

SK hynix Inc. and Subsidiaries

**Consolidated Financial Statements
December 31, 2023 and 2022**

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Independent Auditors' Report

Based on a report originally issued in Korean

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

Opinion

We have audited the accompanying consolidated financial statements of SK hynix Inc. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position of the Group as of December 31, 2023, the related consolidated statements of comprehensive loss, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements comprising material accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Korean International Financial Reporting Standards ("K-IFRS").

We also have audited, in accordance with the Korean Standards on Auditing, the Group's internal control over financial reporting for consolidation purposes as of December 31, 2023, based on criteria established in Conceptual Framework for Designing and Operating Internal Control over Financial Reporting issued by the Operating Committee of Internal Control over Financial Reporting in the Republic of Korea, and our report dated March 8, 2024, expressed an unmodified opinion on the effectiveness of the Group's internal control over financial reporting.

Basis for Opinion

We conducted our audits in accordance with Korean Standards on Auditing. Our responsibilities under those standards are further described in *the Auditors' 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 that are relevant to our audit of the consolidated financial statements in the Republic of Korea, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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 as of and for the year ended December 31, 2023. 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.

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

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

As described in Note 6 to the consolidated financial statements, the Group holds 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 ₩3,630,191 million, which represents 3.62% of total assets as at December 31, 2023, and the Group recognized ₩1,655,894 million as loss on valuation (including foreign exchange loss) of the financial assets for the year ended December 31, 2023 with respect to the investments. The financial assets are non-listed and measured at fair value using significant unobservable inputs; therefore, the financial assets are classified to Level 3 of the fair value hierarchy.



The fair value of SPC1 and SPC2 was measured considering the profit-sharing agreement between investors based on the estimated equity value of KIOXIA, a non-listed 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 impact 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.

2) How our audit addressed the key audit matter

We performed the following audit procedures to address the key audit matter:

- Obtained an understanding of the Group's accounting policy, process and evaluated the operating effectiveness of internal control including management's review and approval in relation to the fair value measurements of the financial assets.
- Evaluated the qualification and independence of the external expert engaged by management.
- Inspected the underlying investment arrangement 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.
- Performed a lookback analysis to assess the appropriateness of the estimate of the equity value of KIOXIA by comparing the estimation of prior year to actual operating results.
- Evaluated the results of sensitivity analysis on the discount rate and terminal growth rate performed by management to assess the impact of changes in key assumptions on the fair value measurement.
- Involved our valuation professionals with specialized skills and knowledge who assisted us in the following:
 - a) Evaluating the reasonableness of key assumptions applied in the fair value estimates of SPC1, SPC2 and equity value of KIOXIA; and
 - b) Evaluating whether the sales growth rate, operating profit margin rate and capital expenditure forecasts applied in the equity value measurement of KIOXIA is consistent with relevant market conditions.

(ii) Impairment test of a cash generating unit (Solidigm CGU)

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

As of December 31, 2023, the Group has a cash generating unit consisting of SK hynix NAND Product Solutions Corp. and others ("Solidigm CGU"), which was included in the consolidated financial statements since the Group's acquisition of the Intel NAND business.

As described in Note 14 to the consolidated financial statements, management concluded that there was an indication of impairment in the Solidigm CGU, considering the market condition of Solidigm CGU's NAND Flash business, and its continuous poor performance, and estimated the recoverable amount in accordance with K-IFRS 1036 'Impairment of Assets'. As a result of the impairment assessment, the recoverable amount exceeded the book value.

The carrying amount of the Solidigm CGU is material to the consolidated financial statements and recoverable amount assessment involves significant judgement of the Group management. Accordingly, we determined the impairment test of Solidigm CGU as a key audit matter.

2) How our audit addressed the key audit matter

We performed the following audit procedures to address the key audit matter:



- Obtained an understanding of the Group's accounting policy, process and evaluated the operating effectiveness of the internal control including management's review and approval in relation to the recoverable amount measurement of the Solidigm CGU.
- Evaluated the qualification and independence of external expert engaged by management.
- Reviewed the business plan presented by management and reviewed whether it is appropriately reflected in management's valuation details.
- Involved our valuation professionals with specialized skills and knowledge who assisted us in the following:
 - a) Assessing the appropriateness of the valuation technique used by management and external experts in estimating the recoverable amount;
 - b) Evaluating the reasonableness of the key assumptions including sales growth rate, operating profit rate and capital expenditures applied in estimating the recoverable amount;
 - c) Evaluating management's assumption of and calculation process to determine the discount rate using observable information; and
 - d) Assessing the results of sensitivity analysis of the discount rate and terminal growth rate used by management to assess the impact of changes in key assumptions on the recoverable amount.

(iii) Appropriateness of machinery's depreciation starting point

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

As described in Note 12 to the consolidated financial statements, as of December 31, 2023, the Group's property, plant and equipment amount to ₩52,704,853 million, of which the machinery accounts for ₩31,471,525 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, 2023, the Group has started to depreciate the machinery amounting to ₩4,940,500 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.

2) How our audit addressed the key audit matter

We performed the following audit procedures to address the key audit matter:

- Obtained an understanding on the Group's policy and process in relation to the determination on when to start depreciation of the machinery.
- Evaluated the design and implementation and the operating effectiveness of the Group's internal controls:
 - a) Determination on when the machinery is ready for its intended use and when its depreciation begins including the machinery transferred from construction-in-progress.
 - b) Identifying and reviewing the reasons for assets remaining in construction-in-progress for a long period of time.
- Inspected supporting documents used by the Group for selected samples of machinery transferred to main account in the current year to test whether the date the asset was ready for use is consistent with the depreciation starting point.
- Inquired of when certain construction-in-progress for a long period of time are expected to be ready for its intended use and start depreciation and inspected relevant supporting documents on a sample basis.

Other matters



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

The consolidated statement of financial position as of December 31, 2022 and the related consolidated statements of comprehensive income (loss), changes in equity and cash flows for the year ended December 31, 2022, were audited by another auditor in accordance with Korean Standards on Auditing, and their report thereon, dated March 10, 2023, expressed an unmodified opinion.

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

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with K-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 these 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, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether these consolidated financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditors' 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 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.
- 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, then we are required to draw attention in our auditors' 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 auditors' 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 consolidated financial statements, including the disclosures, and whether the consolidated 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 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 auditors' 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 auditors' report is Joo-Hun Yoon.

KPMG Samjong Accounting Corp.

KPMG Samjong Accounting Corp.
Seoul, Korea
March 8, 2024

This report is effective as of March 8, 2024, 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 the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

SK hynix Inc. and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2023 and 2022

<i>(In millions of Korean won)</i>	Notes			2023			2022
Assets							
Current assets							
Cash and cash equivalents	5,6	₩	7,587,329	₩	4,977,007		
Short-term financial instruments	5,6,7		472,617		415,625		
Short-term investment assets	5,6		860,972		1,016,360		
Trade receivables, net	5,6,8,32		6,600,273		5,186,054		
Loans and other receivables, net	5,6,8,32		357,641		272,512		
Other financial assets	5,6,7		83,750		-		
Inventories, net	9		13,480,659		15,664,707		
Current tax assets			69,916		14,523		
Assets held for sale			29,441		-		
Other current assets	10		925,502		1,186,544		
			<u>30,468,100</u>		<u>28,733,332</u>		
Non-current assets							
Investments in associates and joint ventures	11		1,367,348		1,352,845		
Long-term investment assets	5,6		4,105,704		5,733,544		
Loans and other receivables, net	5,6,8,32		475,013		354,167		
Other financial assets	5,6,7,22		68,217		115,712		
Property, plant and equipment, net	12,15,33		52,704,853		60,228,528		
Right-of-use assets, net	13,32		2,694,844		1,779,985		
Intangible assets, net	14		3,834,567		3,512,107		
Investment property, net	12,15		211		223		
Deferred tax assets	21,30		2,989,472		657,115		
Employee benefit assets	20		1,404,014		1,332,253		
Other non-current assets	10		217,822		71,701		
			<u>69,862,065</u>		<u>75,138,180</u>		
Total assets		₩	<u>100,330,165</u>	₩	<u>103,871,512</u>		

See accompanying notes to the consolidated financial statements.

SK hynix Inc. and Subsidiaries
Consolidated Statements of Financial Position, Continued
December 31, 2023 and 2022

<i>(In millions of Korean won)</i>	Notes	2023	2022
Liabilities			
Current liabilities			
Trade payables	5,6,32	₩ 1,845,537	₩ 2,186,230
Other payables	5,6,32,33	3,293,308	5,445,335
Other non-trade payables	5,6,16,32	1,688,631	3,024,648
Borrowings	5,6,17,32,33	9,857,189	7,423,247
Other financial liabilities	5,6,33	1,478,980	586
Provisions	19	286,517	251,889
Current tax liabilities		43,890	696,553
Lease liabilities	5,6,13,32	631,497	280,873
Other current liabilities	18	1,882,261	534,335
		<u>21,007,810</u>	<u>19,843,696</u>
Non-current liabilities			
Long-term other payables	5,6,33	3,143,636	2,958,659
Other non-trade payables	5,6,16,32	96,567	28,083
Borrowings	5,6,17,33	19,611,443	15,571,357
Other financial liabilities	5,6,22,33	3,247	4,290
Provisions	19	1,603	1,404
Defined benefit liabilities, net	20	63,932	69,952
Deferred tax liabilities	21	114,396	382,477
Lease liabilities	5,6,13,32	2,398,377	1,516,208
Other non-current liabilities	18	385,402	204,844
		<u>25,818,603</u>	<u>20,737,274</u>
Total liabilities		<u>46,826,413</u>	<u>40,580,970</u>
Equity			
Equity attributable to owners of the Parent Company			
Capital stock	23	3,657,652	3,657,652
Capital surplus	23	4,372,559	4,336,170
Other equity	23,35	(2,269,294)	(2,311,409)
Accumulated other comprehensive income	23	1,014,055	898,682
Retained earnings	24	46,729,313	56,685,260
Total equity attributable to owners of the Parent Company		<u>53,504,285</u>	<u>63,266,355</u>
Non-controlling interests		(533)	24,187
Total equity		<u>53,503,752</u>	<u>63,290,542</u>
Total liabilities and equity		<u>₩ 100,330,165</u>	<u>₩ 103,871,512</u>

See accompanying notes to the consolidated financial statements.

SK hynix Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income (Loss)
Years ended December 31, 2023 and 2022

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

	<u>Notes</u>	<u>2023</u>	<u>2022</u>
Revenue	4,25,32	₩ 32,765,719	₩ 44,621,568
Cost of sales	27,32	33,299,167	28,993,713
Gross profit (loss)		<u>(533,448)</u>	<u>15,627,855</u>
Selling and administrative expenses	26,27	7,196,865	8,818,438
Operating profit (loss)		<u>(7,730,313)</u>	<u>6,809,417</u>
Finance income	5,28	2,261,801	3,714,278
Finance expenses	5,28	6,093,167	5,091,553
Share of profit of equity-accounted investees	11	15,061	131,186
Other income	29	623,867	241,371
Other expenses	29	735,065	1,801,919
Profit (loss) before income tax		<u>(11,657,816)</u>	<u>4,002,780</u>
Income tax expense (benefit)	30	(2,520,269)	1,761,111
Profit (loss) for the year		<u>₩ (9,137,547) ₩</u>	<u>2,241,669</u>
Other comprehensive income (loss)			
Item that will never be reclassified to profit or loss:			
Remeasurements of defined benefit liability, net of tax	20	(17,944)	349,453
Items that are or may be reclassified to profit or loss:			
Foreign operations – foreign currency translation differences, net of tax		132,561	154,321
Gain (loss) on valuation of derivatives, net of tax	22	(22,414)	5,725
Equity-accounted investees – share of other comprehensive income, net of tax	11	7,848	71,000
Other comprehensive income for the year, net of tax		<u>100,051</u>	<u>580,499</u>
Total comprehensive income (loss) for the year		<u>₩ (9,037,496) ₩</u>	<u>2,822,168</u>
Profit (loss) attributable to:			
Owners of the Parent Company		₩ (9,112,428) ₩	2,229,560
Non-controlling interests		(25,119)	12,109
Total comprehensive income (loss) attributable to:			
Owners of the Parent Company		₩ (9,014,999) ₩	2,802,424
Non-controlling interests		(22,497)	19,744
Earnings (loss) per share	31		
Basic earnings (loss) per share (in won)		₩ (13,244) ₩	3,242
Diluted earnings (loss) per share (in won)		₩ (13,244) ₩	3,242

See accompanying notes to the consolidated financial statements.

SK hynix Inc. and Subsidiaries
Consolidated Statements of Changes in Equity
Years ended December 31, 2023 and 2022

	Notes	Attributable to owners of the Parent Company						Non-controlling interests	Total equity
		Capital stock	Capital surplus	Other equity	Accumulated other comprehensive income	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	-	-	-	71,000	-	71,000	-	71,000
Gain on valuation of derivatives, net of tax	22	-	-	-	5,725	-	5,725	-	5,725
Foreign operations – foreign currency translation differences, net of tax		-	-	-	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	24	-	-	-	-	(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 transactions	35	-	-	7,241	-	-	7,241	-	7,241
Changes in terms and conditions of share-based payment	23,35	-	-	(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

See accompanying notes to the consolidated financial statements.

SK hynix Inc. and Subsidiaries
Consolidated Statements of Changes in Equity, Continued
Years ended December 31, 2023 and 2022

	Attributable to owners of the Parent Company								
	Notes	Capital stock	Capital surplus	Other equity	Accumulated other comprehensive income (loss)	Retained earnings	Total	Non-controlling interests	Total equity
Balance at January 1, 2023		₩ 3,657,652	₩ 4,336,170	₩ (2,311,409)	₩ 898,682	₩ 56,685,260	₩ 63,266,355	₩ 24,187	₩ 63,290,542
Comprehensive income (loss):									
Loss for the period		-	-	-	-	(9,112,428)	(9,112,428)	(25,119)	(9,137,547)
Remeasurements of defined benefit liability, net of tax	20	-	-	-	-	(17,944)	(17,944)	-	(17,944)
Other comprehensive income of associate, net of tax	11	-	-	-	7,848	-	7,848	-	7,848
Loss on valuation of derivatives, net of tax	22	-	-	-	(22,414)	-	(22,414)	-	(22,414)
Foreign currency translation differences for foreign operations, net of tax		-	-	-	129,939	-	129,939	2,622	132,561
Total comprehensive income (loss) for the period		-	-	-	115,373	(9,130,372)	(9,014,999)	(22,497)	(9,037,496)
Transactions with owners of the Parent Company:									
Dividends paid	24	-	-	-	-	(825,575)	(825,575)	-	(825,575)
Disposal of treasury shares	23	-	13,566	27,798	-	-	41,364	-	41,364
Share-based payment transactions	35	-	25,291	14,317	-	-	39,608	4,530	44,138
Issue of shares of Subsidiaries and changes in ownership to the subsidiaries		-	(2,468)	-	-	-	(2,468)	(6,753)	(9,221)
Total transactions with owners of the Parent Company		-	36,389	42,115	-	(825,575)	(747,071)	(2,223)	(749,294)
Balance at December 31, 2023		₩ 3,657,652	₩ 4,372,559	₩ (2,269,294)	₩ 1,014,055	₩ 46,729,313	₩ 53,504,285	₩ (533)	₩ 53,503,752

See accompanying notes to the consolidated financial statements.

SK hynix Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years ended December 31, 2023 and 2022

(In millions of Korean won)

	Note	2023	2022	
Cash flows from operating activities				
Cash generated from operations	34	₩ 6,688,866	₩ 19,083,888	
Interest received		198,872	77,430	
Interest paid		(1,261,540)	(494,513)	
Dividends received		35,935	93,067	
Income tax paid		(1,383,942)	(3,979,355)	
Net cash provided by operating activities		<u>4,278,191</u>	<u>14,780,517</u>	
Cash flows from investing activities				
Decrease in short-term financial instruments		1,409,187	2,022,053	
Increase in short-term financial instruments		(1,469,396)	(1,966,360)	
Increase in short-term investment assets, net		199,912	2,195,111	
Decrease in other financial assets		577	29,950	
Increase in other financial assets		(5,358)	(600)	
Decrease in loans and other receivables		47,564	39,051	
Increase in loans and other receivables		(251,498)	(72,248)	
Proceeds from disposal of long-term investment assets		18,279	4,306	
Acquisitions of long-term investment assets		(30,537)	(115,537)	
Proceeds from disposal of property, plant and equipment		1,539,825	323,718	
Acquisitions of property, plant and equipment		(8,325,138)	(19,010,261)	
Proceeds from disposal of intangible assets		484	1,018	
Acquisitions of intangible assets		(454,710)	(738,621)	
Proceeds from disposal of investment properties		-	263,211	
Proceeds from disposal of investments in associates		8,847	209,843	
Acquisitions of investments in associates		(22,765)	(40,717)	
Acquisitions of business		-	(1,027,663)	
Net cash used in investing activities		<u>(7,334,727)</u>	<u>(17,883,746)</u>	
Cash flows from financing activities				
Proceeds from borrowings	34	20,657,967	11,917,454	
Repayments of borrowings	34	(13,689,433)	(7,124,565)	
Repayments of lease liabilities	34	(461,466)	(301,858)	
Dividends paid		(825,575)	(1,680,905)	
Disposal of treasury stock		24,519	11,653	
Exercise stock-option		53	17	
Issue of shares of Subsidiaries and changes in ownership to the subsidiaries		(9,220)	-	
Net cash provided by financing activities		<u>5,696,845</u>	<u>2,821,796</u>	
Effects of exchange rate changes on cash and cash equivalents		<u>(29,987)</u>	<u>200,458</u>	
Net Increase (decrease) in cash and cash equivalents		2,610,322	(80,975)	
Cash and cash equivalents at the beginning of the year		4,977,007	5,057,982	
Cash and cash equivalents at the end of the year	₩	<u><u>7,587,329</u></u>	₩	<u><u>4,977,007</u></u>

See accompanying notes to the consolidated financial statements.

SK hynix Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2023 and 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 December 31, 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	542,038,649	74.46
Treasury shares	39,863,716	5.47
	728,002,365	100.00

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

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2023 and 2022

1. General Information, Continued

(2) Details of the Group's consolidated subsidiaries as of December 31, 2023 and 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 services	100	100
SK hynix America Inc. ¹	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. ²	India	Semiconductor sales	100	100
SK hynix Semiconductor (Shanghai) Co., Ltd. ³	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. ⁴	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. ³	Italy	Semiconductor research and development	100	100
SK hynix memory solutions America Inc. ^{5,6}	U.S.A.	Semiconductor research and development	99.27	99.89
SK hynix memory solutions Taiwan Ltd.	Taiwan	Semiconductor research and development	100	100
SK hynix memory solutions Eastern Europe LLC. ³	Belarus	Semiconductor research and development	100	100
SK hynix (Wuxi) Investment Ltd. ⁷	China	Overseas investment	100	100
SK hynix (Wuxi) Industry Development Ltd. ⁸	China	Foreign hospital construction	100	100
SK hynix Happiness (Wuxi) Hospital Management Ltd. ⁸	China	Foreign hospital operation	70	70
SK hynix cleaning (Wuxi) Ltd. ⁸	China	Building maintenance and others	100	100
SK hynix system ic (Wuxi) Co., Ltd. ⁹	China	Overseas Semiconductor manufacturing and sales	100	100
SUZHOU HAPPYNARAE Co., Ltd. ¹⁰	China	Overseas industrial material supply	100	100
CHONGQING HAPPYNARAE Co., Ltd. ¹¹	China	Overseas industrial material supply	100	100
SK hynix (Wuxi) Education Technology Co., Ltd. ⁸	China	Overseas Education	100	100
SkyHigh Memory Limited ⁹	Hong Kong	Overseas Semiconductor manufacturing and sales	60	60
Gauss Labs Inc. ¹²	U.S.A	Overseas telecommunication of information	98.32	100
SkyHigh Memory China Limited ¹³	China	Semiconductor sales support	60	60
SkyHigh Memory Limited Japan ¹³	Japan	Semiconductor sales support	60	60
HappyNarae America LLC ¹⁰	U.S.A	Overseas industrial material supply	100	100
HappyNarae Hungary Kft ¹⁰	Hungary	Overseas industrial material supply	100	100

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2023 and 2022

1. General Information, Continued

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

Company	Location	Business	Ownership (%)	
			2023	2022
SK hynix Ventures America LLC ¹⁴	U.S.A	Overseas investment	-	100
SK hynix (Wuxi) Education Service Development Co., Ltd. ¹⁵	China	Overseas education	100	100
SK hynix NAND Product Solutions Corp. ⁶	U.S.A	Semiconductor sales, research and development and others	99.27	99.89
SK hynix NAND Product Solutions Taiwan Co., Ltd. ^{5, 6}	Taiwan	Semiconductor research and development and sales	99.27	99.89
SK hynix NAND Product Solutions Canada Ltd. ^{5, 6}	Canada	Semiconductor research and development	99.27	99.89
SK hynix NAND Product Solutions Mexico, S. DE R.L. DE C.V. ^{5, 6}	Mexico	Semiconductor research and development	99.27	99.89
SK hynix Semiconductor (Dalian) Co., Ltd.	China	Semiconductor manufacturing	100	100
SK hynix NAND Product Solutions UK Limited ^{5, 6}	U.K.	Semiconductor sales	99.27	99.89
SK hynix NAND Product Solutions Israel Ltd. ^{5, 6}	Israel	Semiconductor sales	99.27	99.89
SK hynix NAND Product Solutions Japan G.K. ^{5, 6}	Japan	Semiconductor sales	99.27	99.89
SK hynix NAND Product Solutions International LLC ^{5, 6}	U.S.A	Semiconductor sales	99.27	99.89
SK hynix NAND Product Solutions Asia Pacific LLC ^{5, 6}	U.S.A	Semiconductor sales	99.27	99.89
SK hynix NAND Product Solutions Singapore Pte. Ltd. ^{5, 6}	Singapore	Semiconductor sales	99.27	99.89
SK hynix NAND Product Solutions Malaysia Sdn. Bhd. ^{5, 6}	Malaysia	Semiconductor sales	99.27	99.89
SK HYNIX NAND PRODUCT SOLUTIONS POLAND sp. z o.o. ^{5, 6}	Poland	Semiconductor research and development	99.27	99.89
SK hynix NAND Product Solutions (Beijing) Co., Ltd. ^{5, 6}	China	Semiconductor sales	99.27	99.89
SK hynix NAND Product Solutions (Shanghai) Co., Ltd. ^{5, 6}	China	Semiconductor research and development	99.27	99.89
SK Key Foundry Co., Ltd. ¹⁹	Korea	Semiconductor sales, manufacturing, and others	100	100
KEY FOUNDRY, INC. ¹⁶	U.S.A	Semiconductor sales	100	100
KEY FOUNDRY SHANGHAI CO., LTD. ¹⁶	China	Semiconductor sales	100	100
KEY FOUNDRY LTD. ^{3, 16}	Taiwan	Semiconductor sales	100	100
Intel NDTM US LLC ¹⁷	U.S.A	Semiconductor research and development	-	-
Intel Semiconductor Storage Technology (Dalian) Ltd. ¹⁷	China	Semiconductor manufacturing support	-	-
SK hynix America Investment Corporation ¹⁸	U.S.A.	Overseas investment advisory	100	-
MMT (Money Market Trust)	Korea	Money Market Trust	100	100

¹ Ownership interest increased upon acquisition of non-controlling interest during the year ended December 31, 2023.

² Subsidiary of SK hynix Asia Pte. Ltd.

³ Liquidation is in progress as of December 31, 2023.

⁴ Subsidiary of SK APTECH Ltd.

SK hynix Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2023 and 2022

1. General Information, Continued

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

⁵ Subsidiary of SK hynix NAND Product Solutions Corp.

⁶ The Parent Company's ownership interest decreased due to exercise of stock options by employees of SK hynix NAND Product Solutions Corp. and its subsidiary during the year ended December 31, 2023.

⁷ Subsidiary of SK hynix Semiconductor (China) Ltd.

⁸ Subsidiary of SK hynix (Wuxi) Investment Ltd.

⁹ Subsidiary of SK hynix system ic Inc.

¹⁰ Subsidiary of HappyNarae Co., Ltd.

¹¹ Subsidiary of SUZHOU HAPPYNARAE Co., Ltd.

¹² The Parent Company's ownership interest decreased due to exercise of stock options by employees of Gauss Labs Inc. during the year ended December 31, 2023.

¹³ Subsidiary of SkyHigh Memory Limited

¹⁴ SK hynix Ventures America LLC was merged by SK hynix America Inc. during the year ended December 31, 2023.

¹⁵ Subsidiary of SK hynix (Wuxi) Education Technology Co., Ltd.

¹⁶ Subsidiary of SK Key Foundry Co., Ltd.

¹⁷ Intel holds the legal ownership of these entities as of December 31, 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.

¹⁸ SK hynix America Investment Corporation was established as a subsidiary of SK hynix America Inc. during the year ended December 31, 2023.

¹⁹ The company changes its name from Key Foundry Co., Ltd. To SK Key Foundry Co., Ltd. on January 1, 2024.

(3) Changes in the Group's consolidated subsidiaries for the year ended December 31, 2023 are as follows:

Type	Company	Reason
Addition	SK hynix America Investment Corporation	Establishment
Derecognition	SK hynix Ventures America LLC	Merge

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2023 and 2022

1. General Information, Continued

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

(In millions of Korean won)

	December 31, 2023			December 31, 2022		
	Assets	Liabilities	Equity	Assets	Liabilities	Equity
SK hynix America Inc.	₩ 4,268,773	₩ 3,548,414	₩ 720,359	₩ 3,407,756	₩ 2,820,013	₩ 587,743
SK hynix Asia Pte. Ltd.	232,316	117,859	114,457	388,934	281,014	107,920
SK hynix Semiconductor Hong Kong Ltd.	535,915	350,981	184,934	236,723	58,074	178,649
SK hynix U.K. Ltd.	318,925	288,679	30,246	313,691	286,308	27,383
SK hynix Semiconductor Taiwan Inc.	332,031	308,755	23,276	156,135	130,036	26,099
SK hynix (Wuxi) Semiconductor Sales Ltd.	1,310,004	738,331	571,673	871,993	383,653	488,340
SK hynix Semiconductor (China) Ltd.	10,149,067	4,199,507	5,949,560	12,127,232	6,015,062	6,112,170
SK hynix Semiconductor (Chongqing) Ltd.	1,087,471	186,774	900,697	1,033,694	244,180	789,514
SK hynix Japan Inc.	292,046	212,092	79,954	385,040	307,751	77,289
HappyNarae Co., Ltd.	169,843	112,529	57,314	205,796	145,968	59,828
SK hynix NAND Product Solutions Corp. and subsidiaries	12,948,490	13,714,039	(765,549)	13,475,178	10,333,565	3,141,613

(5) Major subsidiaries' summarized statements of comprehensive income (loss) for years ended December 31, 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.	₩ 12,541,884	₩ 82,105	₩ 19,591,498	₩ 58,142
SK hynix Asia Pte. Ltd.	1,160,358	4,722	2,686,840	4,139
SK hynix Semiconductor Hong Kong Ltd.	1,810,294	3,562	2,045,409	4,508
SK hynix U.K. Ltd.	705,478	2,415	1,261,079	2,758
SK hynix Semiconductor Taiwan Inc.	2,337,857	(1,071)	2,245,733	2,523
SK hynix (Wuxi) Semiconductor Sales Ltd.	7,920,707	86,535	9,524,281	126,654
SK hynix Semiconductor (China) Ltd.	5,140,087	(146,932)	5,694,063	(464,894)
SK hynix Semiconductor (Chongqing) Ltd.	1,068,083	115,921	1,100,948	67,758
SK hynix Japan Inc.	795,952	6,156	696,050	9,478
HappyNarae Co., Ltd.	892,026	(2,221)	988,710	1,782
SK hynix NAND Product Solutions Corp. and subsidiaries	3,010,985	(4,034,369)	4,695,752	(3,325,656)

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

SK hynix Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2023 and 2022

2. Material 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 Consolidated 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 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, 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 policy information (being information that, when considered together with other information included in an entity's financial statements, can reasonably be expected to influence decisions that the primary users of financial statements make on the basis of those financial statements). The amendments do not have a significant impact on the 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 amendments do not have a significant impact 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 do not have a significant impact on the financial statements.

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2023 and 2022

2. Material Accounting Policies, Continued

2.2 Changes in Accounting Policies and Disclosure, Continued

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

(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 do not have a significant impact on the financial statements.

(e) Korean IFRS 1012 Income Taxes - International Tax Reform – Pillar Two Model Rules

The amendments provide a temporary relief from the accounting for deferred taxes arising from legislation enacted to implement the Pillar Two model rules, which aim to reform international corporate taxation for multinational enterprises, and require disclosure of related current tax effects, etc.

The Group applies the exception to recognizing and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes. Since the Pillar Two legislation is scheduled to be effective from January 1, 2024, the Group has no current tax expense related to Pillar Two. The impact of the Pillar Two income taxes is described in Note 30.

SK hynix Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2023 and 2022

2. Material Accounting Policies, Continued

2.2 Changes in Accounting Policies and Disclosure, Continued

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, 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, Non-current Liabilities with Covenants

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 financial statements.

(b) Amendments to Korean IFRS 1007 Statement of Cash Flows, Korean IFRS 1107 Financial Instruments: Disclosures – Supplier finance arrangements

When applying supplier finance arrangements, an entity shall disclose information about its supplier finance arrangements that enables users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows and on the entity's exposure to liquidity risk. 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.

(c) Amendments to Korean IFRS 1116 Leases - Lease Liability in a Sale and Leaseback

When subsequently measuring lease liabilities arising from a sale and leaseback, a seller-lessee shall determine lease payments or revised lease payments in a way that the seller-lessee would not recognize any amount of the gain or loss that relates to the right of use retained by the seller-lessee. 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, 2023 and 2022

2. Material Accounting Policies, Continued

2.3 Operating Segments

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 25.

2.4 Consolidation

(a) Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition, and the Group shall also attribute total comprehensive income to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

(b) 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.

(c) 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.

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.

SK hynix Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2023 and 2022

2. Material Accounting Policies, Continued

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 note 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.

(b) Classification and subsequent measurements

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.

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.

(b) Embedded Derivative

Embedded derivative is accounted separately and separated from the host contract if the host contract is not a financial asset and meets certain requirements.

SK hynix Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2023 and 2022

2. Material 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.

(b) 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.

(c) 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.

2.11 Property, plant and equipment

The Group begins depreciation when the asset is available for the purposes intended by management, such as production of products.

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.

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

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

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2023 and 2022

2. Material Accounting Policies, Continued

2.12 Intangible assets

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.

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

As of December 31, 2023, 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.

2.13 Government grants

(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.

2.14 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.

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. 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.

SK hynix Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2023 and 2022

2. Material Accounting Policies, Continued

2.15 Leases

(a) As a lessee

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date. The Group generally uses its incremental borrowing rate as the discount rate.

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.

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.

2.16 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.

2.17 Employee benefits

(a) 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.

2.18 Foreign currencies

(a) 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

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2. Material Accounting Policies, Continued

2.19 Revenue from contracts with customers

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.

2.20 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) Deferred tax

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.

2.21 Approval of the Consolidated Financial Statements

The consolidated financial statements were authorized for issuance by the board of directors on January 24, 2024, which will be submitted for approval at the shareholders' meeting to be held on March 27, 2024.

SK hynix Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2023 and 2022

3. Critical Accounting Estimates and Assumptions

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

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 discussed below. Additional information of significant judgement and assumptions of certain items are included in relevant notes.

(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 note 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
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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 note 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 note 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 sales of goods based on considerations specified in the contract, net of sales incentives, when control of the goods has been transferred. Based on past experiences and contracts, the Group reasonably estimates sales deduction, and the Group's revenue is affected by the estimated sales deduction.

(7) Development cost

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

(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
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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.

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 December 31, 2023 and 2022 are as follows:

(In millions of Korean won)

	December 31, 2023	December 31, 2022
Korea	₩ 45,919,915	₩ 48,935,513
China	14,392,758	17,486,061
Asia(other than China)	22,328	19,397
U.S.A.	513,861	469,699
Europe	7,449	14,128
	<u>₩ 60,856,311</u>	<u>₩ 66,924,798</u>

- (2) For the year ended December 31, 2023, no revenue derived from a single customer reached over 10% of the Group's revenue. For the year ended December 31, 2022 revenue of ₩5,153,294 million and ₩5,105,879 million, over 10% of the Group's revenue, were derived from external customers A and B.

SK hynix Inc. and Subsidiaries
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5. Carrying Amounts of Financial Instruments by Categories

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

(In millions of Korean won)

December 31, 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	Others	Total	
Cash and cash equivalents	₩ -	₩ -	₩ 7,587,329	₩ -	₩ 7,587,329	
Short-term financial instruments	222,500	-	250,117	-	472,617	
Short-term investment assets	860,972	-	-	-	860,972	
Trade receivables ¹	-	470,808	6,129,465	-	6,600,273	
Loans and other receivables	-	-	832,654	-	832,654	
Other financial assets	-	-	5,389	146,578	151,967	
Long-term investment assets	4,105,704	-	-	-	4,105,704	
	<u>₩ 5,189,176</u>	<u>₩ 470,808</u>	<u>₩ 14,804,954</u>	<u>₩ 146,578</u>	<u>₩ 20,611,516</u>	

¹ The Group transferred certain portion of trade receivables, which are 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	Others	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, which are 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
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December 31, 2023 and 2022

5. Carrying Amounts of Financial Instruments by Categories, Continued

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

(In millions of Korean won)

	December 31, 2023			
	Financial liabilities at fair value through profit or loss	Financial liabilities at amortized cost	Others	Total
Trade payables	₩ -	₩ 1,845,537	₩ -	₩ 1,845,537
Other payables	-	6,436,944	-	6,436,944
Other non-trade payables ¹	-	1,192,988	-	1,192,988
Borrowings	-	29,468,632	-	29,468,632
Lease liabilities	-	3,029,874	-	3,029,874
Other financial liabilities	1,477,619	3,210	1,398	1,482,227
	<u>₩ 1,477,619</u>	<u>₩ 41,977,185</u>	<u>₩ 1,398</u>	<u>₩ 43,456,202</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
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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, 2023 and 2022 are as follows:

(In millions of Korean won)

	2023	2022
Financial assets at amortized cost		
Interest income	₩ 215,234	₩ 88,330
Foreign exchange differences	267,611	1,496,128
Loss on disposal	(15,663)	(11,322)
Loss on impairment	(8,518)	(88)
	<u>458,664</u>	<u>1,573,048</u>
Financial assets at fair value through profit or loss		
Dividend income	13,392	2,425
Interest income	1,195	1,231
Gain on disposal	84,217	56,128
Loss on valuation	(1,457,915)	(587,047)
Foreign exchange differences	(245,564)	(472,833)
	<u>(1,604,675)</u>	<u>(1,000,096)</u>
Others		
Gain on transaction	13,819	-
Financial liabilities at amortized cost		
Interest expenses	(1,468,273)	(533,114)
Foreign exchange differences	(392,040)	(1,423,372)
	<u>(1,860,313)</u>	<u>(1,956,486)</u>
Financial liabilities at fair value through profit or loss		
Loss on valuation	(855,216)	-
Loss on transaction	(58,985)	-
Foreign exchange differences	14,771	-
	<u>(899,430)</u>	<u>-</u>
	<u>₩ (3,891,935) ₩</u>	<u>(1,383,534)</u>

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2023 and 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 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, 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 December 31, 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	17,710 ₩	22,834,834	21,904 ₩	28,243,132
JPY	544	4,961	72,602	662,607
CNY	1,631	294,926	3,490	631,184
EUR	17	24,680	139	197,932

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, 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	₩ (332,123)	₩ 332,123
JPY	(65,765)	65,765
CNY	(33,626)	33,626
EUR	(17,325)	17,325

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2023 and 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 December 31, 2023. The Group has signed a currency interest rate swap contract on floating interest rate borrowings in foreign currency amount to ₩483,525 million and an interest rate swap contract on floating interest rate borrowings in local currency 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 year ended December 31, 2023.

As of December 31, 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 ₩103,259 million (2022: ₩98,612 million) lower/higher over the next year, mainly as a result of higher/lower net interest costs on floating-rate borrowings and 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, 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 Consolidated Financial Statements
December 31, 2023 and 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 December 31, 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, 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, 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
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December 31, 2023 and 2022

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, 2023 and 2022 term are as follows:

(In millions of Korean won)

	December 31, 2023					
	Less than				More than 5	Total
	1 year	1 - 2 years	2 - 5 years	years		
Borrowings ¹	₩ 9,035,883	6,195,067	14,117,031	4,260,384	33,608,365	
Lease liabilities	643,261	552,804	1,031,582	1,273,853	3,501,500	
Trade payables	1,845,537	-	-	-	1,845,537	
Other payables	3,295,640	2,837,255	221,459	255,301	6,609,655	
Other non-trade payables	896,657	850	72,340	136	969,983	
Other financial liabilities	126,841	327	1,341	-	128,509	
	₩ 15,843,819	9,586,303	15,443,753	5,789,674	46,663,549	

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

(In millions of Korean won)

	December 31, 2022					
	Less than				More than 5	Total
	1 year	1 - 2 years	2 - 5 years	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	
	₩ 17,578,982	4,849,168	13,096,056	4,108,718	39,632,924	

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
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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 December 31, 2023 and 2022 are as follows:

(In millions of Korean won)

	December 31, 2023	December 31, 2022
Total liabilities (A)	₩ 46,826,413	₩ 40,580,970
Total equity (B)	53,503,752	63,290,542
Cash and cash equivalents, and others ¹ (C)	8,920,918	6,408,992
Total borrowings (D)	29,468,632	22,994,604
Debt-to-equity ratio (A/B)	87.52%	64.12%
Net borrowing ratio (D-C)/B	38.40%	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 December 31, 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)

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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 December 31, 2023 and 2022:

(In millions of Korean won)

	Carrying amounts	December 31, 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	860,972	-	860,972	-	860,972
Trade receivables ¹	470,808	-	470,808	-	470,808
Long-term investment assets	4,105,704	-	-	4,105,704	4,105,704
Other financial assets	146,578	-	146,578	-	146,578
	<u>5,806,562</u>	<u>-</u>	<u>1,478,358</u>	<u>4,328,204</u>	<u>5,806,562</u>
Financial assets not measured at fair value					
Cash and cash equivalents ²	7,587,329	-	-	-	-
Short-term financial instruments ²	250,117	-	-	-	-
Trade receivables ²	6,129,465	-	-	-	-
Loans and other receivables ²	832,654	-	-	-	-
Other financial assets ²	5,389	-	-	-	-
	<u>14,804,954</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total financial asset	₩ <u>20,611,516</u> ₩	- ₩	<u>1,478,358</u> ₩	<u>4,328,204</u> ₩	<u>5,806,562</u>
Financial liabilities measured at fair value					
Other financial liabilities	₩ 1,479,017 ₩	- ₩	1,479,017 ₩	- ₩	1,479,017
	<u>1,479,017</u>	<u>-</u>	<u>1,479,017</u>	<u>-</u>	<u>1,479,017</u>
Financial liabilities not measured at fair value					
Trade payables ²	1,845,537	-	-	-	-
Other payables ²	6,436,944	-	-	-	-
Other non-trade payables ²	1,192,988	-	-	-	-
Borrowings	29,468,632	-	28,563,668	-	28,563,668
Lease liabilities ²	3,029,874	-	-	-	-
Other financial liabilities ²	3,210	-	-	-	-
	<u>41,977,185</u>	<u>-</u>	<u>28,563,668</u>	<u>-</u>	<u>28,563,668</u>
Total financial liabilities	₩ <u>43,456,202</u> ₩	- ₩	<u>30,042,685</u> ₩	- ₩	<u>30,042,685</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.

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
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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 December 31, 2023 and 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.

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.

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6. Financial Risk Management, Continued

(3) Fair value, Continued

(b) Valuation Techniques

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

(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	860,972	2	Present value technique
Long-term investment assets	4,105,704	3	Present value technique and others
Financial assets at fair value through other comprehensive income:			
Trade receivables	₩ 470,808	2	Present value technique
Others:			
Other financial assets	₩ 146,578	2	Present value technique
Financial liabilities at fair value through profit or loss:			
Embedded derivative liabilities	₩ 1,477,619	2	Binominal model and others
Others:			
Other financial liabilities	₩ 1,398	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 ₩ 2,054,689 million and BCPE Pangea Cayman2 Limited ("SPC2") amounting to ₩ 1,575,502 million in connection with the 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.

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%).

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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	₩ 2,054,689	Present value technique, and option-pricing method	Terminal growth rate Weighted-average capital cost Expected expiration(years) Volatility	0% 8.56% 3.33 35.20%
SPC2 convertible bonds	1,575,502	Present value technique	Risk free rate Terminal growth rate Weighted-average capital cost	0.06% 0% 8.56%

In these level 3 significant unobservable inputs, the higher in terminal growth rate or the lower in weighted-average capital cost will result in 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 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. 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 of the effect of changes in each long-term investment input classified as Level 3 on fair value are as follows:

(In millions of Korean won)

	Positive fluctuation	Negative fluctuation
Equity investment in SPC1 ¹	₩ 607,623	₩ (507,392)
SPC2 convertible bonds ¹	373,153	(297,131)

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% points.

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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, 2023. The changes in financial assets classified as level 3 fair value measurements during the year ended December 31, 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	31,766	(9,621)	(1,426,698)	(223,287) ₩	4,105,704

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7. Restricted Financial Instruments

Details of restricted financial instruments as of December 31, 2023 and 2022 are as follows:

(In millions of Korean won)

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Short-term financial instruments:		
Restricted for supporting small businesses	₩ 222,500	₩ 222,500
Pledged for consumption tax	5,476	7,625
Guarantee deposits for repayments of borrowings	1,643	99,500
Others	181	-
	<u>229,800</u>	<u>329,625</u>
Other financial assets:		
Bank overdrafts guarantee deposit	11	11
Others	529	682
	<u>540</u>	<u>693</u>
	<u>₩ 230,340</u>	<u>₩ 330,318</u>

8. Trade Receivables and Loans and Other Receivables

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

(In millions of Korean won)

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Current:		
Other receivables	₩ 274,211	₩ 194,516
Accrued income	11,339	5,352
Short-term loans	16,160	14,265
Short-term guarantee and other deposits	55,931	58,379
	<u>357,641</u>	<u>272,512</u>
Non-current:		
Long-term other receivables	3	3
Long-term loans	267,277	280,639
Guarantee deposits	207,492	73,286
Others	241	239
	<u>475,013</u>	<u>354,167</u>
	<u>₩ 832,654</u>	<u>₩ 626,679</u>

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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, 2023 and 2022 are as follows:

(In millions of Korean won)

	December 31, 2023		
	Gross amount	Provision for impairment	Carrying amount
Trade receivables	₩ 6,609,990	₩ (9,717)	₩ 6,600,273
Current loans and other receivables	357,680	(39)	357,641
Non-current loans and other receivables	475,926	(913)	475,013
	<u>₩ 7,443,596</u>	<u>₩ (10,669)</u>	<u>₩ 7,432,927</u>

(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>

(3) Details of provision for impairment

Changes in the provision for impairment of trade receivables for the years ended December 31, 2023 and 2022 are as follows:

(In millions of Korean won)

	2023	2022
Beginning balance	₩ 1,110	₩ 961
Bad debt expense	8,496	201
Reversal	-	(58)
Write-off	-	(1)
Foreign exchange difference	111	7
Ending balance	<u>₩ 9,717</u>	<u>₩ 1,110</u>

Changes in the provision for impairment of current loans and other receivables for the years ended December 31, 2023 and 2022 are as follows:

(In millions of Korean won)

	2023	2022
Beginning balance	₩ 1,313	₩ 1,275
Bad debt expense	-	39
Reversal	-	(1)
Write-off	(1,274)	-
Foreign exchange difference	-	-
Ending balance	<u>₩ 39</u>	<u>₩ 1,313</u>

SK hynix Inc. and Subsidiaries
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December 31, 2023 and 2022

8. Trade Receivables and Loans and Other Receivables, Continued

(3) Details of provision for impairment, Continued

Changes in the provision for impairment of non-current loans and other receivables for the years ended December 31, 2023 and 2022 are as follows

(In millions of Korean won)

	2023	2022
Beginning balance	₩ 1,061	₩ 1,130
Bad debt expense	18	-
Reversal	(64)	(143)
Write-off	(102)	-
Foreign exchange difference	-	74
Ending balance	₩ 913	₩ 1,061

(4) The aging analysis of trade receivables and loans and other receivables as of December 31, 2023 and 2022 are as follows:

(In millions of Korean won)

		December 31, 2023					
		Not impaired					
		Overdue					
		Over 3 months					
		and less than 6 months					
		Over 6 months					
		Not past due	Less than 3 months	and less than 6 months	Over 6 months	Impaired	Total
Trade receivables	₩	6,600,273	-	-	-	9,717	6,609,990
Current loans and other receivables		357,641	-	-	-	39	357,680
Non-current loans and other receivables		475,013	-	-	-	913	475,926
	₩	<u>7,432,927</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,669</u>	<u>7,443,596</u>

(In millions of Korean won)

		December 31, 2022					
		Not impaired					
		Overdue					
		Over 3 months					
		and less than 6 months					
		Over 6 months					
		Not past due	Less than 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>

SK hynix Inc. and Subsidiaries
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9. Inventories

(1) Details of inventories as of December 31, 2023 and 2022 are as follows:

(In millions of Korean won)

	December 31, 2023		
	Acquisition cost	Inventory valuation allowance	Carrying amount
Merchandise	₩ 3,523	₩ (187)	₩ 3,336
Finished goods	4,626,922	(1,028,168)	3,598,754
Work-in-process	8,768,689	(1,203,637)	7,565,052
Raw materials	1,624,354	(119,309)	1,505,045
Supplies	773,460	(75,301)	698,159
Goods in transit	110,313	-	110,313
	<u>₩ 15,907,261</u>	<u>₩ (2,426,602)</u>	<u>₩ 13,480,659</u>

(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
	<u>₩ 17,000,055</u>	<u>₩ (1,335,348)</u>	<u>₩ 15,664,707</u>

(2) The amount of the inventories recognized as cost of sales and loss on valuation allowance of inventories charged to cost of sales for the years ended December 31, 2023 and 2022 are as follows:

(In millions of Korean won)

	2023	2022
Inventories recognized as cost of sales	₩ 32,206,255	₩ 27,964,151
Loss on valuation allowance of inventories	1,091,254	1,026,036

SK hynix Inc. and Subsidiaries
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10. Other Current and Non-current Assets

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

(In millions of Korean won)

	December 31, 2023	December 31, 2022
Current		
Advance payments	₩ 51,053	₩ 56,616
Prepaid expenses	218,260	241,894
Value added tax refundable	493,075	795,879
Contract assets	136,978	91,905
Others	26,136	250
	<u>925,502</u>	<u>1,186,544</u>
Non-current		
Long-term advance payments	139,940	22,683
Long-term prepaid expenses	46,311	42,745
Others	31,571	6,273
	<u>217,822</u>	<u>71,701</u>
	<u>₩ 1,143,324</u>	<u>₩ 1,258,245</u>

SK hynix Inc. and Subsidiaries
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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>
Associates	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
	SiFive, Inc. ¹	U.S.A	Design and manufacture of semiconductor
	Wuxi xinfa IC industry park., Ltd.	China	Developing science-technological park
Joint ventures	Others		
	HITECH Semiconductor (Wuxi) Co., Ltd. ²	China	Manufacture of semiconductor parts
	Hystars Semiconductor (Wuxi) Co., Ltd. ²	China	Foundry factory construction
	Specialized Investment-type Private Equity Investment Trust For Growth Of Semiconductor ²	Korea	Investment
	Specialized Investment-type Private Equity Investment Trust For Win-win System Semiconductor ²	Korea	Investment
	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 for the years ended December 31, 2023.

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

(In millions of Korean won)

<u>Investee</u>	<u>December 31, 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>
Associates:					
SK China Company Limited	11.87	₩ 355,633	₩ 408,230	11.87	₩ 399,116
SK South East Asia Investment Pte. Ltd.	20.00	351,923	351,923	20.00	352,411
Magnus Private Investment Co., Ltd.	-	-	-	49.76	2,983
SiFive, Inc.	7.28	28,111	53,277	7.28	62,917
Wuxi xinfa IC industry park., Ltd.	30.00	42,458	42,458	30.00	33,342
Others		95,773	104,203		94,784
Joint ventures:					
HITECH Semiconductor (Wuxi) Co., Ltd.	45.00	136,958	137,655	45.00	134,228
Hystars Semiconductor (Wuxi) Co., Ltd.	50.10	218,783	220,373	50.10	220,281
Specialized Investment-type Private Equity Investment Trust For Growth Of Semiconductor	33.33	19,284	19,283	33.33	23,078
Specialized Investment-type Private Equity Investment Trust For Win-win System Semiconductor	37.50	29,778	29,779	37.50	29,705
Others		167	167		-
		₩ <u>1,278,868</u>	₩ <u>1,367,348</u>		₩ <u>1,352,845</u>

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11. Investments in Associates and Joint Ventures, Continued

(3) Changes in investments in associates and joint ventures for the years ended December 31, 2023 and 2022 are as follows:

(In millions of Korean won)

	2023						
	Beginning balance	Acquisition	Share of profit (loss)	Other equity movement	Dividend	Recovery of principal	Ending balance
SK China Company Limited	₩ 399,116	₩ -	₩ 12,188	₩ (3,074)	₩ -	₩ -	₩ 408,230
SK South East Asia Investment Pte. Ltd.	352,411	-	(8,664)	8,176	-	-	351,923
Magnus Private Investment Co., Ltd.	2,983	-	(2,721)	-	(262)	-	-
SiFive, Inc.	62,917	-	(10,975)	1,335	-	-	53,277
Wuxi xinfu IC industry park., Ltd.	33,342	10,086	(550)	(420)	-	-	42,458
HITECH Semiconductor (Wuxi) Co., Ltd.	134,228	-	16,876	2,414	(15,863)	-	137,655
Hystars Semiconductor (Wuxi) Co., Ltd.	220,281	-	830	(738)	-	-	220,373
Specialized Investment-type Private Equity Investment Trust For Growth Of Semiconductor	23,078	-	5,206	(1)	(153)	(8,847)	19,283
Specialized Investment-type Private Equity Investment Trust For Win-win System Semiconductor	29,705	-	73	1	-	-	29,779
Others	94,784	12,679	2,798	155	(6,046)	-	104,370
	₩ <u>1,352,845</u>	₩ <u>22,765</u>	₩ <u>15,061</u>	₩ <u>7,848</u>	₩ <u>(22,324)</u>	₩ <u>(8,847)</u>	₩ <u>1,367,348</u>

(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
	₩ <u>1,410,428</u>	₩ <u>40,717</u>	₩ <u>131,186</u>	₩ <u>70,999</u>	₩ <u>(90,642)</u>	₩ <u>(209,843)</u>	₩ <u>1,352,845</u>

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11. Investments in Associates and Joint Ventures, Continued

(4) Major associates and joint ventures' summarized financial information as of December 31, 2023 and 2022 are as follows:

(In millions of Korean won)

		December 31, 2023			
		Current assets	Non-current assets	Current liabilities	Non-current liabilities
SK China Company Limited	₩	1,350,607	₩ 1,998,684	₩ 352,236	₩ -
SK South East Asia Investment Pte. Ltd.		217,959	3,002,468	511,291	13,783
HITECH Semiconductor (Wuxi) Co., Ltd.		302,172	314,426	78,198	234,049
Hystars Semiconductor (Wuxi) Co., Ltd.		205,206	486,625	14,617	240,522

(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 years ended December 31, 2023 and 2022 are as follows:

(In millions of Korean won)

		2023		2022	
		Revenue	Net profit	Revenue	Net profit
SK China Company Limited	₩	34,798	₩ 102,711	₩ 62,354	₩ 11,674
SK South East Asia Investment Pte. Ltd.		266,728	(43,317)	416,747	(49,280)
Magnus Private Investment Co., Ltd.		-	(2,721)	86,757	98,745
HITECH Semiconductor (Wuxi) Co., Ltd.		702,074	35,718	750,422	37,380
Hystars Semiconductor (Wuxi) Co., Ltd.		54,772	1,659	60,126	(1,401)

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12. Property, Plant and Equipment

(1) Changes in property, plant and equipment for the years ended December 31, 2023 and 2022 are as follows:

(In millions of Korean won)

		2023								
	₩	Land	Buildings	Structures	Machinery	Vehicles	Others	Construction-in-progress	₩	Total
Beginning balance		1,219,204	10,250,632	2,484,463	38,941,841	34,243	726,191	6,571,954		60,228,528
Changes during 2023										
Acquisitions		125	344,127	243,291	2,466,415	127	108,541	3,428,824		6,591,450
Impairment		-	-	-	(165,704)	-	-	-		(165,704)
Disposals		(16,109)	(664,824)	(3,724)	(663,743)	-	(562)	(84)		(1,349,046)
Depreciation		-	(522,470)	(197,189)	(11,708,161)	(3,333)	(299,297)	-		(12,730,450)
Transfers		3,847	911,892	556,451	2,474,086	-	18,331	(3,996,845)		(32,238)
Exchange differences and others		921	21,885	(3,049)	126,791	7	820	14,938		162,313
Ending balance		<u>1,207,988</u>	<u>10,341,242</u>	<u>3,080,243</u>	<u>31,471,525</u>	<u>31,044</u>	<u>554,024</u>	<u>6,018,787</u>		<u>52,704,853</u>
Acquisition cost		1,207,988	13,018,599	4,245,060	109,027,339	49,107	2,568,873	6,018,787		136,135,753
Accumulated depreciation		-	(2,638,317)	(1,144,631)	(77,189,690)	(18,062)	(2,014,497)	-		(83,005,197)
Accumulated impairment		-	(23,226)	(18,853)	(325,469)	-	(13)	-		(367,561)
Government grants		-	(15,814)	(1,333)	(40,655)	(1)	(339)	-		(58,142)
	₩	<u>1,207,988</u>	<u>10,341,242</u>	<u>3,080,243</u>	<u>31,471,525</u>	<u>31,044</u>	<u>554,024</u>	<u>6,018,787</u>	₩	<u>52,704,853</u>

(In millions of Korean won)

		2022								
	₩	Land	Buildings	Structures	Machinery	Vehicles	Others	Construction-in-progress	₩	Total
Beginning balance		1,145,557	8,610,548	2,096,970	34,090,276	37,493	741,794	6,503,029		53,225,667
Changes during 2022										
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

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12. Property, Plant and Equipment, Continued

(2) Details of depreciation expense allocation for the years ended December 31, 2023 and 2022 are as follows:

(In millions of Korean won)

	2023		2022
Cost of sales	₩ 11,810,720	₩	12,180,724
Selling and administrative expenses	800,914		814,260
Development costs and other	118,816		50,074
	<u>₩ 12,730,450</u>	₩	<u>13,045,058</u>

- (3) Certain property, plant and equipment are pledged as collaterals for borrowings of the Group as of December 31, 2023 (See note 33).
- (4) The Group capitalized borrowing costs amounting to ₩ 136,622 million (2022: ₩ 103,181 million) on qualifying assets during the year ended December 31, 2023. Borrowing costs were calculated using a capitalization rate of 4.34% (2022: 2.64%) for the year ended December 31, 2023.
- (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, 2023 are ₩ 28,403 million (2022: ₩ 15,537 million).
- (6) The Group recognized an impairment loss of ₩ 165,704 million for some machinery which is not expected to contribute in generating future economic benefits

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13. Leases

(1) Leases as lessee

(a) Changes in right-of-use assets for the years ended December 31, 2023 and 2022 are as follows:

(In millions of Korean won)

	2023					
	Properties	Structures	Machinery	Vehicles	Others	Total
Beginning balance	₩ 436,779	1,037,141	267,563	12,433	26,069	₩ 1,779,985
Increase	57,766	602,092	611,728	23,184	9,015	1,303,785
Depreciation	(77,984)	(114,485)	(169,238)	(12,073)	(16,893)	(390,673)
Foreign exchange difference	2,601	(751)	(80)	7	(30)	1,747
Ending balance	<u>419,162</u>	<u>1,523,997</u>	<u>709,973</u>	<u>23,551</u>	<u>18,161</u>	<u>₩ 2,694,844</u>
Acquisition cost	567,480	1,929,321	804,438	31,586	33,396	3,366,221
Accumulated depreciation	(117,056)	(405,324)	(94,465)	(8,035)	(15,235)	(640,115)
Government grants	(31,262)	-	-	-	-	(31,262)
	₩ <u>419,162</u>	<u>1,523,997</u>	<u>709,973</u>	<u>23,551</u>	<u>18,161</u>	₩ <u>2,694,844</u>

(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	<u>436,779</u>	<u>1,037,141</u>	<u>267,563</u>	<u>12,433</u>	<u>26,069</u>	<u>₩ 1,779,985</u>
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)
	₩ <u>436,779</u>	<u>1,037,141</u>	<u>267,563</u>	<u>12,433</u>	<u>26,069</u>	₩ <u>1,779,985</u>

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13. Leases, Continued

(1) Leases as lessee, Continued

(b) Changes in lease liabilities for the years ended December 31, 2023 and 2022 are as follows:

(In millions of Korean won)

	2023	2022
Beginning balance	₩ 1,797,081	₩ 1,525,762
Acquisition	1,660,609	496,719
Business combination	-	1,478
Others	434	67,859
Interest expenses	71,422	38,591
Payments	(480,714)	(313,866)
Foreign exchange difference	(18,958)	(19,462)
Ending balance	₩ 3,029,874	₩ 1,797,081

(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, 2023 are as follows:

(In millions of Korean won)

	2023
Less than one year	₩ 643,261
One to five years	1,584,386
More than five years	1,273,853
Total lease liabilities undiscounted as of December 31, 2023	3,501,500
Present value of lease liabilities recognized as of December 31, 2023	3,029,874
Current lease liabilities	631,497
Non-current lease liabilities	2,398,377

(d) The amounts recognized in profit or loss in relation to right-of-use assets and lease liabilities for the years ended December 31, 2023 and 2022 are as follows:

(In millions of Korean won)

	2023	2022
Depreciation of right-to-use assets	₩ 390,673	₩ 326,803
Interest expenses of lease liabilities	71,422	38,591
Expenses relating to short-term leases or to leases of low-value assets	5,705	64,966

The gain on disposal related to sale and leaseback contract during the year ended December 31, 2023 is ₩174,361 million, and total cash outflow from leases is ₩486,419 million (2022: ₩378,833 million).

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14. Intangible Assets

(1) Changes in intangible assets for the years ended December 31, 2023 and 2022 are as follows:

(In millions of Korean won)

	2023				
	<u>Goodwill</u>	<u>Industrial property rights</u>	<u>Development costs</u>	<u>Others</u>	<u>Total</u>
Beginning balance	₩ 798,723	90,451	360,494	2,262,439	₩ 3,512,107
Changes during 2023					
Internal development	-	-	350,550	-	350,550
External acquisition	-	1,611	-	373,034	374,645
Disposals	-	(2,433)	-	(4,497)	(6,930)
Amortization	-	(18,038)	(133,329)	(401,174)	(552,541)
Impairment	-	-	(167,048)	323,741	156,693
Transfers	-	20,507	-	(21,349)	(842)
Others	4,625	(2)	-	(3,738)	885
Ending balance	<u>803,348</u>	<u>92,096</u>	<u>410,667</u>	<u>2,528,456</u>	<u>3,834,567</u>
Acquisition cost	1,722,707	234,465	4,528,542	4,982,771	11,468,485
Accumulated amortization and impairment	(919,359)	(142,369)	(4,117,875)	(2,454,315)	(7,633,918)
	₩ <u>803,348</u>	<u>92,096</u>	<u>410,667</u>	<u>2,528,456</u>	₩ <u>3,834,567</u>

(In millions of Korean won)

	2022				
	<u>Goodwill</u>	<u>Industrial property rights</u>	<u>Development costs</u>	<u>Others</u>	<u>Total</u>
Beginning balance	₩ 1,572,014	88,396	548,074	2,588,678	₩ 4,797,162
Changes during 2022					
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>

(2) Details of amortization expense allocation for the years ended December 31, 2023 and 2022 are as follows:

(In millions of Korean won)

	<u>2023</u>	<u>2022</u>
Cost of sales	₩ 234,001	₩ 333,758
Selling and administrative expenses	314,619	442,967
Development costs	3,921	2,884
	₩ <u>552,541</u>	₩ <u>779,609</u>

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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, 2023 are as follows:

(In millions of Korean won)

	2023	2022
Existing CGU	₩ 803,348	₩ 798,723
Solidigm CGU	-	-
	<u>₩ 803,348</u>	<u>₩ 798,723</u>

The Group performs goodwill impairment tests annually. For the purpose of impairment tests, goodwill is allocated to the relevant CGU. The recoverable amount of the CGU as of December 31, 2023 was determined considering the fair value less costs to sell, which was determined based on the amount using the current stock price as of December 31, 2023 and the fair value measured by using the income approach based on the business plan approved by management and considering the relative value of the comparative company. No impairment loss of goodwill was recognized since the recoverable amount is higher than the carrying value of the CGU as of December 31, 2023.

(4) Among costs associated with development activities, ₩350,550 million (2022: ₩328,950 million) that met capitalization criteria, were capitalized as development cost for the year ended December 31, 2023. In addition, costs associated with research activities and other development expenditures that did not meet the criteria in the amount of ₩3,750,706 million (2022: ₩4,474,553 million) were recognized as expenses for the year ended December 31, 2023.

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 ₩ 167,048 million (2022: ₩ 257,692 million) for development projects whose recoverable value is less than the book value during the year ended December 31, 2023.

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15. Investment Property

(1) Changes in investment property for the years ended December 31, 2023 and 2022 are as follows:

(In millions of Korean won)

	2023	2022
Beginning balance	₩ 223	₩ 164,197
Depreciation	(12)	(701)
Disposals	-	(161,925)
Transfer ¹	-	(1,348)
Ending balance	<u>211</u>	<u>223</u>
Acquisition cost	511	511
Accumulated depreciation	<u>(300)</u>	<u>(288)</u>
	₩ <u>211</u>	₩ <u>223</u>

¹ Certain investment property was transferred to property, plant and equipment during the year ended December 31, 2022.

(2) The depreciation expense of ₩12 million was charged to cost of sales for the year ended December 31, 2023 (2022: ₩701 million).

(3) Rental income from investment property during the year ended December 31, 2023 was ₩9 million (2022: ₩14,838 million).

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16. Other Payables

Details of other payables as of December 31, 2023 and 2022 are as follows:

(In millions of Korean won)

	December 31, 2023	December 31, 2022
Current		
Accrued expenses	₩ 1,680,914	₩ 3,014,397
Deposits payable	7,717	10,251
	<u>1,688,631</u>	<u>3,024,648</u>
Non-current		
Long-term accrued expenses	85,146	17,715
Deposits payable	11,421	10,368
	<u>96,567</u>	<u>28,083</u>
	<u>₩ 1,785,198</u>	<u>₩ 3,052,731</u>

17. Borrowings

(1) Details of borrowings as of December 31, 2023 and 2022 are as follows:

(In millions of Korean won)

	December 31, 2023	December 31, 2022
Current		
Short-term borrowings	₩ 4,145,647	₩ 3,833,263
Current portion of long-term borrowings	2,012,002	2,620,180
Current portion of debentures	3,699,540	969,804
	<u>9,857,189</u>	<u>7,423,247</u>
Non-current		
Long-term borrowings	10,121,033	9,073,567
Debentures	9,490,410	6,497,790
	<u>19,611,443</u>	<u>15,571,357</u>
	<u>₩ 29,468,632</u>	<u>₩ 22,994,604</u>

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17. Borrowings, Continued

(2) Details of borrowings as of December 31, 2023 and 2022 are as follows:

(In millions of Korean won)

	Financial institutions	Maturity date	Interest rate per annum in 2023 (%)		2023	2022
Short-term borrowings:						
OAT Nego	Nonghyup Bank and others	2024.01	5.8 ~ 6.2	₩	451,284	₩ 899,767
Banker's Usance	Woori Bank and others	2024.01 ~ 2024.11	5.9		1,041,752	811,051
General borrowings	City Bank and others	2024.01 ~ 2024.12	2.1 ~ 7.4		1,852,611	1,807,445
Commercial Paper	SK Securities Co., Ltd. and others	2024.01 ~ 2024.08	4.3 ~ 5.0		800,000	315,000
					<u>4,145,647</u>	<u>3,833,263</u>
Long-term borrowings:						
Funds for equipment	MUFG and others	2024.02 ~ 2032.05	1.0 ~ 6.8		6,955,507	4,686,870
Commercial Paper underwriting agreement	Shinhan Bank	-	-		-	300,000
Syndicated loan	Korea Development Bank and others	2024.04 ~ 2027.12	6.7 ~ 7.1		4,406,263	5,184,025
General borrowings	China Bank and others	2024.05 ~ 2027.12	0.9 ~ 6.0		802,825	1,212,701
Collateralized borrowings	Macquarie Finance Korea Co., Ltd.	-	-		-	376,049
					<u>12,164,595</u>	<u>11,759,645</u>
Less: Current portion					(2,012,002)	(2,620,180)
Less: Discounts on borrowings					(31,560)	(65,898)
				₩	<u>10,121,033</u>	₩ <u>9,073,567</u>

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17. Borrowings, Continued

(3) Details of debentures as of December 31, 2023 and 2022 are as follows:

(In millions of Korean won)

	<u>Maturity date</u>	<u>Interest rate per annum in 2023 (%)</u>	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Unsecured notes in local currency:				
Unsecured corporate bonds 216-3rd	2023.02.19	2.53	₩ -	₩ 80,000
Unsecured corporate bonds 218th	2023.03.14	3.01	-	300,000
Unsecured corporate bonds 219-1st	2023.08.27	2.48	-	250,000
Unsecured corporate bonds 219-2nd	2025.08.27	2.67	90,000	90,000
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
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
Unsecured corporate bonds 224-1st	2026.02.14	3.83	430,000	-
Unsecured corporate bonds 224-2nd	2028.02.14	4.27	780,000	-
Unsecured corporate bonds 224-3rd	2030.02.14	4.52	100,000	-
Unsecured corporate bonds 224-4th	2033.02.14	4.90	80,000	-
			<u>4,120,000</u>	<u>3,700,000</u>
Unsecured notes in foreign currency:				
Unsecured global bonds 9th	2024.09.17	3.00	644,700	633,650
Unsecured global bonds 10-1st	2024.01.19	1.00	644,700	633,650
Unsecured global bonds 10-2nd	2026.01.19	1.50	1,289,400	1,267,300
Unsecured global bonds 10-3rd	2031.01.19	2.38	1,289,400	1,267,300
Unsecured global bonds 11-1st	2026.01.17	6.25	967,050	-
Unsecured global bonds 11-2nd	2028.01.17	6.38	1,289,400	-
Unsecured global bonds 11-3rd	2033.01.17	6.50	967,050	-
Unsecured global bonds 12	2025.11.17	7.07	386,820	-
			<u>7,478,520</u>	<u>3,801,900</u>
Foreign exchangeable bond:				
Unsecured global bonds 13 ¹	2030.04.11	1.75	2,191,980	-
			<u>2,191,980</u>	-
			<u>13,790,500</u>	<u>7,501,900</u>
Less: Discounts on debentures			(600,550)	(34,306)
Less: Current portion			<u>(3,699,540)</u>	<u>(969,804)</u>
			<u>₩ 9,490,410</u>	<u>₩ 6,497,790</u>

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17. Borrowings, Continued

(3) Details of debentures as of December 31, 2023 and 2022 are as follows, Continued:

¹ The carrying amount includes exchangeable bond issued by the Group during the year ended December 31, 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 Parent 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
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.

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18. Other Current and Non-current Liabilities

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

(In millions of Korean won)

	December 31, 2023	December 31, 2022
Current		
Advance receipts	₩ 57,489	₩ 18,433
Unearned income	3,312	8,070
Withholdings	198,104	150,304
Contract liabilities ¹	1,585,143	345,657
Others	38,213	11,871
	<u>1,882,261</u>	<u>534,335</u>
Non-current		
Other long-term employee benefits	212,233	182,425
Contract liabilities ¹	14,015	-
Others	159,154	22,419
	<u>385,402</u>	<u>204,844</u>
	<u>₩ 2,267,663</u>	<u>₩ 739,179</u>

¹ Includes advance receipts from customers and return liabilities.

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19. Provisions

(1) Changes in provisions for the years ended December 31, 2023 and 2022 are as follows:

(In millions of Korean won)

	2023				
	Beginning Balance	Increase	Utilization	Reversal	Ending Balance
Purchase commitments	₩ -	₩ 29,656	₩ -	₩ -	₩ 29,656
Warranty	249,316	153,189	(146,103)	-	256,402
Emission allowances	2,150	232	(1,826)	(322)	234
Restoration	1,827	-	-	-	1,827
	<u>₩ 253,293</u>	<u>₩ 183,077</u>	<u>₩ (147,929)</u>	<u>₩ (322)</u>	<u>₩ 288,119</u>

(In millions of Korean won)

	2022				
	Beginning Balance	Increase	Utilization	Reversal	Ending 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>

(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.

(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 are as follows:

(In ten thousand tons CO₂-eq)

	The third compliance period (2021 - 2025)					Total
	2021	2022	2023	2024	2025	
Allocated emission permits	548	524	576	579	579	2,806

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19. Provisions, Continued

(b) Changes in the emission permits rights for the year ended December 31, 2023 are as follows:

(In ten thousand tons CO₂-eq)

	2022
Beginning balance	<u>9</u>
Allocated	524
Purchase	17
Submission	(541)
Borrowings	-
Banking	-
Disposal	-
Ending balance	<u><u>9</u></u>

(c) The estimated net volume of emission made by the Group is 5 million tons as of December 31, 2023.

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20. Defined Benefit Liabilities(Assets)

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(assets) as of December 31, 2023 and 2022 are as follows:

(In millions of Korean won)

	December 31, 2023	December 31, 2022
Present value of defined benefit obligations	₩ 2,511,541	₩ 2,259,125
Fair value of plan assets	(3,851,623)	(3,521,426)
Net defined benefit liabilities(assets)	₩ (1,340,082)	₩ (1,262,301)
Defined benefit liabilities	₩ 63,932	₩ 69,952
Employee benefit assets ¹	₩ 1,404,014	₩ 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 ₩1,404,014 million(2022: ₩1,332,253 million) as of December 31, 2023.

(2) Principal actuarial assumptions as of December 31, 2023 and 2022 are as follows:

	December 31, 2023	December 31, 2022
	(%)	(%)
Discount rate for defined benefit obligations	4.29 ~ 6.05	5.18 ~ 6.48
Expected rate of salary increase	3.00 ~ 6.89	2.70 ~ 5.74

(3) Weighted average durations of defined benefit obligations as of December 31, 2023 and 2022 are 13.18 and 12.00 years, respectively.

(4) Changes in defined benefit obligations for the years ended December 31, 2023 and 2022 are as follows:

(In millions of Korean won)

	2023	2022
Beginning balance	₩ 2,259,125	₩ 2,392,020
Current service cost	229,788	270,071
Past service cost	4,323	(3,745)
Interest expense	138,313	94,954
Transfer from associates	14,039	(1,981)
Remeasurements:	(6,669)	(540,525)
Demographic assumption	(42,111)	-
Financial assumption	109,342	(631,994)
Adjustment based on experience	(73,900)	91,469
Benefits paid	(127,301)	(107,451)
Effect of movements in exchange rates	(77)	834
Business combination	-	154,948
Ending balance	₩ 2,511,541	₩ 2,259,125

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20. Defined Benefit Liabilities(Assets), Continued

(5) Changes in plan assets for the years ended December 31, 2023 and 2022 are as follows:

(In millions of Korean won)

	2023	2022
Beginning balance	₩ 3,521,426	₩ 2,819,782
Contributions	250,173	697,704
Interest income	220,454	110,039
Transfer from associates	14,300	929
Benefits paid	(124,913)	(92,796)
Business combination	-	45,156
Remeasurements	(29,813)	(59,391)
Foreign exchange differences	(4)	3
Ending balance	₩ 3,851,623	₩ 3,521,426

(6) The amounts recognized in profit or loss for the years ended December 31, 2023 and 2022 are as follows:

(In millions of Korean won)

	2023	2022
Current service cost	₩ 229,788	₩ 270,071
Past service cost	4,323	(3,745)
Net interest income	(82,141)	(15,085)
	₩ 151,970	₩ 251,241

(7) The amounts in which defined benefit plan related expenses are included for the years ended December 31, 2023 and 2022 are as follows:

(In millions of Korean won)

	2023	2022
Cost of sales	₩ 76,187	₩ 136,636
Selling and administrative expenses	75,783	114,605
	₩ 151,970	₩ 251,241

(8) Details of plan assets as of December 31, 2023 and 2022 are as follows:

(In millions of Korean won)

	2023	2022
Deposits	₩ 3,850,433	₩ 3,520,203
Others	1,190	1,223
	₩ 3,851,623	₩ 3,521,426

Actual return on plan assets for the years ended December 31, 2023 and 2022 amounted to ₩190,641 million and ₩50,657 million, respectively.

(9) As of December 31, 2023, 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, 2024 is ₩ 378,964 million under the assumption that the Group maintains the defined benefit plan.

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20. Defined Benefit Liabilities(Assets), Continued

(10) The sensitivity analysis of the defined benefit obligations as of December 31, 2023 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% point)	₩	(274,938)	323,523
Expected salary increase rate (if changed by 1% point)		330,563	(284,905)

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 ₩9,903 million (2022: ₩6,337 million) were recognized as cost for the year ended December 31, 2023.

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21. Deferred Income Tax

(1) Changes in deferred income tax assets and liabilities for the years ended December 31, 2023 and 2022 without taking into consideration the offsetting of balances within the same tax authority, are as follows:

(In millions of Korean won)

	2023				
	<u>Beginning</u>	<u>Profit or loss</u>	<u>Equity</u>	<u>Foreign exchange differences</u>	<u>Ending</u>
Inventories, net	₩ 327,318	270,239	-	862	₩ 598,419
Property, plant and equipment, net	230,806	(93,802)	-	(32,434)	104,570
Defined benefits liabilities, net	(263,729)	(100,390)	5,200	(12)	(358,931)
Short-term and long-term investment assets and others	(345,371)	437,609	-	-	92,238
Employee benefits	81,662	9,157	-	15	90,834
Provisions	26,446	(21,189)	-	(84)	5,173
Other assets and other liabilities	65,102	(38,926)	-	(14)	26,162
Accrued expenses	151,993	(36,375)	-	-	115,618
Other financial liabilities	390	250,289	7,991	-	258,670
Others	(19,341)	25,389	-	30,277	36,325
Deferred tax assets for temporary differences, net	<u>255,276</u>	<u>702,001</u>	<u>13,191</u>	<u>(1,390)</u>	<u>969,078</u>
Tax loss carryforwards recognized	14,824	1,254,974	-	288	1,270,086
Tax credit carryforwards recognized	4,538	631,281	-	93	635,912
Deferred tax assets recognized, net	<u>₩ 274,638</u>	<u>2,588,256</u>	<u>13,191</u>	<u>(1,009)</u>	<u>₩ 2,875,076</u>

(In millions of Korean won)

	2022				
	<u>Beginning</u>	<u>Profit or loss</u>	<u>Equity</u>	<u>Foreign exchange differences</u>	<u>Ending</u>
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	27,146	38,101	-	(145)	65,102
Accrued expenses	124,565	27,428	-	-	151,993
Other financial liabilities	-	2,230	(1,840)	-	390
Others	14,851	(23,237)	-	(10,955)	(19,341)
Deferred tax assets for temporary differences, net	<u>(111,954)</u>	<u>554,330</u>	<u>(133,485)</u>	<u>(53,615)</u>	<u>255,276</u>
Tax loss carryforwards recognized	69,746	(60,715)	-	5,793	14,824
Tax credit carryforwards recognized	4,457	(17)	-	98	4,538
Deferred tax assets recognized, net	<u>₩ (37,751)</u>	<u>493,598</u>	<u>(133,485)</u>	<u>(47,724)</u>	<u>₩ 274,638</u>

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21. Deferred Income Tax, Continued

(2) As of December 31, 2023 and 2022, the temporary differences and etc., that are not recognized as deferred tax assets (liabilities) are as follows:

<i>(In millions of Korean won)</i>	December 31, 2023	December 31, 2022
Investments in subsidiaries, associates, and joint ventures and others:		
Deductible temporary differences	₩ 12,003,743	₩ 5,977,786
Taxable temporary differences	(2,974,035)	(3,262,933)
Other deductible temporary differences	2,586,818	1,606,490
	<u>11,616,526</u>	<u>4,321,343</u>
Tax loss and others ¹	4,072,053	373,146

¹ The amount and maturity of tax losses and tax credits carry-forwards that are not recognized as deferred tax assets as of December 31, 2023 are as follows:

<i>(In millions of Korean won)</i>	December 31, 2023	Maturity
Tax losses	₩ 16,538	2037 ~ 2038
	265,286	2042 ~ 2043
	3,720,275	-
	<u>45,404</u>	<u>2042 ~ 2043</u>
Tax credits	24,550	-

(3) Details of period when the deferred income tax assets (liabilities) are recovered (settled) as of December 31, 2023 and 2022 are as follows:

<i>(In millions of Korean won)</i>	December 31, 2023	December 31, 2022
Deferred income tax assets to be recovered after more than 12 months	₩ 2,762,080	₩ 1,063,078
Deferred income tax assets to be recovered within 12 months	2,468,925	570,292
Deferred income tax assets recognized	<u>5,231,005</u>	<u>1,633,370</u>
Deferred income tax liabilities to be recovered after more than 12 months	(2,353,625)	(1,357,867)
Deferred income tax liabilities to be settled within 12 months	(2,304)	(865)
Deferred income tax liabilities recognized	<u>(2,355,929)</u>	<u>(1,358,732)</u>
Net income deferred tax assets (liabilities) recognized	<u>₩ 2,875,076</u>	<u>₩ 274,638</u>

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22. Derivative Financial Instruments

(1) Currency and interest rate swap

(a) Details of derivative financial instruments applying cash flow hedge accounting as of December 31, 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 others	2019.09.17 ~ 2024.09.17
2019.10.02	Foreign currency denominated borrowing for equipment with floating rate (Par value: USD 375,000)	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 and derivative financial liabilities held by the Group are presented in other financial assets and other financial liabilities in the consolidated financial statements of financial position as of December 31, 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)	₩ 90,016 ₩	90,016
Floating-to-fixed cross currency interest rate swap	Foreign currency denominated borrowing for equipment with floating rate (Par value: USD 375,000)	56,562	56,562
Derivative financial assets			₩ 146,578
Interest rate swap	Borrowing for equipment with floating rate (Par value: KRW 100,000)	₩ 1,398 ₩	1,398
Derivative financial liabilities			₩ 1,398

As of December 31, 2023, changes of fair value of the derivative are recognized in other comprehensive income or loss as all of designated hedging instruments are all effective against risks.

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22. 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 December 31, 2023 and December 31, 2022 are as follows:

(In millions of Korean won)

Derivative liabilities	December 31, 2023	December 31, 2022	Fair value
Embedded Derivatives ¹	₩ 1,477,619	₩ -	₩ 1,477,619

¹ Embedded derivatives are conversion right, call option, and put options granted on exchangeable bonds issued by the Group on April 11, 2023 (see note 17).

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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, 2023. The number of shares issued, common stock, capital surplus and other equity as of December 31, 2023 and 2022, are as follows:

<i>(In millions of Korean won and thousands of shares)</i>	December 31, 2023	December 31, 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	746,762	710,373
	₩ <u>4,372,559</u>	₩ <u>4,336,170</u>
Other equity:		
Acquisition cost of treasury shares ²	(2,272,589)	(2,300,387)
Share options	22,327	8,011
Others	(19,032)	(19,033)
	₩ <u>(2,269,294)</u>	₩ <u>(2,311,409)</u>
Accumulated other comprehensive income:		
Equity-accounted investees – share of other comprehensive income	132,898	125,051
Foreign operations – foreign currency translation differences	875,367	745,427
Gain on valuation of derivatives	5,790	28,204
	₩ <u>1,014,055</u>	₩ <u>898,682</u>
Number of treasury shares	39,864	40,351

¹ As of December 31, 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 487,609 treasury shares and, accordingly, gained on disposal of treasury shares of ₩13,566 million occurred.

(2) The number of outstanding shares, which deducted treasury shares held by the Parent Company from listed shares, as of December 31, 2023 and 2022, are as follows:

	December 31, 2023		
	Outstanding shares	Treasury shares	Total
The number of outstanding shares	728,002,365	39,863,716	688,138,649

	December 31, 2022		
	Outstanding shares	Treasury shares	Total
The number of outstanding shares	728,002,365	40,351,325	687,651,040

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24. Retained Earnings and Dividends

Retained earnings as of December 31, 2023 and 2022 are as follows:

(In millions of Korean won)

	December 31, 2023	December 31, 2022
Legal reserve ¹	₩ 610,436	₩ 535,877
Discretionary reserve ²	235,506	235,506
Unappropriated retained earnings	45,883,371	55,913,877
	<u>₩ 46,729,313</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.

(2) Dividends of the Parent Company

(a) Details of dividends for the years ended December 31, 2023 and 2022 are as follows:

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

	2023	2022
Type of dividends	Cash Dividends	Cash Dividends
Outstanding ordinary shares	688,139	687,651
Par value (in won)	₩ 5,000	₩ 5,000
Dividend rate	24.00%	24.00%
Total dividends	<u>₩ 825,721</u>	<u>₩ 825,181</u>

(b) Dividend payout ratio for the years ended December 31, 2023 and 2022 is as follows:

(In millions of Korean won)

	2023	2022
Dividends	₩ 825,721	₩ 825,181
Profit (loss) attributable to owners of the Parent Company	(9,112,428)	2,229,560
Dividend payout ratio ¹	-	37.01%

¹ As the dividend payout ratio was calculated as negative (-) due to loss attributable to owners of the Parent Company for the year, it is not stated.

(c) Dividend yield ratio for the years ended December 31, 2023 and 2022 is as follows:

(In Korean won)

	2023	2022
Dividends per share	₩ 1,200	₩ 1,200
Closing stock price	141,500	75,000
Dividend yield ratio	<u>0.85%</u>	<u>1.60%</u>

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25. Revenue

(1) Details of the Group's revenue for the years ended December 31, 2023 and 2022 are as follows:

(In millions of Korean won)

	2023	2022
Sale of goods	₩ 32,680,033	₩ 44,540,140
Providing services	85,686	81,428
	<u>₩ 32,765,719</u>	<u>₩ 44,621,568</u>

(2) Details of the Group's revenue by product and service types for the years ended December 31, 2023 and 2022 are as follows:

(In millions of Korean won)

	2023	2022
DRAM	₩ 20,768,662	₩ 28,168,802
NAND Flash	9,653,061	14,183,923
Others	2,343,996	2,268,843
	<u>₩ 32,765,719</u>	<u>₩ 44,621,568</u>

(3) The Group's revenue information by region based on the location of selling entities for the years ended December 31, 2023 and 2022 are as follows:

(In millions of Korean won)

	2023	2022
Korea	₩ 2,033,857	₩ 1,225,765
China	10,110,084	12,210,470
Asia (other than China)	4,296,937	5,615,384
U.S.A.	15,390,229	23,960,980
Europe	934,612	1,608,969
	<u>₩ 32,765,719</u>	<u>₩ 44,621,568</u>

(4) Details of the Group's revenue by the timing of revenue recognition during the years ended December 31, 2023 and 2022 are as follows:

(In millions of Korean won)

	2023	2022
Performance obligations satisfied at a point in time	₩ 32,680,033	₩ 44,540,140
Performance obligations satisfied over time	85,686	81,428
	<u>₩ 32,765,719</u>	<u>₩ 44,621,568</u>

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26. Selling and Administrative Expenses

Selling and administrative expenses for the years ended December 31, 2023 and 2022 are as follows:

(In millions of Korean won)

	2023	2022
Selling and administrative expenses:		
Salaries	₩ 829,260	₩ 1,079,387
Defined benefit plan	35,537	44,341
Employee benefits	220,675	237,640
Commission	769,489	1,095,111
Depreciation	304,389	264,845
Amortization	282,685	414,554
Freight and custody charges	53,680	58,688
Taxes and dues	85,672	102,035
Advertising	83,575	113,401
Supplies	120,607	157,009
Sales promotion expenses	117,811	172,715
Quality control cost	146,604	272,554
Others	396,174	331,605
	<u>3,446,158</u>	<u>4,343,885</u>
Research and development:		
Expenditure on research and development	4,101,257	4,803,503
Development cost capitalized	(350,550)	(328,950)
	<u>3,750,707</u>	<u>4,474,553</u>
	<u>₩ 7,196,865</u>	<u>₩ 8,818,438</u>

SK hynix Inc. and Subsidiaries
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27. Expenses by Nature

Nature of expenses for the years ended December 31, 2023 and 2022 are as follows:

(In millions of Korean won)

	2023	2022
Changes in finished goods and work-in-process	₩ 1,769,061	₩ (5,883,574)
Raw materials, supplies and consumables	9,547,151	11,150,976
Employee benefit	5,406,915	7,854,478
Depreciation and others	13,619,161	14,135,292
Commission	3,133,975	4,106,607
Utilities	2,563,624	2,226,716
Repair	1,763,270	1,580,065
Outsourcing	1,496,271	1,676,125
Others	1,534,757	1,316,343
Transfer: capitalized development cost and others	(338,153)	(350,877)
Total ¹	₩ <u>40,496,032</u>	₩ <u>37,812,151</u>

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

SK hynix Inc. and Subsidiaries
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28. Finance Income and Expenses

Finance income and expenses for the years ended December 31, 2023 and 2022 are as follows:

(In millions of Korean won)

	<u>2023</u>	<u>2022</u>
Finance Income:		
Interest income	₩ 216,429	₩ 89,561
Dividend income	13,392	2,425
Foreign exchange differences	1,903,535	3,486,872
Others	128,445	135,420
	<u>2,261,801</u>	<u>3,714,278</u>
Finance Expenses:		
Interest expense	1,468,273	533,114
Foreign exchange differences ¹	2,222,368	3,892,100
Loss on valuation of long-term investment assets	1,456,169	623,923
Loss on valuation of derivatives	914,201	-
Others	32,156	42,416
	<u>6,093,167</u>	<u>5,091,553</u>
Net finance income (expenses)	<u>₩ (3,831,366)</u>	<u>₩ (1,377,275)</u>

¹ The foreign exchange differences gain from long-term investment assets amounting to ₩223,687 million (2022: ₩472,381 million) are included for the years ended December 31, 2023.

SK hynix Inc. and Subsidiaries
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29. Other Income and Expenses

(1) Other income for the years ended December 31, 2023 and 2022 are as follows:

(In millions of Korean won)

	2023	2022
Reversal on impairment of intangible assets	₩ 323,772	₩ 179
Gain on disposal of property, plant and equipment	249,647	137,507
Gain on disposal of investment property	-	64,418
Others	50,448	39,267
	<u>₩ 623,867</u>	<u>₩ 241,371</u>

(2) Other expenses for the years ended December 31, 2023 and 2022 are as follows:

(In millions of Korean won)

	2023	2022
Loss on impairment of intangible assets	₩ 167,079	₩ 1,602,182
Loss on impairment of property, plant and equipment	165,704	7,691
Loss on disposal of property, plant and equipment	74,222	39,284
Donation	65,234	74,220
Loss on disposal of trade receivables	15,663	11,322
Others	247,163	67,220
	<u>₩ 735,065</u>	<u>₩ 1,801,919</u>

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30. Income Tax Expense (Benefit)

(1) Income tax expense (benefit) for the years ended December 31, 2023 and 2022 are as follows:

(In millions of Korean won)

	<u>2023</u>	<u>2022</u>
Current tax:		
Current tax on profits for the year	₩ 321,949	₩ 2,275,939
Adjustments for income tax expense attributable to prior year, but recognized in current year	(253,962)	(21,231)
	<u>67,987</u>	<u>2,254,708</u>
Deferred tax:		
Changes in net deferred tax assets, tax loss carryforwards and others	(2,588,256)	(493,597)
Income tax expense (benefit)	₩ <u>(2,520,269)</u>	₩ <u>1,761,111</u>

(2) The relationship between tax expense (benefit) and accounting profit (loss) for the years ended December 31, 2023 and 2022 are as follows:

(In millions of Korean won)

	<u>2023</u>	<u>2022</u>
Profit (Loss) before income tax	₩ (11,657,816)	₩ 4,002,780
Tax calculated at domestic tax rates applicable to profits in the respective countries	(2,731,494)	681,566
Tax effects of:		
Tax-exempt income	(55,316)	(10,593)
Non-deductible expenses	91,091	269,253
Change in unrecognized deferred tax assets	976,261	1,334,569
Tax credits	(585,050)	(493,385)
Adjustments for income tax expense attributable to prior year, but recognized in current year	(253,962)	(6,221)
Others	38,201	(14,078)
Income tax expense (benefit)	₩ <u>(2,520,269)</u>	₩ <u>1,761,111</u>

(3) Income taxes recognized in other comprehensive income (loss) for the years ended December 31, 2023 and 2022 are as follows:

(In millions of Korean won)

	<u>2023</u>	<u>2022</u>
Remeasurements of defined benefit liabilities	₩ 5,200	₩ (131,645)
Gain on valuation of derivatives	7,991	(1,840)
Gain on disposal of treasury stock	(4,866)	(579)
	<u>₩ 8,325</u>	<u>₩ (134,064)</u>

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30. Income Tax Expense (Benefit), Continued

(4) Impact of introduction of the Global Minimum Tax

Under the Global Minimum Tax (Pillar Two) legislation, the Group is liable to pay a top-up tax for the difference between their GloBE effective tax rate per jurisdiction and the 15% minimum rate from 2024.

Currently, the Group is in the process of assessing its exposure to the Global Minimum Tax (Pillar Two) legislation on its financial statements, but as of December 31, 2023, significant countries and entities subject to tax payment have not yet been identified.

Even in countries where the average effective tax rate is below 15%, the Group may not be exposed to paying Pillar Two income taxes due to adjustments made under Pillar Two Legislation. On the other hand, even for those entities with an average effective tax rate above 15%, there may still be Pillar Two tax implications.

Due to the complexities in applying the legislation and as detailed enforcement rules have not yet been enacted and implemented, the impact of the legislation is not yet reasonably estimable. The Group has currently engaged tax specialists to assist them with applying the legislation.

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31. Earnings (losses) per Share

Basic earnings (losses) 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 years ended December 31, 2023 and 2022.

(1) Basic earnings (losses) per share for the years ended December 31, 2023 and 2022 are as follows:

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

	<u>2023</u>	<u>2022</u>
Profit (loss) attributable to ordinary shareholders of the Parent Company	₩ (9,112,428) ₩	2,229,560
Weighted average number of outstanding ordinary shares ¹	688,051,238	687,645,878
Basic earnings (losses) per share (in Korean won)	<u>₩ (13,244) ₩</u>	<u>3,242</u>

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

(In shares)

	<u>2023</u>	<u>2022</u>
Outstanding ordinary shares	728,002,365	728,002,365
Acquisition of treasury shares	(39,951,127)	(40,356,487)
Weighted average number of outstanding ordinary shares	<u>688,051,238</u>	<u>687,645,878</u>

(2) Diluted earnings (losses) per share for the years ended December 31, 2023 and 2022 are as follows:

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

	<u>2023</u>	<u>2022</u>
Profit (loss) attributable to ordinary shareholders of the Parent Company	₩ (9,112,428) ₩	2,229,560
Weighted average number of diluted outstanding ordinary shares ¹	688,051,238	687,800,760
Diluted earnings (losses) per share (in Korean won)	<u>₩ (13,244) ₩</u>	<u>3,242</u>

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

(In shares)

	<u>2023</u>	<u>2022</u>
Weighted average number of outstanding ordinary shares	688,051,238	687,645,878
Stock options	-	154,882
Weighted average number of diluted outstanding ordinary shares¹	<u>688,051,238</u>	<u>687,800,760</u>

¹ There is a potential dilutive effect of 20,126,911 shares due to the issuance of exchangeable bonds, but it was not considered when calculating diluted earnings (losses) per share due to the antidilution during December 31, 2023.

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32. Transactions with Related Parties and Others

(1) Details of related parties as of December 31, 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 xinfu 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., SK telecom Japan
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 years ended December 31, 2023, and excluded from the list.

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32. Transactions with Related Parties and Others, Continued

(2) Significant transactions with related parties for the years ended December 31, 2023 and 2022 are as follows:

(In millions of Korean won)

		For the year ended December 31, 2023		
		Sales and others	Purchase and others	Asset acquisition
Associates	SK China Company Limited	₩ 38	₩ 13,505	₩ -
	Prume Social Farm, Co., Ltd.	-	112	-
	SK telecom Japan	-	84	2,496
Joint ventures	HITECH Semiconductor (Wuxi) Co., Ltd.	6,109	711,627	82,994
	Hystars Semiconductor (Wuxi) Co., Ltd.	46	15,639	38,637
Other related parties	SK Telecom Co., Ltd.	110,932	51,803	6,281
	SK Holdings Co., Ltd. ¹	19,679	282,827	39,704
	ESSEN CORE Limited	754,144	-	-
	SK Ecoplant Co., Ltd.	33,791	176	464,685
	SK Energy Co., Ltd.	63,220	140,614	18,700
	SK Networks Co., Ltd.	7,030	5,282	974
	SK enpulse Co., Ltd. (formerly, SKC Solmics Co., Ltd.)	1,021	131,140	97
	Chungcheong energy service Co., Ltd.	17	54,931	5
	SK Specialty Co., Ltd. (formerly, SK Materials Co., Ltd.)	5,081	134,057	-
	SK Siltron Co., Ltd.	36,555	416,726	-
	SK Materials Airplus Inc.	458	64,089	88,105
	Techdream Co., Ltd.	-	122,486	-
	SK Tri Chem Co., Ltd.	893	142,710	-
	SK Shieldus Co., Ltd.	3,701	99,021	13,699
	SK Innovation Co., Ltd.	18,202	72,414	35
	SK Square Co., Ltd.	106	-	-
	SK REIT Co., Ltd.	-	7,183	-
	Clean Industrial REIT Co., Ltd ²	1,120,315	7,938	495,320
	FSK L&S Co., Ltd.	63	44,174	2,199
	SK E&S Co., Ltd.	198	15,849	1,951
SK LNG Trading Pte., Ltd.	-	214,582	14,143	
Others	258,573	225,155	165,650	
	₩ 2,440,172	₩ 2,974,124	₩ 1,435,675	

¹ Royalty expense for the use of the SK brand for the year ended December 31, 2023 is included.

² Sales and others to Clean Industrial REIT Co., Ltd for the year ended December 31, 2023 include proceeds from asset disposal that amount to ₩ 1,120,315 million.

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32. Transactions with Related Parties and Others, Continued

(2) Significant transactions with related parties for the years ended December 31, 2023 and 2022 are as follows, Continued:

(In millions of Korean won)

		For the year ended December 31, 2022		
		Sales and others	Purchase and others	Asset acquisition
Associates	SK China Company Limited	₩ 35	₩ 12,443	₩ -
	Prume Social Farm, Co., Ltd.	-	47	-
Joint ventures	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
	SK enpulse Co., Ltd. (formerly, SKC Solmics Co., Ltd.)	1,449	150,205	648
	Chungcheong energy service Co., Ltd.	306	55,806	132
	SK Specialty Co., Ltd. (formerly, 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	
		₩ 1,705,252	₩ 3,257,320	₩ 3,267,510

¹ Royalty expense for the use of the SK brand for the year ended December 31, 2022 is included.

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 steam, gas and raw materials, and system developments and maintenance services.

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32. Transactions with Related Parties and Others, Continued

(3) The balances from significant transactions as of December 31, 2023 and 2022 are as follows:

(In millions of Korean won)

		December 31, 2023	
	Company	Trade receivables and others	Other payables and others
Associate	SK China Company Limited	₩ -	₩ 13,587
	Prume Social Farm, Co., Ltd.	-	8
	SK telecom Japan	616	2,419
Joint ventures	HITECH Semiconductor (Wuxi) Co., Ltd.	248	380,520
	Hystars Semiconductor (Wuxi) Co., Ltd. ¹	-	80,836
Other related parties	SK Telecom Co., Ltd.	6,137	13,211
	SK Holdings Co., Ltd.	21,258	111,043
	ESSEN CORE Limited	139,326	-
	SK Ecoplant Co., Ltd.	5,460	326,831
	SK Energy Co., Ltd.	3,818	35,749
	SK Networks Co., Ltd.	288	8,035
	SK enpulse Co., Ltd. (formerly, SKC Solmics Co., Ltd.)	81	29,824
	Chungcheong energy service Co., Ltd.	-	5,887
	SK Specialty Co., Ltd. (formerly, SK Materials Co., Ltd.)	491	15,805
	SK Siltron Co., Ltd.	141,152	40,002
	SK Materials Airplus Inc.	103	515,618
	Techdream Co., Ltd.	-	3,935
	SK Tri Chem Co., Ltd.	220	15,989
	SK Shieldus Co., Ltd.	251	29,790
	SK Innovation Co., Ltd.	1,132	6,385
	SK Square Co., Ltd.	1,073	-
	SK REIT Co., Ltd.	17,330	162,557
	Clean Industrial REIT Co., Ltd	-	605,333
	FSK L&S Co., Ltd.	12	3,442
	SK E&S Co., Ltd.	57	391
SK LNG Trading Pte., Ltd.	-	35,421	
Others	35,946	157,164	
	₩	<u>374,999</u>	₩ <u>2,599,782</u>

¹ Other payables and others include ₩41,262 million of borrowings.

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32. Transactions with Related Parties and Others, Continued

(3) The balances from significant transactions as of December 31, 2023 and 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.

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32. 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, 2023 and 2022 is as follows:

(In millions of Korean won)

Details	2023	2022
Salaries	₩ 6,469	₩ 5,891
Defined benefit plan related expenses	468	411
Share-based payment	10,847	7,762
	<u>₩ 17,784</u>	<u>₩ 14,064</u>

(5) The significant transactions between the Group and the companies that are in the same conglomerate group according to 'Fair Trade Law' for the years ended December 31, 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)

Name of entity	2023		
	Sales and others	Purchase and others	Asset acquisition
SK Chemicals Co., Ltd.	₩ 7,726	₩ 822	₩ -
SK Bioscience Co., Ltd.	2,341	248	-
ANTS Co., Ltd.	6	10,989	-
SM Core Co., Ltd.	12	2,635	3,985
Korea Nexlene Company	4,665	-	-
Others	1,914	-	-
	<u>₩ 16,664</u>	<u>₩ 14,694</u>	<u>₩ 3,985</u>

(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
	<u>₩ 19,194</u>	<u>₩ 26,087</u>	<u>₩ 49,833</u>

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32. 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, 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)

Name of entity	December 31, 2023	
	Trade receivables and others	Other payables and others
SK Chemicals Co., Ltd.	₩ 792	₩ -
SK Bioscience Co., Ltd.	163	1
ANTS Co., Ltd.	1	-
SMCore Inc.	-	1,725
Korea Nexlene Company	225	-
Others	167	-
	₩ 1,348	₩ 1,726

(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

(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, 2023 amount to ₩117,543 million and ₩117,543 million, respectively, and lease payments to HITECH Semiconductor (Wuxi) Co., Ltd. and Hystars Semiconductor (Wuxi) Co., Ltd., amount to ₩120,578 million. The right-of-use assets and lease liabilities recognized regarding the lease agreements with other related parties including Clean Industrial REIT Co., Ltd and SK Materials Airplus Inc. for the year ended December 31, 2023 amount to ₩649,406 million and ₩769,412 million, respectively, and lease payments to the related parties including Clean Industrial REIT Co., Ltd and SK Materials Airplus Inc. for the year ended December 31, 2023 amount to ₩108,034 million.

(8) The Group provides a payment guarantee amounting to RMB 701 million to Wuxi Xinfra 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 11.

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32. Transactions with Related Parties and Others, Continued

(10) Financial transactions with related parties for the years ended December 31, 2023 and 2022 are as follows:

(In millions of Korean won)

		For the year ended December 31, 2023		
	Company	Repayment	Dividend received	Dividend Paid
Joint venture	HITECH Semiconductor (Wuxi) Co., Ltd.	-	15,863	-
	Specialized Investment-type Private Equity Investment Trust For Growth Of Semiconductor	-	153	-
Associate	Magnus Private Investment Co., Ltd.	-	262	-
Other related parties	SK Square Co., Ltd.	-	-	175,320
		<u>₩ -</u>	<u>₩ 16,278</u>	<u>₩ 175,320</u>

(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>

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33. Commitments and Contingencies

(1) Significant pending litigations and claims of the Group as of December 31, 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 December 31, 2023.

Meanwhile, in June 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 to upheld the decision to dismiss the lawsuit as of December 31, 2023, also Federal Court of Ontario has finalized its decision in January 2024.

(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 major DRAM companies' sales in China in May 2018. The pending case currently is under investigation. As of December 31, 2023, the Group cannot predict the outcome of this 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, 2023 and 2022

33. Commitments and Contingencies, Continued

(3) Assets provided as collateral

Details of assets provided as collateral as of December 31, 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	₩ 101,465	USD	71	91,498	Borrowings for equipment and others
Machinery		KRW		14,854	
		USD	3,116	4,017,139	
	2,977,336	KRW		450,000	
		USD	3,187	4,108,637	
	₩ 3,078,801	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	₩ 101,465	USD	17	22,049	Borrowings for equipment and others
Machinery		KRW		3,490	
		USD	1,648	2,125,047	
	2,977,336	KRW		500,000	
		USD	1,665	2,147,096	
	₩ 3,078,801	KRW		503,490	

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2023 and 2022

33. Commitments and Contingencies, Continued

(4) Financing agreements

Details of credit lines with financial institutions as of December 31, 2023 are as follows:

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

	Financial Institution	Commitment	Currency	Amount
The Parent Company	Hana Bank and others	Import finance including usance	USD	630
		Comprehensive limit contract for import and export including usance	USD	1,670
		Overdrafts with banks	KRW	20,000
		Accounts receivable factoring contracts which have no right to recourse	KRW	70,000
SK hynix Semiconductor (China) Ltd.	Agricultural Bank of China and others	Import finance including usance	RMB	950
			USD	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	KRW	23,200
		Import finance including usance	USD	15

(5) The Group's commitments in relation to future capital expenditures on property, plant and equipment that have not been recognized as of December 31, 2023 are ₩12,008,592 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 Consolidated Financial Statements

December 31, 2023 and 2022

33. 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 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 December 31, 2023 is ₩1,175,105 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 Consolidated Financial Statements
December 31, 2023 and 2022

34. Cash Flows

(1) Reconciliations between profit for the year and cash generated from operations for the years ended December 31, 2023 and 2022 are as follows:

(In millions of Korean won)

	<u>2023</u>	<u>2022</u>
Profit (Loss) for the year	₩ (9,137,547)	₩ 2,241,669
Adjustment		
Income tax expense (benefit)	(2,520,269)	1,761,111
Defined benefit plan	152,374	251,241
Depreciation	13,121,135	13,371,861
Amortization	552,541	779,609
Loss on impairment of property, plant and equipment	165,704	7,691
Loss on impairment of intangible assets	167,079	1,602,182
Loss on valuation of financial instruments	1,488,321	623,923
Interest expense	1,468,273	533,114
Loss on foreign currency translation	906,120	1,925,382
Gain on equity method investments, net	(15,061)	(131,186)
Gain on disposal of property, plant and equipment	(249,647)	(137,507)
Gain on derivatives	900,383	34,546
Interest income	(216,429)	(89,561)
Gain on foreign currency translation	(573,884)	(868,767)
Reversal on impairment of intangible assets	(323,772)	(179)
Others, net	9,757	(131,524)
Changes in operating assets and liabilities		
Decrease(increase) in trade receivables	(1,406,188)	3,341,986
Increase in loans and other receivables	(20,307)	(92,633)
Decrease(increase) in inventories	2,288,020	(6,572,069)
Decrease(increase) in other assets	113,317	(232,964)
Increase(decrease) in trade payables	(168,095)	520,956
Increase(decrease) in other payables	251,297	(379,662)
Increase(decrease) in other non-trade payables	(1,454,172)	876,906
Increase in provisions	8,622	237,022
Increase in other liabilities	1,436,515	312,934
Payment of defined benefit liabilities	(5,048)	(4,528)
Contributions to plan assets	(250,173)	(697,665)
Cash generated from operations	<u>₩ 6,688,866</u>	<u>₩ 19,083,888</u>

(2) Details of significant transactions without inflows and outflows of cash for the years ended December 31, 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	₩ -	₩ 3,426,262
Decrease in borrowings related to sale and leaseback contract	(342,070)	-

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
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34. Cash Flows, Continued

(3) Changes in liabilities arising from financing activities during the years ended December 31, 2023 and 2022 are as follows:

(In millions of Korean won)

	<u>2023</u>	<u>2022</u>
Beginning balance	₩ 24,791,685	₩ 19,149,571
Cash flows from financing activities		
- Proceeds from borrowings	20,657,967	11,917,454
- Repayments of borrowings	(13,689,433)	(7,124,565)
- Payments of lease liabilities	(461,466)	(301,858)
Increase of lease liabilities	1,661,043	566,056
Others(business combination and foreign currency differences, etc.)	(602,382)	534,030
Present value discount (interest expense)	160,341	63,006
Interest paid	(19,249)	(12,009)
Ending balance	<u>₩ 32,498,506</u>	<u>₩ 24,791,685</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
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35. Share-based Payment

(1) Details of the granted share-based payment

(a) The Parent Company accounts for share-based payment, with options granted to employees to choose either cash-settled or equity-settled share-based payment, based on the substance of such transactions and the details of the share options as of December 31, 2023 are as follows:

(In shares)

	Total numbers of share option granted	Forfeited or Cancelled	Exercised	Outstanding at December 31, 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 ¹	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	398,631	376,873

	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 ¹	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 year ended December 31, 2023, the share options were exercised as cash-settled share-based payment.

² During the year ended December 31, 2023, 15,001 shares of options have forfeited.

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2023 and 2022

35. Share-based Payment, Continued

(1) Details of the Share-based Payment Granted, Continued

(b) Details of equity-settled share-based payment granted by the Parent Company are as follows:

	1-1 st	1-2 nd	2 nd
Grant date	2022-03-17	2022-04-27	2023-06-28
Types of shares to be issued	Registered common shares	Registered common shares	Registered common shares
Grant method	Reissue of treasury shares	Reissue of treasury shares	Reissue of treasury shares
Number of shares	Initial grant size * TSR * Adjustment ratio / Stock price on exercise date ^{1,3}	Initial grant size * TSR * Adjustment ratio / Stock price on exercise date ^{1,3}	Initial grant size * (Adjustment ratio + increase rate of stock price - increase rate of KOSPI200) ^{2,3}
Base stock price	₩ 124,000	₩ 108,500	₩ 79,975
Exercisable period	March 17, 2025 ~ March 17, 2029	April 27, 2025 ~ April 27, 2029	January 1, 2026 lump sum payment
Service Period for Vesting	2 years' service from the grant date	2 years' service from the grant date	3 years' service from January 1, 2023 ⁴

¹ TSR (Total shareholder return) is calculated as "(Stock price on exercise notification date - Base stock price + Parent Company's total dividends per share from grant date to exercise notification date)/base stock price", and the adjustment ratio considers the Company's TSR compared to the TSR of its industry peers.

² The adjustment ratio considers increase rate of stock price, and is 2 times of initial grant shares. If the increase rate of stock price rises by 100% and exceeds the increase rate of KOSPI200 by 50% points, additional shares equal to the initial grant will be paid.

³ Some of the 1-1 and 1-2 share-based payments were canceled and a replacement amount was granted in the 2nd share-based payment.

⁴ When employed for more than 2 years but less than 3 years, the granted amount is adjusted in proportion to the period of service.

(c) 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
Quarterly	74,590,952	17,669,205	12,159,502

SK hynix Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2023 and 2022

35. Share-based Payment, Continued

(2) Details of liabilities recognized for stock appreciation rights as of December 31, 2023 are as follows:

(In millions of Korean won)

	December 31, 2023
Stock appreciation rights liabilities ¹	₩ 45,532

¹ As of December 31, 2023, the intrinsic value of the vested salary for the above stock appreciation right liabilities is ₩11,570 million, stock appreciation rights liabilities include RSU for the subsidiaries' shares amount to ₩27,782 million.

(3) Measurement of fair value

(a) The compensation cost is calculated by applying a binomial option-pricing model in estimating the fair value of the option as of December 31, 2023. The inputs used are as follows:

	<u>3rd</u>	<u>10th</u>	<u>11th</u>	<u>12th</u>	<u>13th</u>	<u>14th</u>
Share price (Closing stock price on valuation date, in Korean won)	₩ 133,900	₩ 133,900	₩ 133,900	₩ 133,900	₩ 133,900	₩ 133,900
Expected volatility	33.10%	33.10%	33.10%	33.10%	33.10%	33.10%
Estimated fair value of share option (in Korean won)	₩ 77,595	₩ 59,412	₩ 59,412	₩ 28,292	₩ 28,292	₩ 39,805
Dividend yield ratio	0.80%	0.80%	0.80%	0.80%	0.80%	0.80%
Risk free ratio	3.54%	3.60%	3.60%	3.55%	3.55%	3.60%

In addition, the fair value of RSUs granted by subsidiaries to their executives and employees was calculated using the stock price of the underlying assets as of December 31, 2023.

(b) The compensation cost regarding the equity-settled share-based payment granted by the Company is calculated by applying a binomial option-pricing model in estimating the fair value of the option. The inputs used to measure the fair value of the share-based payment as of the grant date are as follows.

	<u>1-1st</u>	<u>1-2nd</u>	<u>2nd</u>
Expected volatility	33.92%	34.22%	34.81%
Per-share fair value of the option(in Korean won)	₩ 52,729	₩ 42,064	₩ 155,443
Dividend yield ratio	-	-	1.50%
Risk-free interest rate (Government bonds yield)	2.65%	3.19%	3.60%

(4) The compensation expense for the year ended December 31, 2023 is ₩75,395 million (2022: ₩39,762 million).

Independent Auditors' Report on Internal Control over Financial Reporting for Consolidation Purposes

Based on a report originally issued in Korean

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

Opinion on Internal Control over Financial Reporting for Consolidation Purposes

We have audited SK hynix Inc. and its subsidiaries' (the "Group") internal control over financial reporting for consolidated purposes as of December 31, 2023, based on the criteria established in Conceptual Framework for Designing and Operating ICFR ("ICFR Design and Operation Framework") issued by the Operating Committee of Internal Control over Financial Reporting in the Republic of Korea (the "ICFR Committee").

In our opinion, the Group maintained, in all material respects, effective internal control over financial reporting for consolidation purposes as of December 31, 2023, based on the ICFR Design and Operation Framework issued by the ICFR Committee.

We also have audited, in accordance with Korean Standards on Auditing ("KSAs"), the consolidated statement of financial position of the Group as of December 31, 2023, the related consolidated statements of comprehensive loss, changes in equity, and cash flows for the year then ended and notes including material accounting policy information and other explanatory information, and our report dated March 8, 2024 expressed an unmodified opinion on those consolidated financial statements.

Basis for Opinion on Internal Control over Financial Reporting for Consolidation Purposes

We conducted our audit in accordance with KSAs. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Internal Control over Financial Reporting for Consolidation Purposes* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the internal control over financial reporting in the Republic of Korea, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

Those charged with governance are responsible for overseeing the Group's internal control over financial reporting for consolidation purposes.

Auditors' Responsibilities for the Audit of the Internal Control over Financial Reporting for Consolidation Purposes

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

Our audit of internal control over financial reporting for consolidation purposes included obtaining an understanding of internal control over financial reporting for consolidation purposes, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk.



Definition and Inherent Limitations of Internal Control over Financial Reporting for Consolidation Purposes

A company's internal control over financial reporting for consolidation purposes is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with Korean International Financial Reporting Standards ("K-IFRS"). A company's internal control over financial reporting for consolidation purposes includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Group; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with K-IFRS, and that receipts and expenditures of the Group are being made only in accordance with authorizations of management and directors of the Group; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Group's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting for consolidation purposes may not prevent, or detect and correct misstatements in the consolidated financial statements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The engagement partner on the audit resulting in this independent auditors' report is Joo Hun Yoon.

KPMG Samjong Accounting Corp.

KPMG Samjong Accounting Corp.
Seoul, Korea
March 8, 2024

This report is effective as of March 8, 2024, 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 Group's internal control over financial reporting. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

Report on the Operation of Internal Control over Financial Reporting for consolidation purpose

Management's Report on the Effectiveness of the Internal Control over Financial Reporting for consolidation purposes

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

We, as the Chief Executive Officer and the Internal Accounting Manager of SK HYNIX INC. and its subsidiaries' ("the Group"), assessed operating status of the Group's Internal Control over Financial Reporting for consolidation purposes ("ICFR") for the year ending December 31, 2023.

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

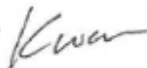
We used the 'Conceptual Framework for Designing and Operating Internal Control over Financial Reporting' established by the Operating Committee of Internal Control over Financial Reporting in Korea (the "ICFR Committee") as the criteria for design and operation of the Group's ICFR. And we conducted an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

Based on our assessment, we concluded that the Group's ICFR is designed and operated effectively as of December 31, 2023, in all material respects, in accordance with the 'Conceptual Framework for Designing and Operating Internal Control over Financial Reporting.

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

Feb 19, 2024

Noh Jung Kwak Chief Executive Officer



Woo Hyun Kim, Internal Accounting Manager

