,809
Lease liabilities	1,525,762	-	1,525,762
Other financial liabilities	4,517	702	5,219
	₩ <u>28,607,624</u>	₩ <u>702</u>	₩ <u>28,608,326</u>

¹ Among other obligations, employee benefits liabilities that respond to the Group's obligations under the employee benefit plan were excluded because they were not subject to disclosure of financial instruments.

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

5. Carrying Amounts of Financial Instruments by Categories, Continued

(3) Details of gain and loss on financial assets and liabilities by category for the years ended December 31, 2022 and 2021 are as follows:

(In millions of Korean won)

	<u>2022</u>	<u>2021</u>
Financial assets at amortized cost		
Interest income	₩ 88,330	₩ 22,419
Foreign exchange differences	1,496,128	811,250
Loss on disposal	(11,322)	(125)
Reversal of impairment	(88)	(839)
	<u>1,573,048</u>	<u>832,705</u>
Financial assets at fair value through profit or loss		
Dividend income	2,425	10,163
Interest income	1,231	-
Gain on disposal	56,128	81,937
Gain on valuation	(587,047)	566,321
Foreign exchange differences	(472,833)	(50,074)
	<u>(1,000,096)</u>	<u>608,347</u>
Financial liabilities at amortized cost		
Interest expenses	(533,114)	(259,960)
Foreign exchange differences	(1,423,372)	(272,052)
	<u>(1,956,486)</u>	<u>(532,012)</u>
Financial liabilities at fair value through profit or loss		
Loss on financial liabilities	-	(1,716)
	<u>₩ (1,383,534) ₩</u>	<u>907,324</u>

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

6. Financial Risk Management

(1) Financial risk management

The Group's activities are exposed to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

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

(a) Market risk

(i) Foreign exchange risk

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

Monetary foreign currency assets and liabilities as of December 31, 2022 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	13,372 ₩	16,946,620	18,956 ₩	24,023,300
JPY	523	4,983	49,370	470,581
CNY	4,656	844,792	1,113	201,998
EUR	14	19,315	132	177,827

Also, as described in note 22, the Group 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, 2022, the impact of the change in the exchange rate on profit before income tax expenses are as follows:

(In millions of Korean won)

		If increased by 10%	If decreased by 10%
USD	₩	(581,236) ₩	581,236
JPY		(46,560)	46,560
CNY		64,279	(64,279)
EUR		(15,851)	15,851

SK hynix Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

6. Financial Risk Management, Continued

(1) Financial risk management, Continued

(a) Market risk, Continued

(ii) Interest rate risk

Interest rate risk of the Group is defined as the risk that the interest expenses arising from borrowings will fluctuate 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 Group is managing cash flow interest rate risk using floating-to-fixed cross currency interest rate swaps. These interest rate swaps have an economic effect of converting floating interest borrowings into fixed interest borrowings. Generally, the Group borrows at a floating interest rate and then swaps at a fixed rate. Under the swap agreement, the Group will settle the difference between fixed interest costs and the floating interest costs calculated according to the principal agreed upon for each counterparty and specific period (mainly quarterly).

The Group is partially exposed to the risk of changing net interest costs due to changes in interest rates as of December 31, 2022. The Group has signed a currency interest rate swap contract on floating interest rate borrowings of ₩633,650 million and an interest rate swap contract on floating interest rate borrowings of ₩126,730 million. Therefore, the changes in interest costs subject to fluctuation of interest rates do not have an impact on the profit before income tax for the year ended December 31, 2022.

As of December 31, 2022, if interest rates on borrowings and financial assets had been 100 basis points higher/lower with all other variables held constant, profit before income tax would have been ₩98,612 million(2021: ₩78,278 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings and net interest costs on floating rate financial assets.

(iii) Price risk

The Group invests in equity and debt securities resulted from its business needs and the purpose of liquidity management. The Group's equity and debt securities are exposed to price risk as of December 31, 2022.

Equity investments that the Group owns are all unlisted.

(b) Credit risk

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

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

6. Financial Risk Management, Continued

(1) Financial risk management, Continued

(b) Credit risk, Continued

(i) Trade and other receivables

For each new customer, the Group individually analyzes its credit worthiness before standard payment and delivery terms and conditions are offered. In addition, the Group is continuously managing trade and other receivables by reevaluating the customer's credit worthiness and securing collaterals in order to limit its credit risk exposure. The Group reviews at the end of each reporting period whether trade and other receivables are impaired and maintains credit insurance policies to manage credit risk exposure from oversea customers. The maximum exposure to credit risk as of December 31, 2022 is the carrying amount of trade and other receivables

(ii) Other financial assets

Credit risk also arises from other financial assets such as cash and cash equivalents, short-term financial instruments, 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, 2022 is the carrying amount of those financial assets. The Group transacts only with banks and financial institutions with high credit ratings, and accordingly management does not expect any significant loss from non-performance by the counterparties.

(c) Liquidity risk

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

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

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

6. Financial Risk Management, Continued

(1) Financial risk management, Continued

(c) Liquidity risk, Continued

The contractual maturity of financial liabilities held by the Group as of December 31, 2022 and 2021 term are as follows:

(In millions of Korean won)

December 31, 2022					
	Less than	1 - 2 years	2 - 5 years	More than 5	Total
	1 year			years	
Borrowings ¹	₩ 8,225,843	4,473,549	9,529,664	3,171,847	25,400,903
Lease liabilities	293,572	263,989	579,972	936,737	2,074,270
Trade payables	2,186,230	-	-	-	2,186,230
Other payables	5,446,845	95,964	2,975,045	-	8,517,854
Other non-trade payables	1,299,230	15,666	11,375	134	1,326,405
Other financial liabilities	127,262	-	-	-	127,262
	<u>₩ 17,578,982</u>	<u>4,849,168</u>	<u>13,096,056</u>	<u>4,108,718</u>	<u>39,632,924</u>

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

(In millions of Korean won)

December 31, 2021					
	Less than	1 - 2 years	2 - 5 years	More than 5	Total
	1 year			years	
Borrowings ¹	₩ 3,181,897	3,351,918	8,824,353	3,461,705	18,819,873
Lease liabilities	323,145	219,289	474,595	604,977	1,622,006
Trade payables	1,359,247	-	-	-	1,359,247
Other payables	4,608,517	64,699	2,869,178	28,452	7,570,845
Other non-trade payables	714,008	9,021	15,079	8,114	746,222
Derivative Liabilities	837	64	-	-	901
Other financial liabilities	129,710	-	-	-	129,710
	<u>₩ 10,317,361</u>	<u>3,644,991</u>	<u>12,183,205</u>	<u>4,103,248</u>	<u>30,248,804</u>

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

The table above analyzes the Group'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.

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

6. Financial Risk Management, Continued

(2) Capital management

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

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends to shareholders 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, 2022 and 2021 are as follows:

(In millions of Korean won)

	December 31, 2022	December 31, 2021
Total liabilities (A)	₩ 40,580,970	₩ 34,155,467
Total equity (B)	63,290,542	62,191,058
Cash and cash equivalents, and others ¹ (C)	6,408,992	8,672,542
Total borrowings (D)	22,994,604	17,623,809
Debt-to-equity ratio (A/B)	64.12%	54.92%
Net borrowing ratio (D-C)/B	26.21%	14.39%

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

Under major loan contracts, the Group must comply with a certain level of debt ratio and holding ratio on specific assets and shares, and the Group has complied with these conditions at the end of December 31, 2022.

(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)

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

6. Financial Risk Management, Continued

(3) Fair value, Continued

(a) The following table presents the carrying amounts and fair values of financial instruments by categories, including their levels in the fair value hierarchy, as of December 31, 2022 and 2021:

(In millions of Korean won)

	Carrying amounts	December 31, 2022			
		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Short-term financial instruments	₩ 222,500 ₩	- ₩	- ₩	222,500 ₩	222,500
Short-term investment assets	1,016,360	-	1,016,360	-	1,016,360
Trade receivables ¹	207,072	-	207,072	-	207,072
Long-term investment assets	5,733,544	-	-	5,733,544	5,733,544
Other financial assets	115,017	-	115,017	-	115,017
	<u>7,294,493</u>	<u>-</u>	<u>1,338,449</u>	<u>5,956,044</u>	<u>7,294,493</u>
Financial assets not measured at fair value					
Cash and cash equivalents ²	4,977,007	-	-	-	-
Short-term financial instruments ²	193,125	-	-	-	-
Trade receivables ²	4,978,982	-	-	-	-
Loans and other receivables ²	626,679	-	-	-	-
Other financial assets ²	695	-	-	-	-
	<u>10,776,488</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total financial asset	<u>₩ 18,070,981 ₩</u>	<u>- ₩</u>	<u>1,338,449 ₩</u>	<u>5,956,044 ₩</u>	<u>7,294,493</u>
Financial liabilities measured at fair value					
Other financial liabilities	₩ - ₩	- ₩	- ₩	- ₩	-
Financial liabilities not measured at fair value					
Trade payables ²	2,186,230	-	-	-	-
Other payables ²	8,403,994	-	-	-	-
Other non-trade payables ²	1,415,197	-	-	-	-
Borrowings	22,994,604	-	21,809,209	-	21,809,209
Lease liabilities ²	1,797,081	-	-	-	-
Other financial liabilities ²	4,876	-	21,809,209	-	-
	<u>36,801,982</u>	<u>-</u>	<u>21,809,209</u>	<u>-</u>	<u>21,809,209</u>
Total financial liabilities	<u>₩ 36,801,982 ₩</u>	<u>- ₩</u>	<u>21,809,209 ₩</u>	<u>- ₩</u>	<u>21,809,209</u>

¹ The Group transferred some of the trade receivables and majority of the risks and rewards to the customer. Accordingly, the Group 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 Group did not include fair values of financial assets and liabilities of which carrying amounts are considered to be a reasonable approximation of fair values.

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

6. Financial Risk Management, Continued

(3) Fair value, Continued

(a) The following table presents the carrying amounts and fair values of financial instruments by categories, including their levels in the fair value hierarchy, as of December 31, 2022 and 2021, Continued:

(In millions of Korean won)

	Carrying amounts	December 31, 2021			
		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
Short-term financial instruments	₩ 222,500	₩ -	₩ -	₩ 222,500	₩ 222,500
Short-term investment assets	3,139,923	-	3,139,923	-	3,139,923
Trade receivables ¹	980,487	-	980,487	-	980,487
Long-term investment assets	6,665,513	-	-	6,665,513	6,665,513
Other financial assets	61,093	-	61,093	-	61,093
	<u>11,069,516</u>	<u>-</u>	<u>4,181,503</u>	<u>6,888,013</u>	<u>11,069,516</u>
Financial assets not measured at fair value					
Cash and cash equivalents ²	5,057,982	-	-	-	-
Short-term financial instruments ²	252,137	-	-	-	-
Trade receivables ²	7,286,624	-	-	-	-
Loans and other receivables ²	510,981	-	-	-	-
Other financial assets ²	30,076	-	-	-	-
	<u>13,137,800</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total financial asset	₩ 24,207,316	₩ -	₩ 4,181,503	₩ 6,888,013	₩ 11,069,516
Financial liabilities measured at fair value					
Other financial liabilities	₩ 702	₩ -	₩ 702	₩ -	₩ 702
Financial liabilities not measured at fair value					
Trade payables ²	1,359,247	-	-	-	-
Other payables ²	7,300,017	-	-	-	-
Other non-trade payables ²	794,272	-	-	-	-
Borrowings	17,623,809	-	17,491,195	-	17,491,195
Lease liabilities ²	1,525,762	-	-	-	-
Other financial liabilities ²	4,517	-	-	-	-
	<u>28,607,624</u>	<u>-</u>	<u>17,491,195</u>	<u>-</u>	<u>17,491,195</u>
Total financial liabilities	₩ 28,608,326	₩ -	₩ 17,491,897	₩ -	₩ 17,491,897

¹ The Group transferred some of the trade receivables and majority of the risks and rewards to the customer. Accordingly, the Group 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 Group did not include fair values of financial assets and liabilities of which carrying amounts are considered to be a reasonable approximation of fair values.

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

6. Financial Risk Management, Continued

(3) Fair value, Continued

(b) The 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:

(In 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	₩ 222,500	3	Present value technique
Short-term investment assets	1,016,360	2	Present value technique
Long-term investment assets	5,733,544	3	Present value technique and others
Other financial assets	115,017	2	Present value technique
Financial assets at fair value through other comprehensive income:			
Trade receivables	₩ 207,072	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 ₩3,060,475 million and BCPE Pangea Cayman2 Limited ("SPC2") amounting to ₩2,225,609 million in connection with the Group's investments in acquisition of KIOXIA Holdings Corporation ("KIOXIA"). 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. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

6. 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	₩ 3,060,475	Present value technique, and option-pricing method	Terminal growth rate Weighted-average capital cost Expected expiration(years) Volatility Risk free rate	0% 8.8% 3.92 40.2% 0.12%
SPC2 convertible bonds	2,225,609	Present value technique	Terminal growth rate Weighted-average capital cost	0% 8.8%

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 and the above inputs may have a significant impact on the value of investments in SPC1 and SPC2.

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	₩ 676,831	₩ (555,089)
SPC2 convertible bonds ¹	443,661	(353,992)

¹ Fair value fluctuations were calculated by increasing or decreasing the terminal growth rate and weighted average capital cost, which are major unobservable input variables, by 0.5%.

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

6. Financial Risk Management, Continued

(3) Fair value, Continued

(c) There was no transfer between fair value hierarchy levels during the year ended December 31, 2022 and the changes in financial assets and financial liabilities classified as level 3 fair value measurements during the year ended December 31, 2022 are as follows:

(In millions of Korean won)

	Short-term financial instruments		Long-term investment assets
Beginning balance	₩ 222,500	₩	6,665,513
Acquisition	-		116,438
Disposal	-		(10,610)
Valuation	-		(562,070)
Foreign exchange difference	-		(475,727)
Ending balance	₩ 222,500	₩	5,733,544

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

7. Restricted Financial Instruments

Details of restricted financial instruments as of December 31, 2022 and 2021 are as follows:

(In millions of Korean won)

	December 31, 2022	December 31, 2021	Description
Short-term financial instruments	₩ 222,500	₩ 222,500	Restricted for supporting small businesses
	7,625	8,242	Pledged for consumption tax
	99,500	90,220	Guarantee deposits for repayments of borrowings
	<u>329,625</u>	<u>320,962</u>	
Other financial assets	-	28,790	Down Payment, Bank Balance for the share sale contract
	11	11	Bank overdraft guarantee deposit
	682	1,245	Others
	<u>693</u>	<u>30,046</u>	
	<u>₩ 330,318</u>	<u>₩ 351,008</u>	

8. Trade Receivables and Loans and Other Receivables

(1) Details of loans and other receivables as of December 31, 2022 and 2021 are as follows:

(In millions of Korean won)

	December 31, 2022	December 31, 2021
Current		
Other receivables	₩ 194,516	₩ 118,120
Accrued income	5,352	2,252
Short-term loans	14,265	11,104
Short-term guarantee and other deposits	58,379	39,988
	<u>272,512</u>	<u>171,464</u>
Non-current		
Long-term other receivables	3	3
Long-term loans	280,639	292,300
Guarantee deposits	73,286	46,984
Others	239	230
	<u>354,167</u>	<u>339,517</u>
	<u>₩ 626,679</u>	<u>₩ 510,981</u>

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

8. Trade Receivables and Loans and Other Receivables, Continued

(2) Trade receivables and loans and other receivables, net of provision for impairment, as of December 31, 2022 and 2021 are as follows:

(In millions of Korean won)

	December 31, 2022		
	Gross amount	Provision for impairment	Carrying amount
Trade receivables	₩ 5,187,164	₩ (1,110)	₩ 5,186,054
Current loans and other receivables	273,825	(1,313)	272,512
Non-current loans and other receivables	355,228	(1,061)	354,167
	<u>₩ 5,816,217</u>	<u>₩ (3,484)</u>	<u>₩ 5,812,733</u>

(In millions of Korean won)

	December 31, 2021		
	Gross amount	Provision for impairment	Carrying amount
Trade receivables	₩ 8,268,072	₩ (961)	₩ 8,267,111
Current loans and other receivables	172,739	(1,275)	171,464
Non-current loans and other receivables	340,647	(1,130)	339,517
	<u>₩ 8,781,458</u>	<u>₩ (3,366)</u>	<u>₩ 8,778,092</u>

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

8. Trade Receivables and Loans and Other Receivables, Continued

(3) Details of provision for impairment

Changes in the provision for impairment of trade receivables for the years ended December 31, 2022 and 2021 are as follows:

(In millions of Korean won)

	2022	2021
Beginning balance	₩ 961	₩ 44
Bad debt expense	201	912
Reversal	(58)	-
Write-off	(1)	-
Foreign exchange difference	7	5
Ending balance	₩ 1,110	₩ 961

Changes in the provision for impairment of current loans and other receivables for the years ended December 31, 2022 and 2021 are as follows:

(In millions of Korean won)

	2022	2021
Beginning balance	₩ 1,275	₩ 1,278
Bad debt expense	39	-
Reversal	(1)	(3)
Write-off	-	-
Foreign exchange difference	-	-
Ending balance	₩ 1,313	₩ 1,275

Movements in the provision for impairment of non-current loans and other receivables for the years ended December 31, 2022 and 2021 are as follows:

(In millions of Korean won)

	2022	2021
Beginning balance	₩ 1,130	₩ 1,154
Bad debt expense	-	-
Reversal	(143)	(114)
Write-off	-	-
Foreign exchange difference	74	90
Ending balance	₩ 1,061	₩ 1,130

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

8. Trade Receivables and Loans and Other Receivables, Continued

(5) The aging analysis of trade receivables and loans and other receivables as of December 31, 2022 and 2021 are as follows:

(In millions of Korean won)

		December 31, 2022					
		Not impaired					
		Overdue					
		Not past due	Less than 3 months	Over 3 months and less than 6 months	Over 6 months	Impaired	Total
Trade receivables	₩	5,186,054	-	-	-	1,110	5,187,164
Current loans and other receivables		272,512	-	-	-	1,313	273,825
Non-current loans and other receivables		354,167	-	-	-	1,061	355,228
	₩	<u>5,812,733</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,484</u>	<u>5,816,217</u>

(In millions of Korean won)

		December 31, 2021					
		Not impaired					
		Overdue					
		Not past due	Less than 3 months	Over 3 months and less than 6 months	Over 6 months	Impaired	Total
Trade receivables	₩	8,267,111	-	-	-	961	8,268,072
Current loans and other receivables		171,464	-	-	-	1,275	172,739
Non-current loans and other receivables		339,517	-	-	-	1,130	340,647
	₩	<u>8,778,092</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,366</u>	<u>8,781,458</u>

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

9. Inventories

(1) Details of inventories as of December 31, 2022 and 2021 are as follows:

(In millions of Korean won)

	December 31, 2022		
	Acquisition cost	Inventory valuation allowance	Carrying amount
Merchandise	₩ 3,539	₩ (138)	₩ 3,401
Finished goods	4,651,604	(812,889)	3,838,715
Work-in-process	9,433,873	(339,721)	9,094,152
Raw materials	1,936,321	(118,945)	1,817,376
Supplies	849,480	(63,655)	785,825
Goods in transit	125,238	-	125,238
	₩ 17,000,055	₩ (1,335,348)	₩ 15,664,707

(In millions of Korean won)

	December 31, 2021		
	Acquisition cost	Inventory valuation allowance	Carrying amount
Merchandise	₩ 2,650	₩ (48)	₩ 2,602
Finished goods	1,392,856	(113,566)	1,279,290
Work-in-process	5,917,283	(104,981)	5,812,302
Raw materials	1,065,686	(34,393)	1,031,293
Supplies	771,626	(56,324)	715,302
Goods in transit	109,298	-	109,298
	₩ 9,259,399	₩ (309,312)	₩ 8,950,087

(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)

	2022	2021
Inventories recognized as cost of sales	₩ 27,964,151	₩ 24,151,572
Loss on(Gain from reversal of) valuation allowance of inventories	1,026,036	(111,674)

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

10. Other Current and Non-current Assets

Details of other current and non-current assets as of December 31, 2022 and 2021 are as follows:

(In millions of Korean won)

	December 31, 2022		December 31, 2021
	<u> </u>		<u> </u>
Current			
Advance payments	₩ 56,616	₩	73,052
Prepaid expenses	241,894		176,225
Value added tax refundable	795,879		534,958
Contract assets	91,905		56,700
Others	250		793
	<u>1,186,544</u>		<u>841,728</u>
Non-current			
Long-term advance payments	22,683		68,347
Long-term prepaid expenses	42,745		54,451
Others	6,273		6,479
	<u>71,701</u>		<u>129,277</u>
	<u>₩ 1,258,245</u>	₩	<u>971,005</u>

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

11. Investments in Associates and Joint Ventures

(1) General information of investments in associates and joint ventures is as follows:

<u>Type</u>	<u>Investee</u>	<u>Location</u>	<u>Business</u>
Associate and joint ventures	SK China Company Limited ¹	China	Consulting and investment
	SK South East Asia Investment Pte. Ltd.	Singapore	Consulting and investment
	Magnus Private Investment Co., Ltd ³	Korea	Investment
	HITECH Semiconductor (Wuxi) Co., Ltd. ²	China	Manufacture of semiconductor parts
	Hystars Semiconductor (Wuxi) Co., Ltd. ²	China	Foundry factory construction
	Others		

¹ Management of the Group is able to exercise significant influence over the entity by participating the Board of Directors. Accordingly, the investment in this investee has been classified as an associate.

² The Group 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.

³ The investment was completed and entire investment principal was recovered during the year ended December 31, 2022.

(2) Details of investments in associates and joint ventures as of December 31, 2022 and December 31, 2021 are as follows:

(In millions of Korean won)

<u>Investee</u>	<u>December 31, 2022</u>			<u>December 31, 2021</u>	
	<u>Ownership (%)</u>	<u>Net asset value</u>	<u>Carrying amount</u>	<u>Ownership (%)</u>	<u>Carrying amount</u>
Associate and Joint ventures:					
SK China Company Limited	11.87	₩ 346,519	₩ 399,116	11.87	₩ 343,987
SK South East Asia Investment Pte. Ltd.	20.00	352,411	352,411	20.00	347,317
Magnus Private Investment Co., Ltd	49.76	2,983	2,983	49.76	183,760
HITECH Semiconductor (Wuxi) Co., Ltd.	45.00	134,333	134,228	45.00	123,864
Hystars Semiconductor (Wuxi) Co., Ltd.	50.10	218,690	220,281	50.10	226,773
Others		210,431	243,826		184,727
		₩ 1,265,367	₩ 1,352,845		₩ 1,410,428

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

11. Investments in Associates and Joint Ventures, Continued

(3) Changes in investments in associates and a joint ventures for the years period ended December 31, 2022 and 2021 are as follows:

(In millions of Korean won)

	2022						
	Beginning balance	Acquisition	Share of profit (loss)	Other equity movement	Dividend	Recovery of principal	Ending balance
SK China Company Limited ₩	343,987 ₩	- ₩	1,385 ₩	53,744 ₩	- ₩	- ₩	399,116
SK South East Asia Investment Pte. Ltd.	347,317	-	(9,856)	14,950	-	-	352,411
Magnus Private Investment Co., Ltd	183,760	-	98,745	-	(72,176)	(207,346)	2,983
HITECH Semiconductor (Wuxi) Co., Ltd.	123,864	-	19,409	8,338	(17,383)	-	134,228
Hystars Semiconductor (Wuxi) Co., Ltd.	226,773	-	(702)	(5,790)	-	-	220,281
Others	184,727	40,717	22,205	(243)	(1,083)	(2,497)	243,826
	₩ 1,410,428 ₩	₩ 40,717 ₩	₩ 131,186 ₩	₩ 70,999 ₩	₩ (90,642) ₩	₩ (209,843) ₩	₩ 1,352,845

(In millions of Korean won)

	2021					
	Beginning balance	Acquisition	Share of profit (loss)	Other equity movement	Dividend	Ending balance
SK China Company Limited ₩	257,474 ₩	- ₩	110,952 ₩	32,211 ₩	(56,650) ₩	343,987
SK South East Asia Investment Pte. Ltd.	325,006	-	(18,195)	40,506	-	347,317
Magnus Private Investment Co., Ltd	150,840	-	32,920	-	-	183,760
HITECH Semiconductor (Wuxi) Co., Ltd.	113,430	-	17,545	9,660	(16,771)	123,864
Hystars Semiconductor (Wuxi) Co., Ltd.	195,423	-	8,520	22,830	-	226,773
Others	124,071	44,862	10,538	6,386	(1,130)	184,727
	₩ 1,166,244 ₩	₩ 44,862 ₩	₩ 162,280 ₩	₩ 111,593 ₩	₩ (74,551) ₩	₩ 1,410,428

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

11. Investments in Associates and Joint Ventures, Continued

(4) Major associates and joint ventures' summarized statements of financial position as of December 31, 2022 and December 31, 2021 are as follows:

(In millions of Korean won)

	December 31, 2022			
	Current assets	Non-current assets	Current liabilities	Non-current liabilities
SK China Company Limited	₩ 1,223,426	₩ 2,050,002	₩ 353,179	₩ -
SK South East Asia Investment Pte. Ltd.	145,399	3,024,694	487,762	-
Magnus Private Investment Co., Ltd.	3,014	-	31	-
HITECH Semiconductor (Wuxi) Co., Ltd.	252,162	369,578	119,652	203,569
Hystars Semiconductor (Wuxi) Co., Ltd.	175,833	526,041	14,939	250,428

(In millions of Korean won)

	December 31, 2021			
	Current assets	Non-current assets	Current liabilities	Non-current liabilities
SK China Company Limited	₩ 982,428	₩ 1,841,336	₩ 52,979	₩ 314,823
SK South East Asia Investment Pte. Ltd.	132,551	2,841,200	411,228	-
Magnus Private Investment Co., Ltd.	241,256	514,986	132,763	439,719
HITECH Semiconductor (Wuxi) Co., Ltd.	279,304	357,074	129,193	225,942
Hystars Semiconductor (Wuxi) Co., Ltd.	176,141	580,937	20,139	287,473

(5) Major associates and joint ventures' summarized statements of comprehensive income (loss) for the years period ended December 31, 2022 and 2021 are as follows:

(In millions of Korean won)

	2022		2021	
	Revenue	Net profit	Revenue	Net profit
SK China Company Limited	₩ 62,354	₩ 11,674	₩ 80,178	₩ 935,034
SK South East Asia Investment Pte. Ltd.	416,747	(49,280)	9,937	(90,977)
Magnus Private Investment Co., Ltd.	86,757	98,745	615,954	32,920
HITECH Semiconductor (Wuxi) Co., Ltd.	750,422	37,380	636,882	40,309
Hystars Semiconductor (Wuxi) Co., Ltd.	60,126	(1,401)	72,220	17,005

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

12. Property, Plant and Equipment

(1) Changes in property, plant and equipment for the years ended December 31, 2022 and 2021 are as follows:

(In millions of Korean won)

	2022							₩
	Land	Buildings	Structures	Machinery	Vehicles	Others	Construction-in-progress	
Beginning balance	₩ 1,145,557	8,610,548	2,096,970	34,090,276	37,493	741,794	6,503,029	₩ 53,225,667
Acquisitions	78,105	383,566	462,123	12,776,162	129	259,712	5,690,112	19,649,909
Business combination	1,449	58,744	147	232,998	-	12,609	37,976	343,923
Impairment	-	-	(6,157)	(1,534)	-	-	-	(7,691)
Disposals	(91,525)	(67,618)	(358)	(5,255)	-	(1,150)	(25,708)	(191,614)
Depreciation	-	(546,363)	(160,765)	(12,026,217)	(3,375)	(308,338)	-	(13,045,058)
Transfers ¹	82,203	1,733,426	113,169	3,674,885	-	21,584	(5,638,529)	(13,262)
Exchange differences and others	3,415	78,329	(20,666)	200,526	(4)	(20)	5,074	266,654
Ending balance	<u>1,219,204</u>	<u>10,250,632</u>	<u>2,484,463</u>	<u>38,941,841</u>	<u>34,243</u>	<u>726,191</u>	<u>6,571,954</u>	<u>₩ 60,228,528</u>
Acquisition cost	1,219,204	12,568,297	3,473,214	105,694,014	49,196	2,516,161	6,571,954	132,092,040
Accumulated depreciation	-	(2,278,869)	(963,741)	(66,584,370)	(14,952)	(1,789,953)	-	(71,631,885)
Accumulated impairment	-	(23,226)	(25,010)	(161,875)	-	(14)	-	(210,125)
Government grants	-	(15,570)	-	(5,928)	(1)	(3)	-	(21,502)
	<u>₩ 1,219,204</u>	<u>10,250,632</u>	<u>2,484,463</u>	<u>38,941,841</u>	<u>34,243</u>	<u>726,191</u>	<u>6,571,954</u>	<u>₩ 60,228,528</u>

¹ Included transfers between investment property and property, plant and equipment during the year ended December 31, 2022.

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

12. Property, Plant and Equipment, Continued

(1) Changes in property, plant and equipment for the years ended December 31, 2022 and 2021 are as follows, Continued:

(In millions of Korean won)

	2021							
	<u>Land</u>	<u>Buildings</u>	<u>Structures</u>	<u>Machinery</u>	<u>Vehicles</u>	<u>Others</u>	<u>Construction -in-progress</u>	<u>Total</u>
Beginning balance	₩ 971,606	7,018,249	1,812,107	26,491,042	40,557	724,825	4,172,176	₩ 41,230,562
Acquisitions	22,031	223,588	283,158	8,558,128	249	208,926	4,073,975	13,370,055
Business combination	-	1,452,866	30,378	5,192,922	-	5,136	362,935	7,044,237
Disposals	(55)	(2,005)	(26)	(11,137)	-	(103)	(6,250)	(19,576)
Depreciation	-	(291,053)	(131,213)	(8,822,372)	(3,349)	(288,709)	-	(9,536,696)
Transfers ¹	147,905	110,006	36,117	1,815,099	-	75,229	(2,144,401)	39,955
Exchange differences and others	4,070	98,897	66,449	866,594	36	16,490	44,594	1,097,130
Ending balance	<u>1,145,557</u>	<u>8,610,548</u>	<u>2,096,970</u>	<u>34,090,276</u>	<u>37,493</u>	<u>741,794</u>	<u>6,503,029</u>	<u>₩ 53,225,667</u>
Acquisition cost	1,145,557	10,406,916	2,933,606	90,340,568	49,126	2,323,722	6,503,029	113,702,524
Accumulated depreciation	-	(1,756,215)	(817,532)	(56,080,096)	(11,627)	(1,581,899)	-	(60,247,369)
Accumulated impairment	-	(23,699)	(19,104)	(162,535)	-	(23)	-	(205,361)
Government grants	-	(16,454)	-	(7,661)	(6)	(6)	-	(24,127)
	<u>₩ 1,145,557</u>	<u>8,610,548</u>	<u>2,096,970</u>	<u>34,090,276</u>	<u>37,493</u>	<u>741,794</u>	<u>6,503,029</u>	<u>₩ 53,225,667</u>

¹ Included transfers between investment property and property, plant and equipment during the year ended December 31, 2021.

(2) Details of depreciation expense allocation for the years ended December 31, 2022 and 2021 are as follows:

(In millions of Korean won)

	<u>2022</u>	<u>2021</u>
Cost of sales	₩ 12,180,724	₩ 8,743,316
Selling and administrative expenses	814,260	701,532
Development costs and other	50,074	91,848
	<u>₩ 13,045,058</u>	<u>₩ 9,536,696</u>

(3) Certain property, plant and equipment are pledged as collaterals for borrowings of the Group as of December 31, 2022 (Note 34).

(4) The Group capitalized borrowing costs amounting to ₩103,181 million (2021: ₩55,876 million) on qualifying assets during the year ended December 31, 2022. Borrowing costs were calculated using a capitalization rate of 2.64% (2021: 2.47%) for the year ended December 31, 2022.

(5) The Group provides certain property, plant, and equipment as operating leases. Rental income from the property, plant and equipment during the year ended December 31, 2022 are ₩15,537 million (2021: ₩14,699 million).

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

13. Leases

(1) Leases as lessee

(a) Changes in right-of-use assets for the years ended December 31, 2022 and 2021 are as follows.

(In millions of Korean won)

	2022					
	Properties	Structures	Machinery	Vehicles	Others	Total
Beginning balance	₩ 200,474	1,022,677	347,353	14,457	12,383	₩ 1,597,344
Increase	299,982	116,600	37,573	10,445	32,119	496,719
Business Combination	974	-	-	550	19	1,543
Others	4,980	-	21,544	(1,519)	19	25,024
Depreciation	(68,040)	(90,700)	(138,367)	(11,462)	(18,234)	(326,803)
Foreign exchange difference	(1,591)	(11,436)	(540)	(38)	(237)	(13,842)
Ending balance	436,779	1,037,141	267,563	12,433	26,069	₩ 1,779,985
Acquisition cost	556,142	1,347,557	611,194	33,667	33,459	2,582,019
Accumulated depreciation	(87,133)	(310,416)	(343,631)	(21,234)	(7,390)	(769,804)
Government grants	(32,230)	-	-	-	-	(32,230)
	₩ 436,779	1,037,141	267,563	12,433	26,069	₩ 1,779,985

(In millions of Korean won)

	2021					
	Properties	Structures	Machinery	Vehicles	Others	Total
Beginning balance	₩ 111,860	1,048,208	504,539	18,207	24,831	₩ 1,707,645
Increase	57,663	13,958	85,791	9,002	55	166,469
Business Combination	48,933	-	580	-	-	49,513
Others	3,037	(10,879)	(67,812)	(2,795)	1,876	(76,573)
Depreciation	(31,904)	(86,716)	(179,536)	(10,197)	(15,743)	(324,096)
Foreign exchange difference	10,885	58,106	3,791	240	1,364	74,386
Ending balance	200,474	1,022,677	347,353	14,457	12,383	₩ 1,597,344
Acquisition cost	278,367	1,250,828	670,345	29,996	35,101	2,264,637
Accumulated depreciation	(43,921)	(228,151)	(322,992)	(15,539)	(22,718)	(633,321)
Government grants	(33,972)	-	-	-	-	(33,972)
	₩ 200,474	1,022,677	347,353	14,457	12,383	₩ 1,597,344

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

13. Leases, Continued

(1) Leases as lessee, Continued

(b) Changes in lease liabilities for the years ended December 31, 2022 and 2021 are as follows.

(In millions of Korean won)

	2022		2021
Beginning balance	₩ 1,525,762	₩	1,643,716
Acquisition	496,719		166,469
Business combination	1,478		582
Others	67,859		(76,580)
Interest expenses	38,591		32,410
Payments	(313,866)		(333,434)
Foreign exchange difference	(19,462)		92,599
Ending balance	₩ 1,797,081	₩	1,525,762

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

13. Leases, Continued

(1) Leases as lessee, Continued

(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, 2022 are as follows:

(In millions of Korean won)

	2022
Less than 1 year	₩ 293,572
1~5 years	843,961
More than 5 years	936,737
Total lease liabilities undiscounted as of December 31, 2022	2,074,270
Present value of lease liabilities recognized as of December 31, 2022	1,797,081
Current lease liabilities	280,873
Noncurrent lease liabilities	1,516,208

(d) The amounts recognized in profit or loss in relation to right-of-use assets and lease liabilities for the years ended December 31, 2022 and 2021 are as follows:

(In millions of Korean won)

	2022	2021
Depreciation of right-to-use assets	₩ 326,803	₩ 324,096
Interest expenses of lease liabilities	38,591	32,410
Expenses relating to short-term leases	62,874	29,389
Expenses relating to leases of low-value assets	2,092	1,741

The total cash outflow from leases during the year ended December 31, 2022 is ₩378,833 million (2021: ₩364,564 million).

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

14. Intangible Assets

(1) Changes in intangible assets for the years ended December 31, 2022 and 2021 are as follows:

(In millions of Korean won)

		2022				
		Goodwill	Industrial property rights	Development costs	Others	Total
Beginning balance	₩	1,572,014	88,396	548,074	2,588,678	₩ 4,797,162
Internal development		-	-	328,950	-	328,950
External acquisition		-	1,658	-	481,938	483,596
Business combination		51,276	1,809	-	144,100	197,185
Disposals		-	(2,337)	-	(3,055)	(5,392)
Amortization		-	(17,597)	(258,838)	(503,174)	(779,609)
Impairment		(921,177)	-	(257,692)	(423,133)	(1,602,002)
Transfers		-	18,522	-	(70,821)	(52,299)
Others		96,610	-	-	47,906	144,516
Ending balance		<u>798,723</u>	<u>90,451</u>	<u>360,494</u>	<u>2,262,439</u>	<u>3,512,107</u>
Acquisition cost		1,702,324	224,978	4,178,045	4,629,874	10,735,221
Accumulated amortization and impairment		(903,601)	(134,527)	(3,817,551)	(2,367,435)	(7,223,114)
	₩	<u>798,723</u>	<u>90,451</u>	<u>360,494</u>	<u>2,262,439</u>	₩ <u>3,512,107</u>

(In millions of Korean won)

		2021				
		Goodwill	Industrial property rights	Development costs	Others	Total
Beginning balance	₩	701,596	86,127	597,930	2,014,625	₩ 3,400,278
Internal development		-	-	362,863	-	362,863
External acquisition		-	11,336	-	549,344	560,680
Business combination		846,115	-	-	443,498	1,289,613
Disposals		-	(2,194)	-	(13,484)	(15,678)
Amortization		-	(16,831)	(369,650)	(409,452)	(795,933)
Impairment		-	-	(43,069)	(723)	(43,792)
Transfers		-	9,958	-	(6,466)	3,492
Others ¹		24,303	-	-	11,336	35,639
Ending balance		<u>1,572,014</u>	<u>88,396</u>	<u>548,074</u>	<u>2,588,678</u>	<u>4,797,162</u>
Acquisition cost		1,572,014	210,878	3,548,213	4,066,804	9,397,909
Accumulated amortization and impairment		-	(122,482)	(3,000,139)	(1,478,126)	(4,600,747)
	₩	<u>1,572,014</u>	<u>88,396</u>	<u>548,074</u>	<u>2,588,678</u>	₩ <u>4,797,162</u>

(2) Details of amortization expense allocation for the years ended December 31, 2022 and 2021 are as follows:

(In millions of Korean won)

	2022	2021
Cost of sales	₩ 333,758	₩ 248,920
Selling and administrative expenses	442,967	545,405
Development costs	2,884	1,608
	₩ <u>779,609</u>	₩ <u>795,933</u>

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

14. Intangible Assets, Continued

(3) Goodwill impairment tests

The Group allocates goodwill to identified CGUs, and the details of goodwill for each CGU as of December 31, 2022 are as follows:

(In millions of Korean won)

	2022	2021
Existing CGU	₩ 798,723	₩ 726,738
Solidigm CGU	-	845,277
	<u>₩ 798,723</u>	<u>₩ 1,572,015</u>

As of December 31, 2022, CGUs to which goodwill has been allocated have been tested for impairment, and key assumptions used in calculating recoverable amount are as follows:

- Goodwill related to existing CGU : The recoverable amount of the existing CGU was measured at the value in use calculated by applying an after-tax discount rate of 10.4% per annum to the estimated after-tax cash flow based on the financial budget for the next 5 years approved by the management. Cash flow beyond 5 years is estimated assuming a 1.0% growth rate will continue. Management believes that the total carrying amount of the existing CGU will not exceed the total recoverable amount due to reasonably possible changes in key assumptions used to estimate recoverable amount.

- Goodwill related to Solidigm CGU : The recoverable amount of the CGU is measured at fair value less costs to sell by applying a 16% annual after-tax discount rate to the estimated after-tax cash flows based on the 10-year financial budget approved by the management together with market approach based fair value estimation applying comparable peer companies' revenue multiples to market capitalization. Cash flows beyond 10 years are estimated assuming a 1.0% growth rate will continue. The Group recognized ₩1,344,440 million of impairment loss as 'other non-operating expenses' to the amount of assets that are not expected to contribute to the creation of future economic benefits in the Solidigm CGU, and the amount of impairment was allocated to goodwill and other intangible assets.

(4) Among costs associated with development activities, ₩328,950 million (2021: ₩362,863 million) that met capitalization criteria, were capitalized as development cost for the year ended December 31, 2022. In addition, costs associated with research activities and other development expenditures that did not meet the criteria in the amount of ₩4,474,553 million (2021: ₩3,551,197 million) were recognized as expenses for the year ended December 31, 2022.

Meanwhile, the Group reviews whether indications for impairment of development costs exist at the end of the reporting period, and recognizes a total impairment loss of ₩ 257,692 million (2021: ₩ 43 million) for development projects whose recoverable value is less than the book value during the year ended December 31, 2022.

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

15. Investment Property

(1) Changes in investment property for the years ended December 31, 2022 and 2021 are as follows:

(In millions of Korean won)

	2022	2021
Beginning net book amount	₩ 164,197	₩ 209,417
Disposal	(161,925)	-
Depreciation	(701)	(1,773)
Transfer ¹	(1,348)	(43,447)
Ending net book amount	<u>223</u>	<u>164,197</u>
Acquisition cost	511	170,549
Accumulated depreciation	(288)	(6,352)
	₩ <u>223</u> ₩	<u>164,197</u>

¹ Certain investment property was transferred to property, plant and equipment during the year ended December 31, 2022 and 2021.

(2) The depreciation expense of ₩701 million was charged to cost of sales for the year ended December 31, 2022 (2021: ₩1,773 million).

(3) Rental income from investment property during the year ended December 31, 2022 was ₩14,838 million (2021: ₩14,759 million).

16. Other Payables

Details of other payables as of December 31, 2022 and 2021 are as follows:

(In millions of Korean won)

	December 31, 2022	December 31, 2021
Current		
Deposits payable	₩ 10,251 ₩	5,702
Accrued expenses	3,014,397	2,272,614
	<u>3,024,648</u>	<u>2,278,316</u>
Non-current		
Deposits payable	10,368	8,690
Long-term accrued expenses	17,715	23,525
	<u>28,083</u>	<u>32,215</u>
	₩ <u>3,052,731</u> ₩	<u>2,310,531</u>

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

17. Borrowings

(1) Details of borrowings as of December 31, 2022 and 2021 are as follows:

(In millions of Korean won)

	<u>2022</u>	<u>2021</u>
Current		
Short-term borrowings	₩ 3,833,263	₩ 233,199
Current portion of long-term borrowings	2,620,180	2,087,796
Current portion of debentures	969,804	559,768
	<u>7,423,247</u>	<u>2,880,763</u>
Non-current		
Long-term borrowings	9,073,567	7,529,063
Debentures	6,497,790	7,213,983
	<u>15,571,357</u>	<u>14,743,046</u>
	<u>₩ 22,994,604</u>	<u>₩ 17,623,809</u>

(2) Details of borrowings as of December 31, 2022 and 2021 are as follows:

(In millions of Korean won)

	<u>Financial institutions</u>	<u>Interest rate per annum in 2022 (%)</u>	<u>2022</u>	<u>2021</u>
Short-term borrowings:				
OAT Nego	ING and others	4.5 ~ 5.3	₩ 899,767	₩ -
Banker's Usance	Kookmin Bank and others	5.4 ~ 5.6	811,051	-
General borrowings	City Bank and others	1.4 ~ 6.1	1,807,445	233,199
Commercial Paper	SK Securities Co., Ltd.	4.6 ~ 5.4	315,000	-
			<u>3,833,263</u>	<u>233,199</u>
Long-term borrowings:				
Funds for equipment	Santander and others	1.0 ~ 5.7	4,686,870	3,038,049
Commercial Paper underwriting agreement	Shinhan Bank	4.7	300,000	300,000
Syndicated loan	Korea Development Bank and others	5.8 ~ 6.4	5,184,025	5,894,465
General borrowings	China Bank and others	0.9 ~ 6.3	1,212,701	302,618
collateralized borrowings	Macquarie Finance Korea Co.,Ltd.	4.2 ~ 7.9	376,049	115,657
			<u>11,759,645</u>	<u>9,650,789</u>
Less: Current portion			(2,620,180)	(2,087,796)
Less: Discounts on borrowings			(65,898)	(33,930)
			<u>₩ 9,073,567</u>	<u>₩ 7,529,063</u>

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

17. Borrowings, Continued

(3) Details of debentures as of December 31, 2022 and 2021 are as follows:

(In millions of Korean won)

	<u>Maturity date</u>	<u>Interest rate per annum in 2022 (%)</u>	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Unsecured notes in local currency:				
Unsecured corporate bonds 214-2nd	2022.08.26	2.63	₩ -	₩ 140,000
Unsecured corporate bonds 215-3rd	2022.11.25	2.75	-	10,000
Unsecured corporate bonds 216-3rd	2023.02.19	2.53	80,000	80,000
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
Unsecured corporate bonds 220-2nd	2024.05.09	1.99	200,000	200,000
Unsecured corporate bonds 220-3rd	2026.05.09	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	340,000
Unsecured corporate bonds 221-2nd	2025.02.14	1.72	360,000	360,000
Unsecured corporate bonds 221-3rd	2027.02.14	1.93	130,000	130,000
Unsecured corporate bonds 221-4th	2030.02.14	2.21	230,000	230,000
Unsecured corporate bonds 222-1st	2030.11.10	2.33	70,000	70,000
Unsecured corporate bonds 222-2nd	2035.11.10	2.73	100,000	100,000
Unsecured corporate bonds 223-1st	2024.04.12	1.51	550,000	550,000
Unsecured corporate bonds 223-2nd	2026.04.13	1.89	360,000	360,000
Unsecured corporate bonds 223-3rd	2028.04.13	2.11	80,000	80,000
Unsecured corporate bonds 223-4th	2031.04.13	2.48	190,000	190,000
			<u>3,700,000</u>	<u>4,260,000</u>
Unsecured notes in foreign currency:				
Unsecured global bonds 9th	2024.09.17	3.00	633,650	592,750
Unsecured global bonds 10-1st	2024.01.19	1.00	633,650	592,750
Unsecured global bonds 10-2nd	2026.01.19	1.50	1,267,300	1,185,500
Unsecured global bonds 10-3rd	2031.01.19	2.38	1,267,300	1,185,500
			<u>3,801,900</u>	<u>3,556,500</u>
			<u>7,501,900</u>	<u>7,816,500</u>
Less: Discounts on debentures			(34,306)	(42,749)
Less: Current portion			(969,804)	(559,768)
			<u>₩ 6,497,790</u>	<u>₩ 7,213,983</u>

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

18. Other Current and Non-current Liabilities

Details of other current and non-current liabilities as of December 31, 2022 and 2021 are as follows:

(In millions of Korean won)

	December 31,		December 31,	
	2022		2021	
Current				
Advance receipts	₩	18,433	₩	22,158
Unearned income		8,070		486
Withholdings		150,304		134,811
Contract liabilities		345,657		125,414
Others		11,871		11,911
		<u>534,335</u>		<u>294,780</u>
Non-current				
Other long-term employee benefits		182,425		94,005
Others		22,419		1
	₩	<u>204,844</u>	₩	<u>94,006</u>
		<u>739,179</u>		<u>388,786</u>

19. Provisions

(1) Changes in provisions for the years ended December 31, 2022 and 2021 are as follows:

(In millions of Korean won)

	2022				
	Beginning				Ending
	Balance	Increase	Utilization	Reversal	Balance
Warranty	₩ 3,327	₩ 271,582	₩ (25,455)	₩ (138)	₩ 249,316
Emission allowances	6,840	4,100	-	(8,790)	2,150
Restoration	-	1,827	-	-	1,827
	<u>₩ 10,167</u>	<u>₩ 277,509</u>	<u>₩ (25,455)</u>	<u>₩ (8,928)</u>	<u>₩ 253,293</u>

(In millions of Korean won)

	2021				
	Beginning				Ending
	Balance	Increase	Utilization		Balance
Warranty	₩ 3,015	₩ 26,482	₩ (26,170)	₩	₩ 3,327
Emission allowances	10,782	5,785	(9,727)		6,840
	<u>₩ 13,797</u>	<u>₩ 32,267</u>	<u>₩ (35,897)</u>	₩	<u>₩ 10,167</u>

(2) Provisions for warranty

The Group estimates the expected warranty costs based on historical results and records provisions for warranty. Regarding the durability issue of certain products sold in the prior years, the Group separately estimated and recorded warranty provisions for the amount expected to be paid for product replacement and other customer supporting activities.

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

19. Provisions, Continued

(3) Provision for emission allowances

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

(a) Details of the allocated amount of emission permits as of the second and third compliance periods are as follows:

	The third compliance period					Total
	(2021 - 2025)					
	2021	2022	2023	2024	2025	
Allocated emission permits	538	524	520	520	520	2,622

(b) Changes in the emission permits rights for the year ended December 31, 2022 are as follows:

(In ten thousand tons CO2-eq)

	2022
Beginning balance	3
Allocated	538
Purchase	2
Submission	(511)
Borrowing	-
Banking	(7)
Disposal	(25)
Ending balance	-

(c) The estimated net volume of emission made by the Group is 5.38 million tons as of December 31, 2022.

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

20. Defined Benefit Liabilities

Under the defined benefit plan, the Group 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 Group is exposed to a variety of actuarial assumption risks such as risk associated with expected years of service, interest risk, and market (investment) risk.

(1) Details of defined benefit liabilities as of December 31, 2022 and 2021 are as follows:

(In millions of Korean won)

	December 31, 2022	December 31, 2021
Present value of defined benefit obligations	₩ 2,259,125	₩ 2,392,020
Fair value of plan assets	(3,521,426)	(2,819,782)
Net defined benefit liabilities	₩ (1,262,301)	₩ (427,762)
Defined benefit liabilities	69,952	1,200
Defined benefit assets ¹	1,332,253	428,962

¹ The Parent Company and certain subsidiaries' fair value of plan assets in excess of the present value of defined benefit obligations amounted to ₩1,332,253 million and ₩428,962 million as of December 31, 2022 and 2021 are presented as defined benefit assets.

(2) Principal actuarial assumptions as of December 31, 2022 and 2021 are as follows:

	December 31, 2022 (%)	December 31, 2021 (%)
Discount rate for defined benefit obligations	5.18 ~ 6.48	2.50 ~ 4.01
Expected rate of salary increase	2.70 ~ 5.74	3.00 ~ 5.52

(3) Weighted average durations of defined benefit obligations as of December 31, 2022 and 2021 are 12.00 and 11.76 years, respectively.

(4) Changes in defined benefit obligations for the years ended December 31, 2022 and 2021 are as follows:

(In millions of Korean won)

	2022	2021
Beginning balance	₩ 2,392,020	₩ 2,169,154
Current service cost	270,071	256,867
Past service cost	(3,745)	(2,199)
Interest expense	94,954	74,615
Transfer from associates	(1,981)	(2,763)
Remeasurements:	(540,525)	(13,956)
Demographic assumption	-	(292)
Financial assumption	(631,994)	(123,677)
Adjustment based on experience	91,469	110,013
Benefits paid	(107,451)	(89,784)
Effect of movements in exchange rates	834	86
Business combination	154,948	-
Ending balance	₩ 2,259,125	₩ 2,392,020

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

20. Defined Benefit Liabilities, Continued

(5) Changes in plan assets for the years ended December 31, 2022 and 2021 are as follows:

(In millions of Korean won)

	2022	2021
Beginning balance	₩ 2,819,782	₩ 2,228,377
Contributions	697,704	641,680
Interest income	110,039	76,607
Transfer from associates	929	56
Benefits paid	(92,796)	(94,276)
Business combination	45,156	-
Remeasurements	(59,391)	(32,695)
Foreign exchange differences	3	33
Ending balance	₩ 3,521,426	₩ 2,819,782

(6) The amounts recognized in profit or loss for the years ended December 31, 2022 and 2021 are as follows:

(In millions of Korean won)

	2022	2021
Current service cost	₩ 270,071	₩ 256,867
Past service cost	(3,745)	(2,199)
Net interest expense	(15,085)	(1,993)
	₩ 251,241	₩ 252,675

(7) The amounts in which defined benefit plan related expenses are included for the years ended December 31, 2022 and 2021 are as follows:

(In millions of Korean won)

	2022	2021
Cost of sales	₩ 136,636	₩ 137,401
Selling and administrative expenses	114,605	115,274
	₩ 251,241	₩ 252,675

(8) Details of plan assets as of December 31, 2022 and 2021 are as follows:

(In millions of Korean won)

	2022	2021
Deposits	₩ 3,520,203	₩ 2,818,634
Others	1,223	1,148
	₩ 3,521,426	₩ 2,819,782

Actual return on plan assets for the years ended December 31, 2022 and 2021 amounted to ₩50,657 million and ₩43,915 million, respectively.

(9) As of December 31, 2022, the Group funded defined benefit obligations through insurance plans with Mirae Asset Life Insurance Co., Ltd. and other insurance companies. The Group's reasonable estimation of contribution to the plan assets for the year ending December 31, 2022 is ₩433,130 million under the assumption that the Group maintains the defined benefit plan.

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

20. Defined Benefit Liabilities, Continued

(10) The sensitivity analysis of the defined benefit obligations as of December 31, 2022 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%)	₩ (218,557)	256,611
Expected rate of salary increase (if changed by 1%)	264,460	(228,038)

The sensitivity analysis above was calculated under the assumption that other assumptions were constant. The sensitivity of defined benefit liabilities to changes in major actuarial assumptions was calculated using the same predictive unit approach used to calculate defined benefit liabilities recognized in the statement of financial position.

(11) The Group adopted defined contribution plan for retirement benefit for employees subject to peak wage system. Contributions to defined contribution plans amounting to ₩6,337 million (2021: ₩3,040 million) was expensed for the year ended December 31, 2022.

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

21. Deferred Income Tax

(1) Changes in deferred income tax assets and liabilities for the years ended December 31, 2022 and 2021 without taking into consideration the offsetting of balances within the same tax authority, are as follows:

(In millions of Korean won)

	2022				
	Beginning	Profit or loss	Equity	Foreign exchange differences	Ending
Inventories, net	₩ 105,708	221,859	-	(249)	₩ 327,318
Property, plant and equipment, net	369,812	(92,556)	-	(46,450)	230,806
Defined benefits liabilities, net	(109,742)	(23,585)	(131,645)	1,243	(263,729)
Short-term and long-term investment assets and others	(672,963)	327,592	-	-	(345,371)
Employee benefits	56,531	22,529	-	2,602	81,662
Provisions	(27,862)	53,969	-	339	26,446
Other assets and other liabilities	27,145	31,317	-	(145)	58,317
Accrued expenses	124,565	27,428	-	-	151,993
Others	14,852	(14,223)	(1,840)	(10,955)	(12,166)
Deferred tax assets for temporary differences, net	(111,954)	554,330	(133,485)	(53,615)	255,276
Tax credit carryforwards recognized	4,457	(17)	-	98	4,538
Tax loss carryforwards recognized	69,746	(60,715)	-	5,793	14,824
Deferred tax assets recognized, net	₩ (37,751)	493,598	(133,485)	(47,724)	₩ 274,638

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

21. Deferred Income Tax, Continued

(1) Changes in deferred income tax assets and liabilities for the years ended December 31, 2022 and 2021 without taking into consideration the offsetting of balances within the same tax authority, are as follows; Continued:

(In millions of Korean won)

	2021				
	Beginning	Profit or loss	Equity	Foreign exchange differences	Ending
Inventories, net	₩ 123,341	(18,116)	-	483	₩ 105,708
Property, plant and equipment, net	436,672	(112,254)	-	45,394	369,812
Defined benefits liabilities, net	(1,876)	(112,888)	5,028	(6)	(109,742)
Short-term and long-term investment assets and others	(542,300)	(130,663)	-	-	(672,963)
Employee benefits	59,471	(2,946)	-	6	56,531
Provisions	(9,441)	(18,471)	-	50	(27,862)
Other assets and other liabilities	19,378	7,939	-	(172)	27,145
Accrued expenses	100,714	23,851	-	-	124,565
Others	11,815	1,994	-	1,043	14,852
Deferred tax assets for temporary differences, net	197,774	(361,554)	5,028	46,798	(111,954)
Tax credit carryforwards recognized	3,899	227	-	331	4,457
Tax loss carryforwards recognized	87,881	(24,771)	-	6,636	69,746
Deferred tax assets recognized, net	₩ 289,554	(386,098)	5,028	53,765	₩ (37,751)

(2) As of December 31, 2022 and 2021, the temporary differences that are not recognized as deferred tax assets (liabilities) are as follows:

(In millions of Korean won)

	December 31, 2022	December 31, 2021
Investments in subsidiaries, associates, and joint ventures and others		
Deductible temporary differences	₩ 5,977,786	₩ 2,843,394
Taxable temporary differences	(3,262,933)	(3,334,324)
	<u>2,714,853</u>	<u>(490,930)</u>
Deductible temporary differences and others	7,115	5,304

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

21. Deferred Income Tax, Continued

(3) Details of period when the deferred income tax assets (liabilities) are recovered (settled) as of December 31, 2022 and 2021 are as follows:

(In millions of Korean won)

	December 31, 2022	December 31, 2021
Deferred income tax assets to be recovered after more than 12 months	₩ 1,063,078	₩ 1,322,134
Deferred income tax assets to be recovered within 12 months	570,292	275,415
Deferred income tax assets recognized	1,633,370	1,597,549
Deferred income tax liabilities to be recovered after more than 12 months	(1,357,867)	(1,634,805)
Deferred income tax liabilities to be settled within 12 months	(865)	(495)
Deferred income tax liabilities recognized	(1,358,732)	(1,635,300)
Net income deferred tax assets (liabilities) recognized	₩ 274,638	₩ (37,751)

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

22. Derivative Financial Instruments

(1) Cross currency and interest rate swap

(a) Details of derivative financial instruments applying cash flow hedge accounting as of December 31, 2022 are as follows:

(In thousands of foreign currencies)

Borrowing date	Hedged items		Hedging instruments		
	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
2020.02.03	Foreign currency denominated borrowing with floating rate (Par value: USD 50,000)	Interest rate risk	Interest rate swap	Woori Bank	2020.02.03 ~ 2023.02.03
2020.03.18	Foreign currency denominated borrowing with floating rate (Par value: USD 50,000)	Interest rate risk	Interest rate swap	Woori Bank	2020.03.18 ~ 2023.02.03

(b) The derivative financial instruments held by the Group are presented in non-current other financial assets and non-current other financial liabilities in the consolidated financial statements of financial position as of December 31, 2022, 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)	₩ 41,822	₩ 41,822
Floating-to-fixed cross currency interest rate swap	Foreign currency denominated borrowing for equipment with floating rate (Par value: USD 500,000)	72,112	72,112
Interest rate swap	Foreign currency denominated borrowing with floating rate (Par value: USD 50,000)	485	485
Interest rate swap	Foreign currency denominated borrowing with floating rate (Par value: USD 50,000)	598	598
		₩	<u>115,017</u>

As of December 31, 2022, changes of fair value of the derivative is recognized in other comprehensive income or loss as all of designated hedging instruments are effective for foreign currency risk or foreign currency and interest rate risk.

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

23. Capital Stock, Capital Surplus and Other Equity

(1) The Parent Company has 9,000,000,000 authorized shares and the face value per share is ₩ 5,000 as of December 31, 2022. The number of shares issued, common stock, capital surplus and other capital as of December 31, 2022 and 2021, are as follows:

(In millions of Korean won and thousands of shares)

	December 31,	December 31,
	2022	2021
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	710,373	708,846
	<u>4,336,170</u>	<u>4,334,643</u>
Other equity:		
Acquisition cost of treasury shares ²	(2,300,387)	(2,302,119)
Share options	8,011	7,557
Others ³	(19,033)	-
	<u>₩ (2,311,409)</u>	<u>₩ (2,294,562)</u>
Number of treasury shares	40,351	40,382

¹ As of December 31, 2022, the number of outstanding shares is 728,002 thousand shares, which differs from total issued shares due to share retirement.

² The Group disposed 30,367 treasury shares and, accordingly, gained on disposal of treasury shares of ₩1,527 million occurred.

³ As the Group changed the manner of share-based payment from equity-settlement to cash-settlement, the remeasured value of share based payments was recognized in other equity.

(2) The number of outstanding shares, which deducted treasury shares held by the Parent Company from listed shares of December 31, 2022 and 2021, are as follows:

(In shares)

	December 31, 2022		
	Outstanding	Treasury	Total
	shares	shares	shares
The number of outstanding shares	728,002,365	40,351,325	687,651,040

(In shares)

	December 31, 2021		
	Outstanding	Treasury	Total
	shares	shares	shares
The number of outstanding shares	728,002,365	40,381,692	687,620,673

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

24. Accumulated Other Comprehensive Loss

Details of accumulated other comprehensive loss as of December 31, 2022 and 2021 are as follows:

(In millions of Korean won)

	December 31, 2022		December 31, 2021
Equity-accounted investees – share of other comprehensive income	₩ 125,051	₩	54,051
Foreign operations – foreign currency translation differences	745,427		598,741
Gain on valuation of derivatives	28,204		22,479
	₩ 898,682	₩	675,271

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

25. Retained Earnings

Retained earnings as of December 31, 2022 and 2021, are as follows:

(In millions of Korean won)

	December 31, 2022	December 31, 2021
Legal reserve ¹	₩ 535,877	₩ 429,983
Discretionary reserve ²	235,506	235,506
Unappropriated retained earnings	55,913,877	55,118,579
	<u>₩ 56,685,260</u>	<u>₩ 55,784,068</u>

¹ The Commercial Code of the Republic of Korea requires the Parent 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.

(2) Dividends of the Parent Company

(a) Details of dividends for the years ended December 31, 2022 and 2021 are as follows:

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

	2022	2021
Type of dividends	Cash Dividends	Cash Dividends
Outstanding ordinary shares	687,651	687,621
Par value (in won)	₩ 5,000	₩ 5,000
Dividend rate	24.00%	31.00%
Total dividends	<u>₩ 825,181</u>	<u>₩ 1,058,936</u>

(b) Dividend payout ratio for the years ended December 31, 2022 and 2021 is as follows:

(In millions of Korean won)

	2022	2021
Dividends	₩ 825,181	₩ 1,058,936
Profit attributable to owners of the Parent Company	2,229,560	9,602,316
Dividend payout ratio	<u>37.01%</u>	<u>11.03%</u>

(c) Dividend yield ratio for the years ended December 31, 2022 and 2021 is as follows:

(In Korean won)

	2022	2021
Dividends per share	₩ 1,200	₩ 1,540
Closing stock price	75,000	131,000
Dividend yield ratio	<u>1.60%</u>	<u>1.18%</u>

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

26. Revenue

(1) Details of the Group's revenue for years ended December 31, 2022 and 2021 are as follows:

(In millions of Korean won)

	2022	2021
Sale of goods	₩ 44,540,140	₩ 42,932,963
Providing services	81,428	64,829
	<u>₩ 44,621,568</u>	<u>₩ 42,997,792</u>

(2) Details of the Group's revenue by product and service types for the years ended December 31, 2022 and 2021 are as follows:

(In millions of Korean won)

	2022	2021
DRAM	₩ 28,168,802	₩ 30,599,711
NAND Flash	14,183,923	10,529,447
Others	2,268,843	1,868,634
	<u>₩ 44,621,568</u>	<u>₩ 42,997,792</u>

(3) The Group's revenue information by region based on the location of selling entities for the years ended December 31, 2022 and 2021 are as follows:

(In millions of Korean won)

	2022	2021
Korea	₩ 1,225,765	₩ 1,461,982
China	12,210,470	15,730,223
Asia (other than China)	5,615,384	7,022,929
U.S.A.	23,960,980	17,144,323
Europe	1,608,969	1,638,335
	<u>₩ 44,621,568</u>	<u>₩ 42,997,792</u>

(4) Details of the Group's revenue by the timing of revenue recognition during the years ended December 31, 2022 and 2021 are as follows:

(In millions of Korean won)

	2022	2021
Performance obligations satisfied at a point in time	₩ 44,540,140	₩ 42,932,963
Performance obligations satisfied over time	81,428	64,829
	<u>₩ 44,621,568</u>	<u>₩ 42,997,792</u>

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

27. Selling and Administrative Expenses

Selling and administrative expenses for the years ended December 31, 2022 and 2021 are as follows:

(In millions of Korean won)

	<u>2022</u>	<u>2021</u>
Selling and administrative expenses:		
Salaries	₩ 1,079,387	₩ 787,830
Defined benefit plan	44,341	41,326
Employee benefits	237,640	181,651
Commission	1,095,111	519,432
Depreciation	264,845	218,673
Amortization	414,554	526,181
Freight and custody charges	58,688	48,189
Taxes and dues	102,035	88,248
Advertising	113,401	93,050
Supplies	157,009	109,138
Sales promotion expenses	172,715	165,482
Quality control cost	272,554	31,925
Others	331,605	179,530
	<u>4,343,885</u>	<u>2,990,655</u>
Research and development:		
Expenditure on research and development	4,803,503	3,914,060
Development cost capitalized	(328,950)	(362,863)
	<u>4,474,553</u>	<u>3,551,197</u>
	<u>₩ 8,818,438</u>	<u>₩ 6,541,852</u>

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

28. Expenses by Nature

Nature of expenses for the years ended December 31, 2022 and 2021 are as follows:

(In millions of Korean won)

	2022	2021
Changes in finished goods and work-in-process	₩ (5,883,574)	₩ (660,386)
Raw materials, supplies and consumables	11,150,976	8,243,214
Employee benefit	7,854,478	5,311,842
Depreciation and others	14,135,292	10,646,887
Commission	4,106,607	2,521,074
Utilities	2,226,716	1,612,864
Repair	1,580,065	1,298,083
Outsourcing	1,676,125	1,035,735
Others	1,316,343	961,171
Transfer: capitalized development cost and others	(350,877)	(383,032)
Total ¹	₩ <u>37,812,151</u>	₩ <u>30,587,452</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, 2022 and 2021 are as follows:

(In millions of Korean won)

	2022	2021
Finance Income:		
Interest income	₩ 89,561	₩ 22,419
Dividend income	2,425	10,163
Foreign exchange differences	3,486,872	1,693,274
Others	135,420	651,660
	<u>3,714,278</u>	<u>2,377,516</u>
Finance Expenses:		
Interest expense	533,114	259,960
Foreign exchange differences ¹	3,892,100	1,204,657
Loss on valuation of long-term investment assets	623,923	3,402
Others	42,416	1,841
	<u>5,091,553</u>	<u>1,469,860</u>
Net finance income (expenses)	₩ <u>(1,377,275)</u>	₩ <u>907,656</u>

¹ For the year ended December 31, 2022, the foreign exchange difference gain from long-term investment assets amounting to ₩472,381 million (2021: ₩132,614 million) is included.

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

30. Other Income and Expenses

(1) Other income for years ended December 31, 2022 and 2021 are as follows:

(In millions of Korean won)

	2022	2021
Gain on disposal of property, plant and equipment	₩ 137,507	₩ 71,681
Gain on disposal of investment property	64,418	-
Others	39,446	44,454
	<u>₩ 241,371</u>	<u>₩ 116,135</u>

(2) Other expenses for the years ended December 31, 2022 and 2021 are as follows:

(In millions of Korean won)

	2022	2021
Loss on disposal of property, plant and equipment	₩ 39,284	₩ 12,324
Loss on disposal of trade receivables	11,322	5,462
Loss on impairment of intangible assets	1,602,182	43,792
Donation	74,220	77,334
Others	74,911	41,512
	<u>₩ 1,801,919</u>	<u>₩ 180,424</u>

31. Income Tax Expense

(1) Income tax expense for the years ended December 31, 2022 and 2021 are as follows:

(In millions of Korean won)

	2022	2021
Current tax:		
Current tax on profits for the year	₩ 2,275,939	₩ 3,308,525
Adjustments for the current tax liabilities attributable to prior year, but recognized in current year	(21,231)	105,176
	<u>2,254,708</u>	<u>3,413,701</u>
Deferred tax:		
Changes in net deferred tax assets	(493,597)	386,098
Income tax expense	<u>₩ 1,761,111</u>	<u>₩ 3,799,799</u>

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

31. Income Tax Expense, continued

(2) The relationship between tax expense and accounting profit for the years ended December 31, 2022 and 2021 are as follows:

(In millions of Korean won)

	2022	2021
Profit before income tax	₩ 4,002,780	₩ 13,415,987
Tax calculated at domestic tax rates applicable to profits in the respective countries	681,566	3,774,276
Tax effects of:		
Tax-exempt income	(10,593)	(6,401)
Non-deductible expenses	269,253	15,668
Change in unrecognized deferred tax assets	1,334,569	(889)
Tax credits	(493,385)	(207,886)
Adjustments for the current tax liabilities attributable to prior year, but recognized in current year	(6,221)	78,151
Others	(14,078)	146,880
Income tax expense	₩ 1,761,111	₩ 3,799,799

(3) Income taxes recognized in other comprehensive income (loss) for the years ended December 31, 2022 and 2021 are as follows:

(In millions of Korean won)

	2022	2021
Remeasurements of defined benefit liabilities	₩ (131,645)	₩ 5,028
Gain on valuation of derivatives	(1,840)	(3,275)
Gain on disposal of treasury stock	(579)	(72,542)
	₩ (134,064)	₩ (70,789)

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

32. Earnings per Share

Basic earnings per share is calculated by dividing the profit attributable to ordinary shareholders of the Parent Company by the weighted average number of outstanding ordinary shares for years ended December 31, 2022 and 2021.

(1) Basic earnings per share for the years ended December 31, 2022 and 2021 are as follows:

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

	<u>2022</u>	<u>2021</u>
Profit attributable to ordinary shareholders of the Parent Company	₩ 2,229,560	₩ 9,602,316
Weighted average number of outstanding ordinary shares ¹	687,645,878	686,411,075
Basic earnings per share (in won)	<u>₩ 3,242</u>	<u>₩ 13,989</u>

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

(In shares)

	<u>2022</u>	<u>2021</u>
Outstanding ordinary shares	728,002,365	728,002,365
Acquisition of treasury shares	(40,356,487)	(41,591,290)
Weighted average number of outstanding ordinary shares	<u>687,645,878</u>	<u>686,411,075</u>

(2) Diluted earnings per share for the years ended December 31, 2022 and 2021 are as follows:

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

	<u>2022</u>	<u>2021</u>
Profit attributable to ordinary shareholders of the Parent Company	₩ 2,229,560	₩ 9,602,316
Weighted average number of diluted outstanding ordinary shares ¹	687,800,760	686,661,446
Diluted earnings per share (in won)	<u>₩ 3,242</u>	<u>₩ 13,984</u>

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

(In shares)

	<u>2022</u>	<u>2021</u>
Weighted average number of outstanding ordinary shares	687,645,878	686,411,075
Stock options	154,882	250,371
Weighted average number of diluted outstanding ordinary shares	<u>687,800,760</u>	<u>686,661,446</u>

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

33. Transactions with Related Parties and Others

(1) Details of related parties as of December 31, 2022 are as follows:

Type	Name of related parties
Associates	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. Mirae Asset Committee Semiconductor No. 1 Startup Venture Private Equity Investment Co., Ltd. Magnus Private Investment Co., Ltd., L&S (No.10) Early Stage III Investment Association, SiFive Inc., YD-SK-KDB Social Value Ningbo Zhongxin Venture Capital Partnership (Limited Partnership), Jiangsu KVTS Semiconductor science and Technology Co., Ltd. Sapeon Inc
Joint ventures	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 Square Co., Ltd., which has significant influence over the Group, and its subsidiaries, SK Holdings Co., Ltd., which has control over SK Square Co., Ltd., and its subsidiaries

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

33. Transactions with Related Parties and Others, Continued

(2) Significant transactions for the years ended December 31, 2022 and 2021 are as follows::

(In millions of Korean won)

		For the year ended December 31, 2022		
		Sales and others	Purchase and others	Asset acquisition
	Company			
Associate	SK China Company Limited	₩ 35	₩ 12,443	₩ -
	Prume Social Farm, Co., Ltd.	-	47	-
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	3,248	668,740	17,820
	Hystars Semiconductor (Wuxi) Co., Ltd.	218	63,387	-
Other related parties	SK Telecom Co., Ltd.	147,794	39,991	12,563
	SK Holdings Co., Ltd. ¹	21,529	348,848	216,413
	ESSENCORE Limited	631,252	-	-
	SK Ecoplant Co., Ltd.	45,047	13	2,365,650
	SK Ecoengineering Co., Ltd.	-	-	256,599
	SK Energy Co., Ltd.	58,350	157,250	-
	SK Networks Co., Ltd.	6,887	8,787	2,141
	SKC Solmics Co., Ltd.	1,449	150,205	648
	Chungcheong energy service Co., Ltd.	306	55,806	132
	SK Materials Co., Ltd.	5,161	206,608	-
	SK Siltron Co., Ltd.	41,998	463,384	-
	SK Materials Airplus Inc.	7,201	119,518	108,855
	Techdream Co., Ltd.	-	200,412	-
	SK Tri Chem Co., Ltd.	1,449	218,605	-
	SK Shieldus Co., Ltd.	4,638	101,806	29,562
	SK Innovation Co., Ltd.	17,488	76,565	36
	SK Square Co., Ltd.	554	1,175	-
	SK REIT Co., Ltd.	507,200	3,409	113,377
	FSK L&S Co., Ltd.	17	113,913	62,065
Others	203,431	246,408	81,649	
		<u>₩ 1,705,252</u>	<u>₩ 3,257,320</u>	<u>₩ 3,267,510</u>

¹ For the year ended December 31, 2022, royalty paid for the use of the SK brand.

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

33. Transactions with Related Parties and Others, Continued

(2) Significant transactions for the years ended December 31, 2022 and 2021 are as follows, Continued:

(In millions of Korean won)

		For the year ended December 31, 2021		
		Sales and others	Purchase and others	Asset acquisition
Associate	SK China Company Limited	₩ 33	₩ 11,947	₩ -
	Magnus Private Investment Co., Ltd.	54,908	357	-
	Prume Social Farm, Co., Ltd.	-	4	-
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	2,456	558,352	44,438
	Hystars Semiconductor (Wuxi) Co., Ltd.	219	21,858	9,233
Other related parties	SK Telecom Co., Ltd.	133,903	28,583	11,163
	SK Holdings Co., Ltd. ¹	24,902	300,562	225,956
	ESSENCORE Limited	824,182	-	-
	SK Ecoplant Co., Ltd.	30,069	266	1,981,424
	SK Energy Co., Ltd.	46,723	96,484	2,558
	SK Networks Co., Ltd.	6,763	8,721	10,210
	SKC Solmics Co., Ltd.	1,050	138,592	338
	Chungcheong energy service Co., Ltd.	54	28,807	-
	SK Materials Co., Ltd.	3,980	141,251	-
	SK Siltron Co., Ltd.	33,707	336,717	-
	SK Materials Airplus Inc.	823	128,039	-
	Techdream Co., Ltd.	-	130,229	-
	SK Tri Chem Co., Ltd.	635	145,013	-
	SK Shieldus Co., Ltd.	2,184	73,713	34,928
	SK Innovation Co., Ltd.	31,343	68,379	44
SK Square Co., Ltd.	-	167	-	
Others	147,643	281,611	50,325	
	₩ 1,345,577	₩ 2,499,652	₩ 2,370,617	

¹ For the year ended December 31, 2021, royalty paid for the use of the SK brand.

The above related party transactions include transactions executed based on agreements executed in the course of the Group'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. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

33. Transactions with Related Parties and Others, Continued

(3) The balances from significant transactions as of December 31, 2022 and 2021 are as follows:

(In millions of Korean won)

		December 31, 2022	
	Company	Trade receivables and others	Other payables and others
Associate	SK China Company Limited	₩ 4	₩ 12,144
	Prume Social Farm, Co., Ltd.	-	6
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	341	389,625
	Hystars Semiconductor(Wuxi) Co., Ltd. ¹	15	119,209
Other related parties	SK Telecom Co., Ltd.	30,681	15,840
	SK Holdings Co., Ltd.	1,716	216,014
	ESSENCORE Limited	30,587	-
	SK Ecoplant Co.,Ltd.	8,047	1,167,535
	SK Ecoengineering Co., Ltd.	-	166,191
	SK Energy Co., Ltd.	2,560	41,114
	SK Networks Co., Ltd.	674	10,292
	SKC Solmics Co., Ltd.	183	40,299
	Chungcheong energy service Co., Ltd.	149	10,540
	SK Materials Co., Ltd.	597	19,560
	SK Siltron Co., Ltd.	4,299	47,185
	SK Materials Airplus Inc.	71	457,182
	Techdream Co., Ltd.	-	8,556
	SK Tri Chem Co.,Ltd.	471	15,441
	SK Shieldus Co.,Ltd.	602	43,261
	SK Innovation Co., Ltd.	857	7,217
	SK Square Co.,Ltd.	690	1,175
SK REIT Co., Ltd.	-	177,311	
FSK L&S Co., Ltd.	2	9,430	
Others	43,959	59,757	
	₩	<u>126,505</u>	₩ <u>3,034,884</u>

¹ Other payables and others include ₩ 41,399 million of borrowings.

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

33. Transactions with Related Parties and Others, Continued

(3) The balances from significant transactions as of December 31, 2022 and 2021 are as follows, Continued

(In millions of Korean won)

		December 31, 2021	
Company		Trade receivables and others	Other payables and others ¹
Associate	SK China Company Limited	₩ 2	₩ 11,360
	Magnus Private Investment Co.,Ltd	806	5
	Prume Social Farm, Co., Ltd.	-	4
Joint ventures	HITECH Semiconductor (Wuxi) Co., Ltd.	23	427,476
	Hystars Semiconductor (Wuxi) Co., Ltd. ¹	33	185,585
Other related parties	SK Telecom Co., Ltd.	48,575	11,789
	SK Holdings Co., Ltd.	1,938	200,176
	ESSENCORE Limited	60,527	-
	SK Ecoplant Co.,Ltd.	3,216	1,185,318
	SK Energy Co., Ltd.	3,204	27,773
	SK Networks Co., Ltd.	256	10,493
	SKC Solmics Co., Ltd.	137	39,974
	Chungcheong energy service Co., Ltd.	10	5,742
	SK Materials Co., Ltd.	3	16,533
	SK Siltron Co., Ltd.	3,904	32,434
	SK Materials Airplus Inc.	13	376,050
	Techdream Co., Ltd.	-	5,835
	SK Tri Chem Co.,Ltd.	156	13,251
	SK Shieldus Co.,Ltd.	3,236	35,285
	SK Innovation Co., Ltd.	1,074	7,794
SK Square Co.,Ltd.	-	167	
Others	26,765	59,789	
		₩ 153,878	₩ 2,652,833

¹ Other payables and others include ₩ 78,819 million of borrowings.

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

33. Transactions with Related Parties and Others, Continued

(4) Key management compensation

The Group considers registered directors who have authority and responsibility for planning, directing and controlling the activities of the Group as key management. The compensation paid to key management for employee services for the years ended December 31, 2022 and 2021 is as follows:

(In millions of Korean won)

Details	2022	2021
Salaries	₩ 5,891	₩ 5,133
Defined benefit plan related expenses	411	640
Share-based payment	7,762	851
	₩ 14,064	₩ 6,624

(5) The significant transactions between the Group and the companies that are in the same conglomerate group according to 'Fair Trade Law' for the years ended December 31, 2022 and 2021 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	2022		
	Sales and others	Purchase and others	Asset acquisition
SK Chemicals Co., Ltd.	₩ 8,962	₩ 1,369	₩ -
SK Bioscience Co., Ltd.	2,919	243	-
ANTS Co., Ltd.	11	14,047	-
SM Core Co., Ltd.	16	8,551	49,553
Korea Nexlene Company	4,668	-	-
Others	2,618	1,877	280
	₩ 19,194	₩ 26,087	₩ 49,833

(In millions of Korean won)

Name of entity	2021		
	Sales and others	Purchase and others	Asset acquisition
SK Chemicals Co., Ltd.	₩ 11,472	₩ 1,192	₩ -
SK Bioscience Co., Ltd.	2,733	265	-
ANTS Co., Ltd.	4	12,679	22
SM Core Co., Ltd.	11	742	3,140
Korea Nexlene Company	4,797	-	-
Others	2,484	1,296	-
	₩ 21,501	₩ 16,174	₩ 3,162

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

33. Transactions with Related Parties and Others, Continued

(6) The balances of significant transactions between the Group and the companies that are in the same conglomerate group designated by 'Fair Trade Law' as of December 31, 2022, 2021 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, 2022	
	Trade receivables and others	Other payables and others
SK Chemicals Co., Ltd.	₩ 871	₩ 69
SK Bioscience Co., Ltd	264	-
ANTS Co., Ltd.	2	1,082
SMCore. Inc	-	18,644
Korea Nexlene Company	512	-
Others	234	18
	₩ 1,883	₩ 19,813

(In millions of Korean won)

Name of entity	December 31, 2021	
	Trade receivables and others	Other payables and others
SK Chemicals Co., Ltd.	₩ 1,135	₩ 95
SK Bioscience Co., Ltd	414	195
ANTS Co., Ltd.	1	12
SMCore. Inc	7	3,212
Korea Nexlene Company	182	-
Others	249	-
	₩ 1,988	₩ 3,514

(7) The right-of-use assets and lease liabilities recognized regarding the lease agreements with HITECH Semiconductor (Wuxi) Co., Ltd. and Hystars Semiconductor (Wuxi) Co., Ltd., a joint venture for the year ended December 31, 2022 amount to ₩16,219 million and ₩16,219 million, respectively, and lease payments to HITECH Semiconductor (Wuxi) Co., Ltd. and Hystars Semiconductor (Wuxi) Co., Ltd., amount to ₩86,450 million. The right-of-use assets and lease liabilities recognized regarding the lease agreements with other related parties including SK REIT Co., Ltd. and SK Materials Airplus Inc. for the year ended December 31, 2022 amount to ₩255,751 million and ₩326,759 million, respectively, and lease payments to related parties including SK REIT Co., Ltd. and SK Materials Airplus Inc., amount to ₩58,090 million.

(8) The Group provides a payment guarantee amounting to RMB 701 million to Hystars Semiconductor (Wuxi) Co., Ltd., a joint venture (Note 34-(6)).

(9) The establishment of the subsidiary is explained in Note 1, and the acquisitions and additional investments of associates and joint ventures are explained in Note 11.

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

33. Transactions with Related Parties and Others, Continued

(10) Financial transactions with related parties for the years periods ended December 31, 2022 and 2021 are as follows:

(In millions of Korean won)

		For the year ended December 31, 2022		
	Company	Repayment	Dividend received	Dividend Paid
Joint venture	Hystars Semiconductor (Wuxi) Co., Ltd.	37,356	-	-
	HITECH Semiconductor (Wuxi) Co., Ltd.	-	17,383	-
Associate	Magnus Private Investment Co.,Ltd.	-	72,176	-
Other related parties	SK Square Co., Ltd.	-	-	356,484
		<u>₩ 37,356</u>	<u>₩ 89,559</u>	<u>₩ 356,484</u>

(In millions of Korean won)

		For the year ended December 31, 2021		
	Company	Borrowings	Dividend received	Dividend Paid
Joint venture	Hystars Semiconductor (Wuxi) Co., Ltd.	78,819	-	-
	HITECH Semiconductor (Wuxi) Co., Ltd.	-	16,771	-
Associate	SK China Company Limited	-	56,650	-
Other related parties	SK Telecom Co., Ltd.	-	-	170,937
		<u>₩ 78,819</u>	<u>₩ 73,421</u>	<u>₩ 170,937</u>

SK hynix Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

34. Commitments and Contingencies

(1) Significant pending litigations and claims of the Group as of December 31, 2022 are as follows:

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

On April 27, 2018, a class action lawsuit against the Parent Company and its subsidiary, SK hynix America Inc., for price fixing by major DRAM companies (period from September 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. In December 2020 and September 2021, the U.S. District Court for the Northern District of California ruled dismissal all lawsuits filed by direct purchasers and indirect purchasers in the United States, and the plaintiffs in the United States later filed for an appeal, but all lawsuits in U.S.A have been finalized by maintaining the decision to dismiss from the first trial as of December 31, 2022.

Meanwhile, in June 2021 and November 2021, the Quebec District Court in Canada and the Ontario Federal Court decided to dismiss the lawsuits filed by the group of buyers in Canada, but the plaintiffs later filed for an appeal. Ontario Federal Court of Appeals are still in the progress as of December 31, 2022. The Quebec District Court of Appeals ruled on January 27, 2023, after the end of the reporting period, maintaining the decision to dismiss the first trial, and Quebec plaintiffs can appeal to the Supreme Court of Canada within 60 days.

(b) 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, 2022, the Group cannot predict the outcome of these investigation.

(c) Other patent infringement claims and litigation

In addition to the above litigations, the Group has responded to various disputes related to intellectual property rights and recognizes a liability 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) Back-end process service contract with HITECH Semiconductor (Wuxi) Co., Ltd. ("HITECH")

The Group 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 Group has paid a certain level of margin guaranteed to HITECH as the Group has priority to use HITECH's equipment.

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

34. Commitments and Contingencies, Continued

(3) Assets provided as collateral

Details of assets provided as collateral as of December 31, 2022 are as follows:
(In millions of Korean won and millions of foreign currencies)

Category	Book value		Pledged amount		Remark
	Amount	Currency	Amount in USD	Amount in KRW	
Land and buildings	₩ 106,591	USD	72	91,455	Borrowings for equipment and others
		KRW	-	14,854	
Machinery		USD	4,938	6,257,846	
	3,108,547	KRW	-	450,000	
		USD	5,010	6,349,301	
	₩ 3,215,138	KRW	-	464,854	

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

Category	Book value		Collateral liabilities amount		Remark
	Amount	Currency	Amount in USD	Amount in KRW	
Land and buildings	₩ 106,591	USD	4	5,186	Borrowings for equipment and others
		KRW	-	4,418	
Machinery		USD	2,706	3,429,333	
	3,108,547	KRW	-	333,333	
		USD	2,709	3,434,519	
	₩ 3,215,138	KRW	-	337,751	

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

34. Commitments and Contingencies, Continued

(4) Financing agreements

Details of credit lines with financial institutions as of December 31, 2022 are as follows:

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

Financial institution	Commitment	Currency	Amount
	Comprehensive limit contract for import and export including usage	RMB	950
		USD	2,185
Hana Bank and others	Overdrafts with banks	KRW	20,000
	Accounts receivable factoring contracts which have no right to recourse	KRW	70,877
	Trade bill loans, etc.	KRW	10,500

(5) Details of guarantees provided to others as of December 31, 2022 are as follows:

(In millions of foreign currencies)

	Currency	Amount	Remark
Wuxi Xinfra Group Co., Ltd. ¹	RMB	701	Guarantees for borrowing

¹ The Group provides a payment guarantee to Wuxi Xinfra Group Co., Ltd. for borrowings of Hystars Semiconductor (Wuxi) Co., Ltd., a joint venture of the Group.

(6) The Group's unrecorded commitments in relation to the capital expenditures on property, plant and equipment as of December 31, 2022 are ₩11,695,696 million (as of December 31, 2021: ₩ 13,846,585 million).

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

In regard to the Group's interests in KIOXIA through its investments in BCPE Pangea Intermediate holdings Cayman, L.P. and BCPE Pangea Cayman2 Limited, equity shares in KIOXIA owned, directly or indirectly, by the Group are limited to a certain percentage during certain periods after the date of acquisition. In addition, during the same periods, the Group 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.

SK hynix Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

34. Commitments and Contingencies, Continued

(8) Acquisition of the Intel NAND business

The Group has entered into a master purchase agreement with Intel Corporation (“Intel”) to acquire the entire NAND business of Intel excluding the Optane division of Non-Volatile Memory Solutions Group during the year ended December 31, 2020. Pursuant to the master purchase agreement, the entire business shall be transferred in two separate processes through subsidiaries that newly established overseas, and payment shall be made in two installments. Total purchase consideration of US\$ 8,844 million shall be paid with the first installment of US\$ 6,109 million which was paid in the prior year ended December 31, 2021 as part of first deal closing and US\$ 500 million was paid during the years period ended December 31, 2022. The second installment of US\$ 2,235 million shall be paid by March 2025. The second deal 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. However, the Group believes that the possibility that the second deal closing will not occur is low.

In the process of obtaining a conditional business combination approval for the Intel NAND business acquisition from the Chinese competition authority (Chinese State Administration for Market Regulation) in connection with the first closing of the Intel NAND business completed at the end of the current year, the Group was imposed with certain conditions, mainly including the obligation to maintain a reasonable pricing policy and increase production and to support the entry of third-party competitors into the Chinese eSSD market over the next five years. Therefore, the Group must comply with these obligations for the next five years and may apply to waive them after five years. If the Group makes such an application, the Chinese competition authorities will decide whether to accept the application in consideration of the competition in the Chinese eSSD market.

(9) Contracts for corporate purchasing card

The Group signed contracts for corporate purchasing card with financial institutions for paying national taxes and electricity bills. The Group pays the payment to the credit card companies at the end of the credit period stipulated in the contracts and the balance of the payables to the credit card companies as of December 31, 2022 is ₩1,240,728 million.

(10) On October 7, 2022, the U.S. Department of Commerce Bureau of Industry and Security (BIS) announced new export regulations that strengthen restrictions on exports of high-performance semiconductors to China and semiconductor production equipment exports and semiconductor production activities in China. The Group has actively discussed with the US government for the smooth operation of its semiconductor plants in China, and as a result, on October 11, 2022, the Group has been granted a one-year grace period on this restriction so that it can supply equipment necessary for semiconductor production and development in China.

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

35. Cash Flows

(1) Reconciliations between profit for the period and cash generated from operations for the years ended December 31, 2022 and 2021 are as follows:

(In millions of Korean won)

	<u>2022</u>	<u>2021</u>
Profit for the year	₩ 2,241,669	₩ 9,616,188
Adjustment		
Income tax expense	1,761,111	3,799,799
Defined benefit plan	251,241	252,675
Depreciation	13,045,058	9,536,696
Amortization	779,609	795,933
Depreciation of right-of-use assets	326,803	324,096
Loss on impairment of intangible assets	1,602,182	43,792
Loss on valuation of long-term investment assets	623,923	3,402
Interest expense	533,114	259,960
Loss on foreign currency translation	1,925,382	509,386
Gain on equity method investments, net	(131,186)	(162,280)
Gain on disposal of property, plant and equipment	(137,507)	(71,681)
Gain on disposal of investment property	(64,418)	-
Gain on disposal of short-term investment assets	(62,429)	(48,470)
Gain on valuation of long-term investment assets	(62,305)	(527,811)
Interest income	(89,561)	(22,419)
Gain on foreign currency translation	(868,767)	(448,324)
Others, net	99,686	108,898
Changes in operating assets and liabilities		
Decrease(increase) in trade receivables	3,341,986	(2,525,722)
Increase in loans and other receivables	(92,633)	(2,938)
Increase in inventories	(6,572,069)	(696,559)
Increase in other assets	(232,964)	(194,397)
Increase(decrease) in trade payables	520,956	(197,980)
Increase(decrease) in other payables	(379,662)	374,102
Increase in other non-trade payables	876,906	771,169
Increase in provisions	237,022	6,092
Increase in other liabilities	312,934	90,495
Payment of defined benefit liabilities	(4,528)	(928)
Contributions to plan assets	(697,665)	(641,696)
Cash generated from operating activities	<u>₩ 19,083,888</u>	<u>₩ 20,951,478</u>

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

35. Cash Flows, Continued

(2) Details of significant transactions without inflows and outflows of cash for the years ended December 31, 2022 and 2021 are as follows:

(In millions of Korean won)

	<u>2022</u>	<u>2021</u>
Increase in other payables related to acquisition of property, plant and equipment	₩ 3,426,262	₩ 2,805,789

(3) Changes in liabilities arising from financing activities during the years ended December 31, 2022 and 2021 are as follows:

(In millions of Korean won)

	<u>2022</u>	<u>2021</u>
Beginning balance	₩ 19,149,571	₩ 12,895,364
Cash flows from financing activities		
Proceeds from borrowings	11,917,454	8,933,737
Repayments of borrowings	(7,124,565)	(3,320,911)
Payments of lease liabilities	(301,858)	(323,975)
Increase of lease liabilities	566,056	90,469
Others(business combination and foreign currency differences, etc.)	534,030	792,563
Present value discount (interest expense)	63,006	91,784
Interest paid	(12,009)	(9,460)
Ending balance	<u>₩ 24,791,685</u>	<u>₩ 19,149,571</u>

(4) The Group presented the inflow and outflow of cash from short-term investment assets, etc. which are frequently traded and have a large total amount and mature in a short period of time, as net increases and decreases.

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

36. Share-based Payment

(1) The Parent Company granted equity-settled share options to the Group's key management during the year ended December 31, 2022 and the details of the share options as of December 31, 2022 are as follows:

(In shares)

	Total numbers of share option granted	Forfeited or Cancelled	Exercised	Outstanding at December 31, 2022
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 ²	54,020	8,994	-	45,026
11 th	6,397	-	-	6,397
12 th	6,469	-	-	6,469
13 th ²	75,163	24,468	-	50,695
14 th ²	195,460	11,773	-	183,687
	843,911	53,406	107,347	683,158

	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, 2022 - March 22, 2025	71,560
8 th	March 22, 2019	March 22, 2019 - March 22, 2021	March 23, 2023 - March 22, 2026	77,290
9 th	March 22, 2019	March 22, 2019 - March 22, 2023	March 23, 2023 - March 22, 2027	83,470
10 th ²	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
12 th	March 30, 2021	March 30, 2021 - March 30, 2023	March 31, 2023 - March 30, 2026	136,060
13 th ²	March 30, 2021	March 30, 2021 - March 30, 2023	March 31, 2023 - March 30, 2026	136,060
14 th ²	March 30, 2022	March 30, 2022 - March 30, 2024	March 31, 2024 - March 30, 2027	121,610

¹ During the year ended December 31, 2022, the share options were exercised as cash-settled share-based payment.

² During the year ended December 31, 2022, 45,235 shares of options have forfeited.

³ In addition to above share options granted by the controlling company, SK hynix NAND Product Solutions Corp., its subsidiary and its employee, also granted restricted stock units (RSUs) to its employees as below.

Grant cycle	Current period grant quantity	Current year exercise quantity
Quarterly	41,828,899	1,878,280

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

36. Share-based Payment, Continued

(2) Details of liabilities recognized for stock appreciation rights as of December 31, 2022 are as follows:

(In millions of Korean won)

	2022
Stock appreciation rights liabilities	₩ 36,104

As of December 31, 2022, the intrinsic value of vested stock appreciation rights is amounting to ₩4,321 million, and stock appreciation rights liabilities include RSU for the subsidiaries' shares amount to ₩24,203 million.

(3) 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:

	2nd	3rd	5th	7th	8th	9th
Share price (Closing price on valuation date)	85,000	85,000	85,000	85,000	85,000	85,000
Expected volatility	33.00%	33.00%	33.00%	33.00%	33.00%	33.00%
Estimated fair value of share option (in Korean won)	32,745	30,363	7,479	19,868	20,275	20,577
Dividend yield ratio	1.80%	1.80%	1.80%	1.80%	1.80%	1.80%
Risk free ratio	3.51%	3.77%	3.55%	3.77%	3.69%	3.74%
	10th	11th	12th	13th	14th	
Share price (Closing price on valuation date)	85,000	85,000	85,000	85,000	85,000	
Expected volatility	33.00%	33.00%	33.00%	33.00%	33.00%	
Estimated fair value of share option (in Korean won)	22,449	22,449	8,162	8,162	13,065	
Dividend yield ratio	1.80%	1.80%	1.80%	1.80%	1.80%	
Risk free ratio	3.75%	3.75%	3.75%	3.75%	3.75%	

(4) The compensation expense for the year ended December 31, 2022 was ₩39,762million (2021: ₩2,491 million).

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

37. Business Combinations

(1) Details of business combinations during the year ended December 31, 2022 are as follows:

(a) The Group entered into a share purchase agreement with Magnus Semiconductor, LLC to acquire 100% shares of Key Foundry Co., Ltd. on October 29, 2021. During the year ended December 31, 2022, all the prerequisites set in the contract were satisfied including relevant governments approval that must be obtained in accordance with relevant laws for approval of domestic and foreign business combinations. Accordingly, the deal was closed on August 2, 2022, and the Group has completed the acquisition of all of Key Foundry Co., Ltd.'s outstanding stocks.

(b) Details of consideration transferred and identifiable assets acquired and liabilities assumed as of acquisition date are as follows:

(In millions of Korean won)

	December 31, 2022
Consideration transferred	₩
Cash and cash equivalents	569,800
	<u>569,800</u>
Identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	144,612
Trade receivables, net	122,349
Inventories	78,418
Property, plant and equipment	343,923
Intangible assets	145,910
Other assets	23,668
Other liabilities	340,356
Identifiable net assets	<u>518,524</u>
Goodwill	₩ <u><u>51,276</u></u>

(2) Profit or loss before the acquisition

Total revenue and operating profit of Key Foundry Co., Ltd., for the periods from the acquisition date to December 31, 2022 included in the consolidated financial statements for the current year were ₩369,084 million and ₩73,136 million, respectively.

If the acquisition of Key Foundry Co., Ltd. had been completed on January 1, 2022, the Group's revenue and net income for the year would have been ₩45,093,564 million and ₩2,345,950 million, respectively

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2022 and 2021

37. Business Combinations, Continued

(3) Acquisition of the Intel NAND business

(a) The Group has entered into a master purchase agreement to acquire the Intel NAND business during the previous year and, under the terms and conditions of the agreement, certain part of the business was transferred to the Group upon the first deal closing consummated on December 29, 2021. The remainder part of the business (“the remainder business”) will be transferred to the Group upon the second deal closing expected to occur in March 2025. Therefore, as of the end of the reporting period, Intel Corporation, the seller, continues to hold legal ownership of the remainder business expected to be transferred to the Group upon the second deal closing, and the Group will acquire relevant legal ownership then. Meanwhile, the Group determined that it has control over the remainder business as well as the other business already obtained legal ownership upon first closing because it has the power to direct relevant activities of the remainder business and is exposed to variable returns, so the remainder business is included in the assets acquired and liabilities assumed by the Group during the prior year together with the other part of business transferred to the Group upon the first deal closing. Therefore, the purchase consideration scheduled to be paid in connection with the second closing is recognized as liability on the consolidated statements of financial position as at December 31, 2021.

(b) Details of provisional fair value of identifiable assets and liabilities recognized in the previous year and finalized fair value amounts assessed during the current year and adjusted retrospectively as of acquisition date are as follows:

(In millions of Korean won)

		Provisional Amounts	Adjustments		Adjusted Amounts
Consideration transferred					
Cash and cash equivalents	₩	7,250,087	-	₩	7,250,087
Other payables		713,977	(38,042)		675,935
Long-term other payables		2,448,370	(5,775)		2,442,595
		<u>10,412,434</u>	<u>(43,817)</u>		<u>10,368,617</u>
Identifiable assets acquired and liabilities assumed¹					
Inventories		1,952,385	33,516		1,985,901
Property, plant and equipment		6,852,840	191,591		7,044,431
Intangible assets		727,973	(284,763)		443,210
Other assets		110,672	(901)		109,771
Other liabilities		(61,046)	218		(60,828)
Identifiable net assets		<u>9,582,824</u>	<u>(60,339)</u>		<u>9,522,485</u>
Goodwill	₩	<u>829,610</u>	<u>16,522</u>	₩	<u>846,132</u>

¹ Initial accounting for business combinations was not completed by the end of December 31, 2021, and provisional amounts were reported in the consolidated financial statements for the year ended December 31, 2021. During the year ended December 31, 2022, the provisional amount recognized at the acquisition date was adjusted retrospectively and adjusted assets and liabilities were recognized based on newly obtained information about facts and circumstances that existed as of the acquisition date. The prior year consolidated financial statements presented for comparison purpose are restated to reflect these adjustments.

REGISTERED OFFICE OF THE COMPANY

SK hynix Inc.
2091, Gyeongchung-daero, Bubal-eub
Icheon-si, Gyeonggi-do
Korea

LEGAL ADVISORS TO THE COMPANY

As to U.S. law

Cleary Gottlieb Steen & Hamilton LLP

19F, Ferrum Tower
19, Eulji-ro 5-gil, Jung-gu
Seoul 04539
Korea

As to Korean law

Kim & Chang

Seyang Building
39, Sajik-ro 8-gil, Jongno-gu
Seoul 03170
Korea

LEGAL ADVISOR TO THE INITIAL PURCHASERS

As to U.S. law

Linklaters LLP

22F East Tower
Mirae Asset Center 1
26, Eulji-ro 5-gil, Jung-gu
Seoul 04539
Korea

INDEPENDENT ACCOUNTANTS

KPMG Samjong Accounting Corp.

152, Teheran-ro, Gangnam-gu
Seoul 06236
Korea

Samil PricewaterhouseCoopers

100, Hangang-daero, Yongsan-gu
Seoul 04386
Korea

FISCAL AGENT

Citicorp International Limited
20th floor, Citi Tower
One Bay East, 83 Hoi Bun Road, Kwun Tong
Hong Kong

**PAYING AGENT, TRANSFER AGENT AND
REGISTRAR**

Citibank, N.A., London Branch
Citigroup Centre, Canada Square
Canary Wharf, London E14 5LB
United Kingdom

SINGAPORE LISTING AGENT

Shook Lin & Bok LLP

1 Robinson Road
#18-00 AIA Tower
Singapore 048542

