



## DBL, SK hynix's NEW GROWTH STRATEGY

# CONTENTS

03 CEO's Message

## ABOUT US

- 04 Corporate Profile
- 05 Financial Performance
- 06 Business Areas

## FOCUS AREA

- 25 Transparent Management
- 32 Creating a Safe Workplace
- 37 Respecting Human Rights
- 41 Addressing Climate Change
- 45 Reducing our Environmental Impact
- 49 Supporting Supply Chain Sustainability

## SK hynix's NEW GROWTH STRATEGY

- 12 Background of Social Value Creation
- 14 Social Value Creation in 2017
- 16 Social Value Creation Strategy of SK hynix
- 17 Promises of SK hynix

## SUSTAINABILITY

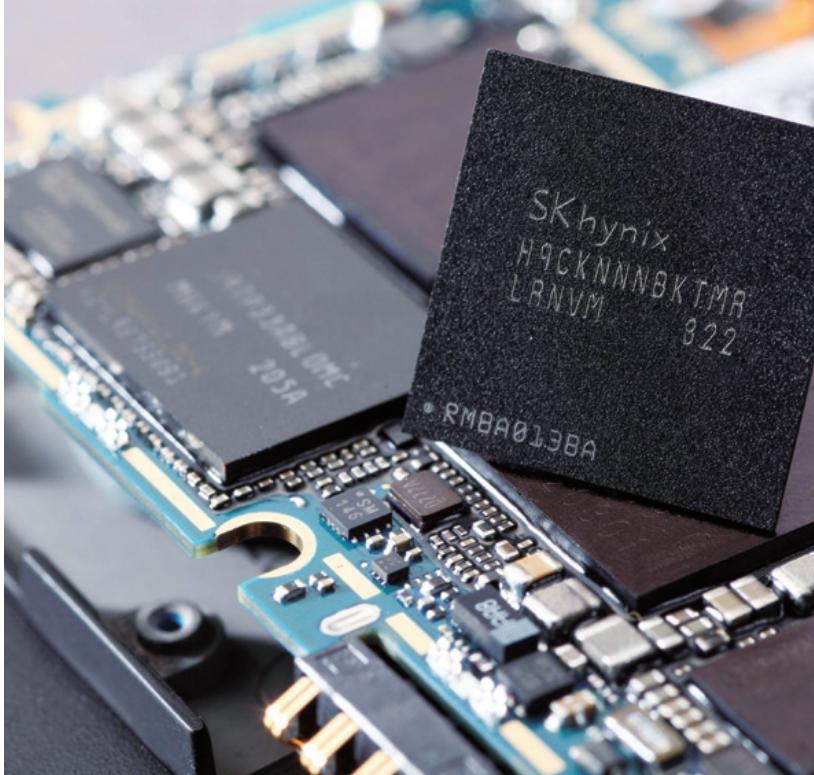
- 19 Sustainability Management System
- 20 2017 Highlights
- 21 Communication with Stakeholders
- 22 Materiality Test

## PERFORMANCE

- 55 Corporate Philanthropy
- 57 SHE Management
- 62 Human Capital Management
- 65 Customer Satisfaction

## APPENDIX

- 68 Global Network
- 69 Financial Highlights & Independent Auditors' Report
- 70 Greenhouse Gas Verification Report
- 71 Third Party's Assurance Statement
- 72 GRI Index
- 77 UN Global Compact
- 78 Awards, Recognition and Association Memberships
- 79 About This Report



This report has been published as an interactive PDF, allowing readers to move quickly and easily to pages in the report, and including shortcuts to related web pages.



Reference Page



Related Link

## CEO'S MESSAGE



SK hynix has set 'Double Bottom Line' (DBL) as ultimate management goal to pursue a semiconductor ecosystem that reinforces while aiming to create social value going beyond business performance. As a member of the New SK creating new value, SK hynix will be in the forefront of the contribution activities toward a better society for all.

### SK hynix will pave the way for creating social value – clear and core management principles.

#### Dear stakeholders,

Thanks to your continued support, even when the technological development of Korea was still in its early stage, SK hynix has grown into a world-leading semiconductor company. Last year, we achieved the best performances ever in sales, operating profits and all other areas of our business performance, and also made great progress towards our goal of becoming the world's best company.

Rather than being complacent with our current success, we are asking ourselves fundamental questions about our role beyond merely generating economic profits and our impact on the society. We therefore would like to share the progress we have made in our journey of finding right answers through this 2018 Sustainability Report.

SK hynix is well aware that the only way to guarantee sustainable growth is to grow together with society. That is why we support the UN Global Compact, UN Sustainable Development Goals and Responsible Business Alliance, and lead relevant changes. Above all, we focus on improving our fundamental competitiveness through 'Deep Change' based on our belief that technological leadership leads to sustainable growth. We also strive to overcome technological challenges through endless innovation, and we improve our competitiveness with a goal of leading next-generation markets. In particular, our top priority lies in memory semiconductors, as these will be a key technology for artificial intelligence (AI) and autonomous driving vehicles in the Fourth Industrial Revolution.

At the same time, we continue to the Double Bottom Line (DBL), seeking to achieve the right balance between economic and social performance, and we are leading changes needed to fulfill this goal. We have expanded our Shared Growth Fund to include 2<sup>nd</sup>-3<sup>rd</sup> tier suppliers, supporting them

with a knowledge-sharing platform to help them improve their businesses, and thus building a semiconductor ecosystem that is based on a virtuous cycle of mutual support and shared growth.

SK hynix has also set up the Sustainability Management Committee within the Board of Directors, as well as establishing an independent sustainability management organization to improve our ability to generate social value and to internalize the sustainability principles that we are pursuing. We will measure the social value we generate on a regular basis, and share the results in a transparent manner.

SK hynix is only at the starting point when it comes to identify social values within us. However, by focusing on this issue now, more people become aware of the issue and are volunteering to participate in the company-wide social improvements. By turning social value from a once-abstract concept into our concrete goal, we hope to make it a business principle inherent in all companies. SK hynix would like to express our deepest thanks to all our stakeholders for the unwavering support and encouragement you've given to SK hynix at our time of change and innovation. We ask for your continuing interest and support as we advance towards new and greater goals.

June 2018

A handwritten signature in black ink, likely belonging to Park Sung-Wook, the CEO of SK hynix.

Park Sung-Wook  
CEO of SK hynix

# CORPORATE PROFILE

## Semiconductor – the core to technologies that change the world

In the digital world, semiconductors serve as the foundation of the IT industry and perform key roles.

Just as smart phones and tablets have come into wide use in the modern society, new IT devices that existed only in films will soon be introduced to our lives.

Changes in IT devices led by the expansion of Internet of Things (IoT) will result in greater roles of and demand for semiconductors.



## SK hynix – creating value from the inside out

SK hynix became the first in Korea to complete the pilot production of 16 Kb SRAM in 1984. Since then, we have been taking the lead in driving technological development by introducing innovative semiconductor products that are the world's first, smallest and fastest, and also needs the lowest voltage. New social changes, such as artificial intelligence (AI), virtual reality (VR), and autonomous driving vehicles, demand more advanced and professional semiconductors. We are therefore preparing next-generation memory technologies, such as PC RAM, STT-M RAM, and Re RAM, and strengthening our technological leadership and product competitiveness for the Fourth Industrial Revolution.

SK hynix has four production sites – Icheon and Cheongju in Korea as well as in Wuxi and Chongqing in China – and sales subsidiaries in ten countries, including the US, the UK, Germany, Singapore, Hong Kong, India, Japan, Taiwan and China. We also operate four R&D offices in Italy, the US, Taiwan and Belarus. Based on around 30 years of know-how in semiconductor production as well as continued R&D and investments, we do our utmost to lead the global semiconductor market by achieving technological and cost competitiveness as a global company.



### Company Name

SK hynix Inc.



### CEO

Park Sung-Wook



### Establishment

February 1983



### Business Domain

Manufacturing and sales of semiconductor devices



### Headquarters

2091, Gyeongchung-daero, Bubal-eup, Icheon-si, Gyeonggi-do, Korea



### Products and Services

Memory semiconductor  
DRAM, NAND flash, MCP, etc.

System semiconductor  
CMOS image sensor (CIS), etc.



### Stock Exchange Listings

Korea Exchange, Luxembourg Stock Exchange

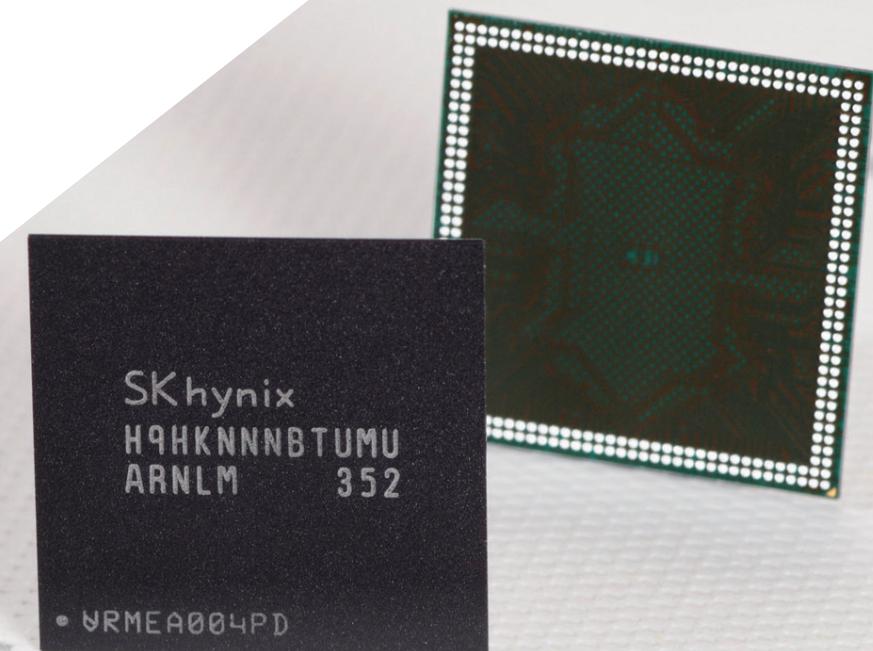


PR video clips of SK hynix

## FINANCIAL PERFORMANCE

The world economy in 2017 was marked by rising uncertainties as geopolitical risks rose and the protracted low-interest era came to an end. In contrast, the IT industry went through a rapid paradigm shift brought on by the Fourth Industrial Revolution, exemplified by artificial intelligence (AI), data analytics, IoT and autonomous driving.

Amid such market changes, which were swifter and more potent than anticipated, the memory industry grew at a rate higher than in any other years. SK hynix, in particular, was able to achieve an unprecedented business performance by responding to the soaring demand for servers and mobile memory products with high-performance, high-spec products. Furthermore, SK hynix is focused on securing a long-term growth foundation in order to meet the increasing demand for memory products.



---

**Sales**  
(Unit: KRW billion)

|      |        |
|------|--------|
| 2015 | 18,798 |
| 2016 | 17,198 |
| 2017 | 30,109 |

YoY  
+75%

---

**Operating profit**  
(Unit: KRW billion)

|      |        |
|------|--------|
| 2015 | 5,336  |
| 2016 | 3,277  |
| 2017 | 13,721 |

YoY  
+319%

---

**Net profit**  
(Unit: KRW billion)

|      |        |
|------|--------|
| 2015 | 4,322  |
| 2016 | 2,954  |
| 2017 | 10,642 |

YoY  
+260%

## BUSINESS AREAS

### IDC SERVER

Processing capabilities for the future of ICT

Energy efficiency matters with data centers

### STORAGE SOLUTIONS

Fast processing performance for heavy workloads

Power efficiency for processing flows of data

Data reliable 24/7

Delivering steady performance

Keeping your data protected



### Server Solutions



## SERVER SOLUTIONS

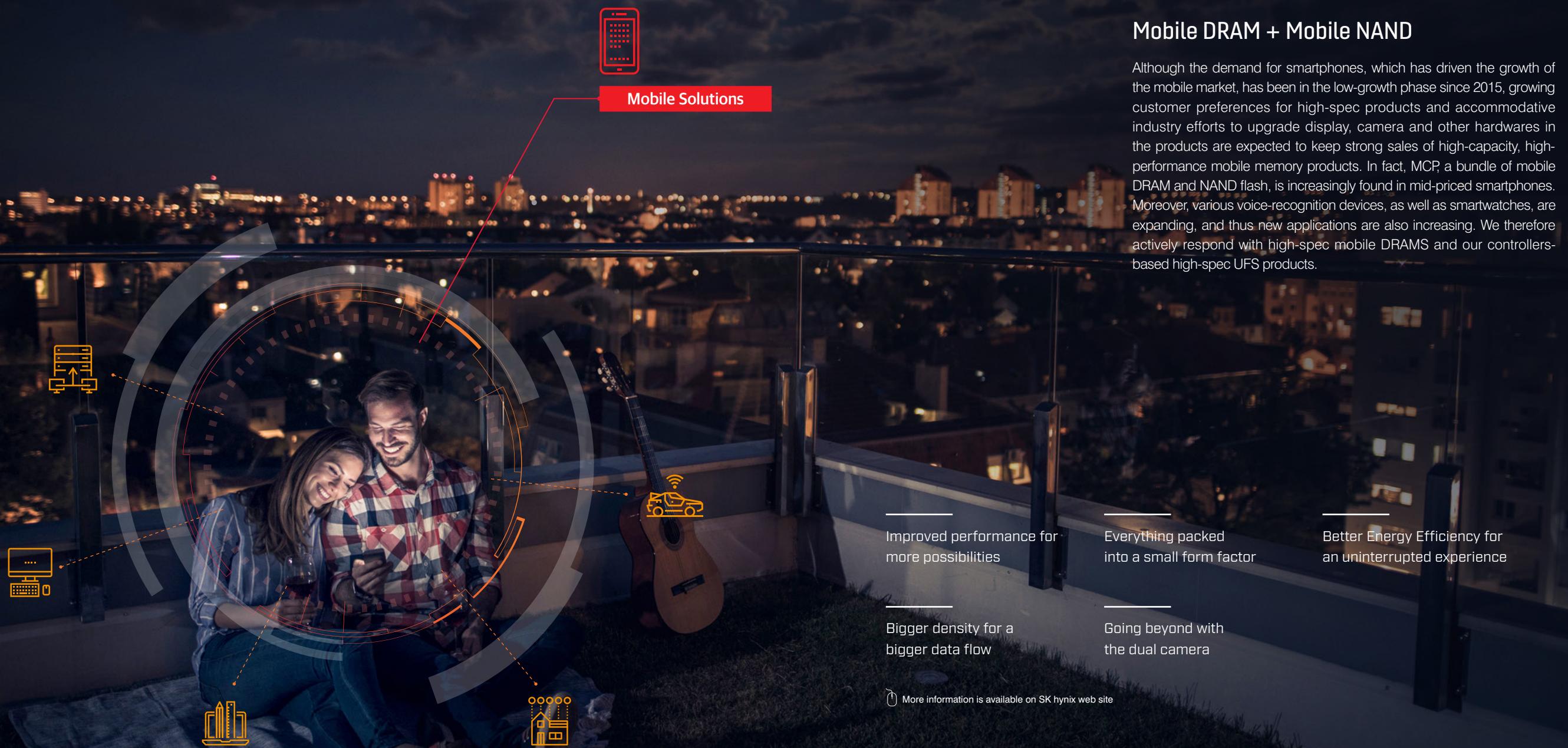
### Server DRAM + Enterprise SSD

SK hynix offers semiconductor memory products that are crucial to cloud computing, big data analytics and other core areas of the Fourth Industrial Revolution. The growth of analytics applications, based on artificial intelligence (AI) and machine learning (ML), has accelerated the demand for hi-bandwidth, high-capacity memory products. And to capitalize on this trend, we are expanding the production of high-speed, high-capacity server DRAM modules. Also, by supplying SSD products using the 3D NAND flash and controller of our own development, we are continuing efforts to generate added value in the fast-rising storage market. In 2018, in particular, by pushing our 72-layer 3D NAND flash products into the enterprise SSD market, we plan to lead the innovation of IDC data process and bolster our future growth drivers.

# MOBILE SOLUTIONS

## Mobile DRAM + Mobile NAND

Although the demand for smartphones, which has driven the growth of the mobile market, has been in the low-growth phase since 2015, growing customer preferences for high-spec products and accommodative industry efforts to upgrade display, camera and other hardwares in the products are expected to keep strong sales of high-capacity, high-performance mobile memory products. In fact, MCP, a bundle of mobile DRAM and NAND flash, is increasingly found in mid-priced smartphones. Moreover, various voice-recognition devices, as well as smartwatches, are expanding, and thus new applications are also increasing. We therefore actively respond with high-spec mobile DRAMS and our controllers-based high-spec UFS products.



## PC SOLUTIONS

### PC DRAM + Client SSD

Of late, virtual reality (VR) and high-spec gameplays, and high-resolution video and image productions are increasingly stimulating the rollout of ever-powerful consumer computers; and new demand for and upgrades to thinner and lighter laptop computers are on the rise. In particular, as the average memory capacity of gaming PCs and ultrabooks has been increasing, the overall market demand for PC DRAMs remains stable and the SSD capacity of laptops is on a steady rise. Accordingly, based on its firm customer base and best-in-class product quality, SK hynix focuses on solidifying its leading position in the PC DRAM market and expand its SSD market share.



Taking performance  
anywhere with you

# GRAPHICS SOLUTIONS

The graphic DRAM market continues to grow along with the advancement of video, 3D and graphic technology. SK hynix has developed the world's fastest 8GB GDDR6 graphic DRAM and plans to mass-produce the product in line with the rollout of the highest-grade graphic card slated in the second half of 2018. As high-speed graphic DRAM-based AI is emerging as the important strategic growth area of IT companies, SK hynix has developed a second-generation high-bandwidth memory chip with superior data processing speed and plans to mass-produce it starting this year.



## GRAPHICS SOLUTIONS

Multi-dimensional processing  
for various heavy tasks

Creating realism for  
immersive experience

Fit for various gaming  
platforms

Fast real-time  
processing

Power management  
for heavy usage

More information is available on SK hynix web site



## CONSUMER & AUTOMOTIVE SOLUTIONS

The high-spec trend of digital TV and set-top boxes, an important consumer application market, is driving the continued increase of memory capacity. IoT, autonomous driving, 5G networks and other new sources of demand are expected to be on the rise in earnest. Accordingly, SK hynix will continue its efforts to bolster product line-up, and thus capitalize on diverse consumer applications, and to offer optimal solutions to the automotive market's growing needs for specialty memory products, with an aim to further solidify its market presence in the future.

# SK hynix's NEW GROWTH STRATEGY

SK hynix is taking an active part in SK Group's execution of the Double Bottom Line (DBL) strategy of pursuing both economic and social values. Accordingly, we plan to establish a virtuous cycle of social value and economic value which will enable us to achieve sustainable growth together with our stakeholders.



## BACKGROUND OF SOCIAL VALUE CREATION

New social issues rise as stakeholders increasingly interdepend with one another as a result of rapid progress of civil societies and the integration of global markets. Owing to these changes in the business environment, calls are growing for corporates to expand their social responsibilities, and only those that help solve social problems through innovative business models will survive.

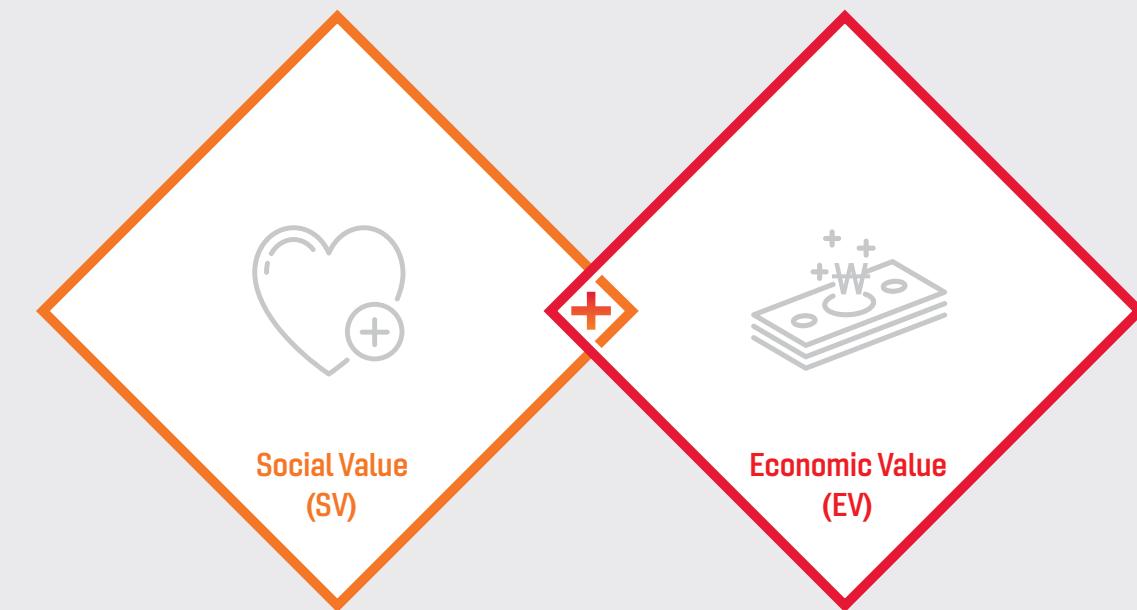
To keep its pace with social and market changes, SK Group has declared its management principle as 'Double Bottom Line (DBL)'. By balancing economic value (EV) and social value (SV), SK Group seeks to ensure its competitive advantages and thus archive sustainable growth.

### DBL

DBL is a value system that comprehensively pursues EV and SV.

#### Social Value

Social value refers to the sum of the social outcomes of corporate management activities that contribute to the resolution of 'social issues'. A social issue is defined as a state where many members of a society are suffering from a structural issue that cannot be resolved by an individual's effort alone.



# Double Bottom Line

**SK hynix's NEW GROWTH STRATEGY****Background of Social Value Creation**

Social Value Creation in 2017

Social Value Creation Strategy of SK hynix

Promises of SK hynix

**SUSTAINABILITY****FOCUS AREA****PERFORMANCE****APPENDIX****Evaluation Model for Social Value**

In 2017, SK developed an evaluation model for corporate value based on a DBL methodology, and plans to continue to improve the model in step with evolving social changes. Of the model, the SV part composes three components – ‘business social performance’, ‘social performance in social contribution’, and ‘social performance contributed to the national economy’. ‘Business social performance’ is a primary social performance that is generated through the production process of a company and its results, products and services; ‘social performance in social contribution’ is a secondary social performance created through social contributions; and ‘social performance contributed to the national economy’ is a social value that is economically transferred to stakeholders by a company generating wages, taxes and other activities.

**Scope of SV Measurement**

|  |   |
|--|---|
| Social issues                          | <ul style="list-style-type: none"> <li>From among diverse areas of corporate activities, measure the area classified as a social issue<sup>1)</sup></li> </ul>  |
| Measurement of utility and cost        | <ul style="list-style-type: none"> <li>Measure both social benefits<sup>2)</sup> and social costs<sup>3)</sup>, and aggregate them</li> </ul>   |
| Measurement of outcome                 | <ul style="list-style-type: none"> <li>Measure the value of outcome, from among Input-Output-Outcome-Impact, based on impact assessment which measures outcome from causal relationships, and apply an objective standard to calculate its monetary value               <ul style="list-style-type: none"> <li>Among outcomes, measure only those that are not rewarded with a price through the market. If support funds were received from stakeholders, including the government, offset the relevant value</li> <li>Regarding social outcome that is generated through participation by multiple parties, recognize only contributions made by an individual company as outcome, according to contract, delivery, investment method, share, etc.</li> </ul> </li> </ul> |
| Measurement for the corresponding year | <ul style="list-style-type: none"> <li>Measure SVs generated in the corresponding year</li> </ul>   |

<sup>1)</sup> Social issue: State where members that belong to a specific contemporary society are heavily impacted and suffer from a structural cause

<sup>2)</sup> Social benefits: Value of contribution to resolving a social issue

<sup>3)</sup> Social costs: Costs for social issues or damages in social values



**SK hynix's NEW GROWTH STRATEGY**

Background of Social Value Creation

**Social Value Creation in 2017**

Social Value Creation Strategy of SK hynix

Promises of SK hynix

**SUSTAINABILITY****FOCUS AREA****PERFORMANCE****APPENDIX**

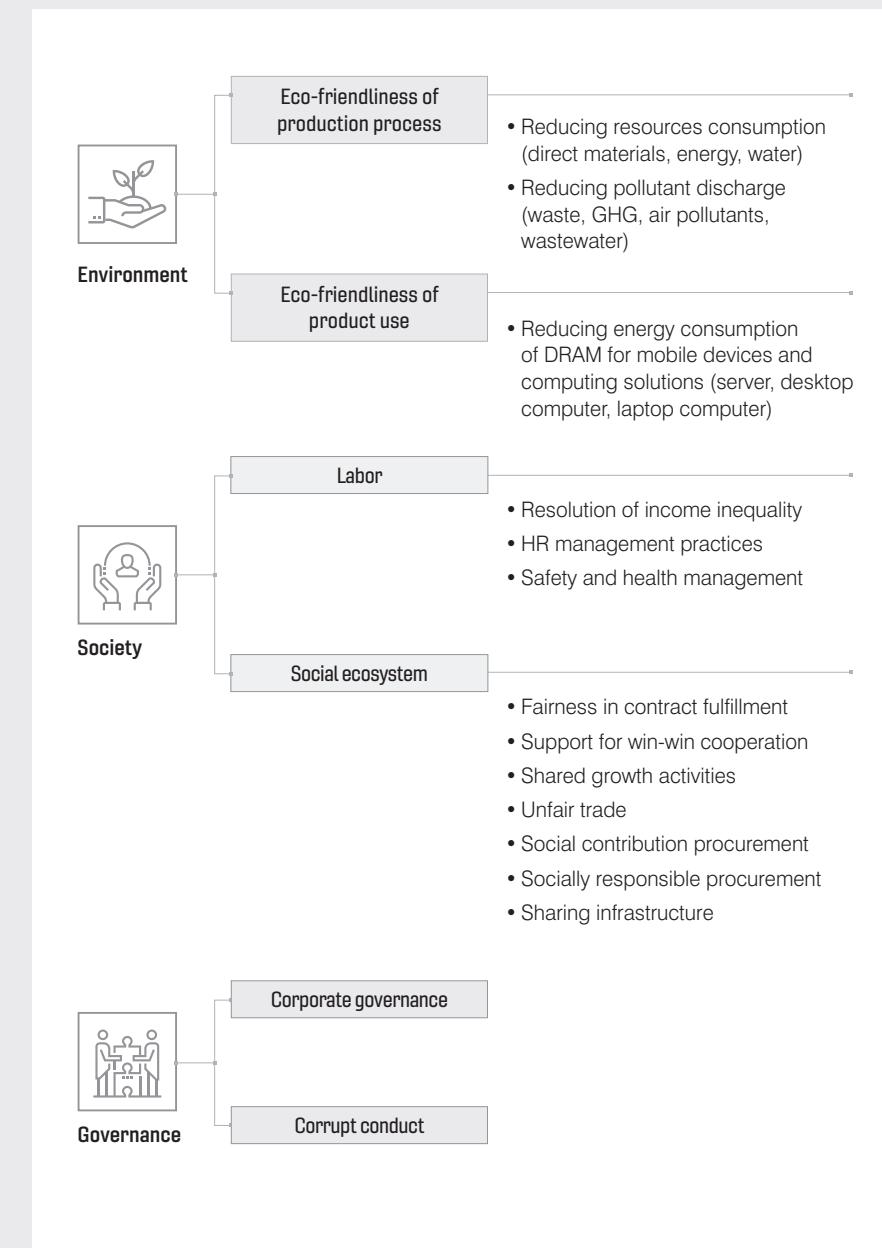
# SOCIAL VALUE CREATION IN 2017

We understand that social value measurement is essential to pursue balanced growth that is based on the DBL management principle. SK hynix's social value, which was quantitatively measured for the first time in Korea, has significance in that it presented a future direction as a sustainable company.

Based on the social outcome measurement model of the SK Group that continues to develop, SK hynix plans to measure/improve the outcome of innovation and growth and continually share the results with stakeholders.

**Business Social Performance**

SK hynix develops low power-consuming mobile products and supplies them to the market, and strives to reduce materials, energy, and water that are used in the manufacturing processes as well as greenhouse gas emissions and the amount of wastes and wastewater discharge. We are also making continued efforts to reduce working hours to guarantee work-life balance based on a reasonable corporate culture. To strengthen soundness of the overall industry ecosystem, we are engaging in sharing infrastructure activities and win-win cooperation support activities.

**Evaluation Criteria**

KRW 558.6 billion



**Saving Energy and Reducing Water Consumption** SK hynix does its utmost to reduce the amount of energy and water that is consumed in the manufacturing processes. We have enhanced eco-friendliness of our manufacturing processes by reducing the amount of energy/water that is used for one product unit by adopting highly efficient equipment and carrying out diverse reduction activities.

KRW 15.6 billion



**Sharing Infrastructure** SK hynix has adopted a sharing infrastructure portal as a way to share its knowledge of and knowhow in semiconductor business with partners and thus support their growth. The portal, consisting of two programs – semiconductor education and analysis/measurement support service – offers services at affordable prices. SK hynix will stay mindful of what its suppliers need and continue to expand the scale of its education as well as measuring and analyzing services.

KRW 0.1 billion

## ABOUT US

## SK hynix's NEW GROWTH STRATEGY

Background of Social Value Creation

## Social Value Creation in 2017

Social Value Creation Strategy of SK hynix

Promises of SK hynix

## SUSTAINABILITY

## FOCUS AREA

## PERFORMANCE

## APPENDIX

## Social Performance in Social Contribution

SK hynix has been running diverse social contribution programs designed to help local communities solve their social problems. In particular, latest GPS tracking wearables are donated to needy elderly people suffering from dementia, and free IT and science classes are offered to youths in economically marginalized areas. These two programs, dubbed 'Memory Guarding Angel' and 'Hyinstine', respectively, are based on SK hynix's core capabilities and have earned glowing praise from local communities.

## Evaluation Criteria



## Social Contribution

## Quality of life

- Medical care/health
- Education
- Culture/art
- Resident and residential environment
- Mobility and communication

- Personal respect and safety
- Finance
- Donations to social groups, including non-profit groups
- Generation of income of the low-income class

KRW 80.1 billion



**Memory Guarding Angel** SK hynix has signed an agreement with the National Police Agency to help prevent demented seniors from getting lost, one of major social issues in the aging society. As part of the agreement, we donated 6,000 GPS tracking wearables for needy elderly people afflicted by dementia. The company plans to donate the watch-like location tracking device to 15,000 seniors by 2020.

KRW 0.7 billion



**Developing Young Scientists** As Korea's leader in the IT industry, SK hynix focuses on the IT science education of youths and children. 'Hyinsten' (hynix + Einstein) is a software education program comprising 3 phases – 'softwaring', 'Olympiad', and 'Visionview'. The participating students learn coding and robot operation.

KRW 1.9 billion

## Social Performance Contributed to the National Economy

In 2017, SK hynix achieved unprecedented performance in sales based on technological innovation in the semiconductor market. In particular, we recorded an operating profit of KRW 13 trillion in 2018, and our corporate tax increased around three fold from KRW 946 billion in 2015 to KRW 2,797 billion in 2017. The company's recruitment and wage payments steadily increased based on corporate growth, leading up to wage payments of around KRW 2,800 billion to approximately 29 thousand employees at its global worksites as of the end of 2017. Shareholder dividend was first paid out in 2011, and increased to around KRW 7,000 in 2017.

## Evaluation Criteria

## Wage

- Salaries paid to employees

## Tax

- Corporate tax paid to the government

## Dividends/Interest

- Dividends paid to shareholders and interest paid to lenders



KRW 6,447.9 billion

**SK hynix's NEW GROWTH STRATEGY**

Background of Social Value Creation

Social Value Creation in 2017

**Social Value Creation Strategy of SK hynix**

Promises of SK hynix

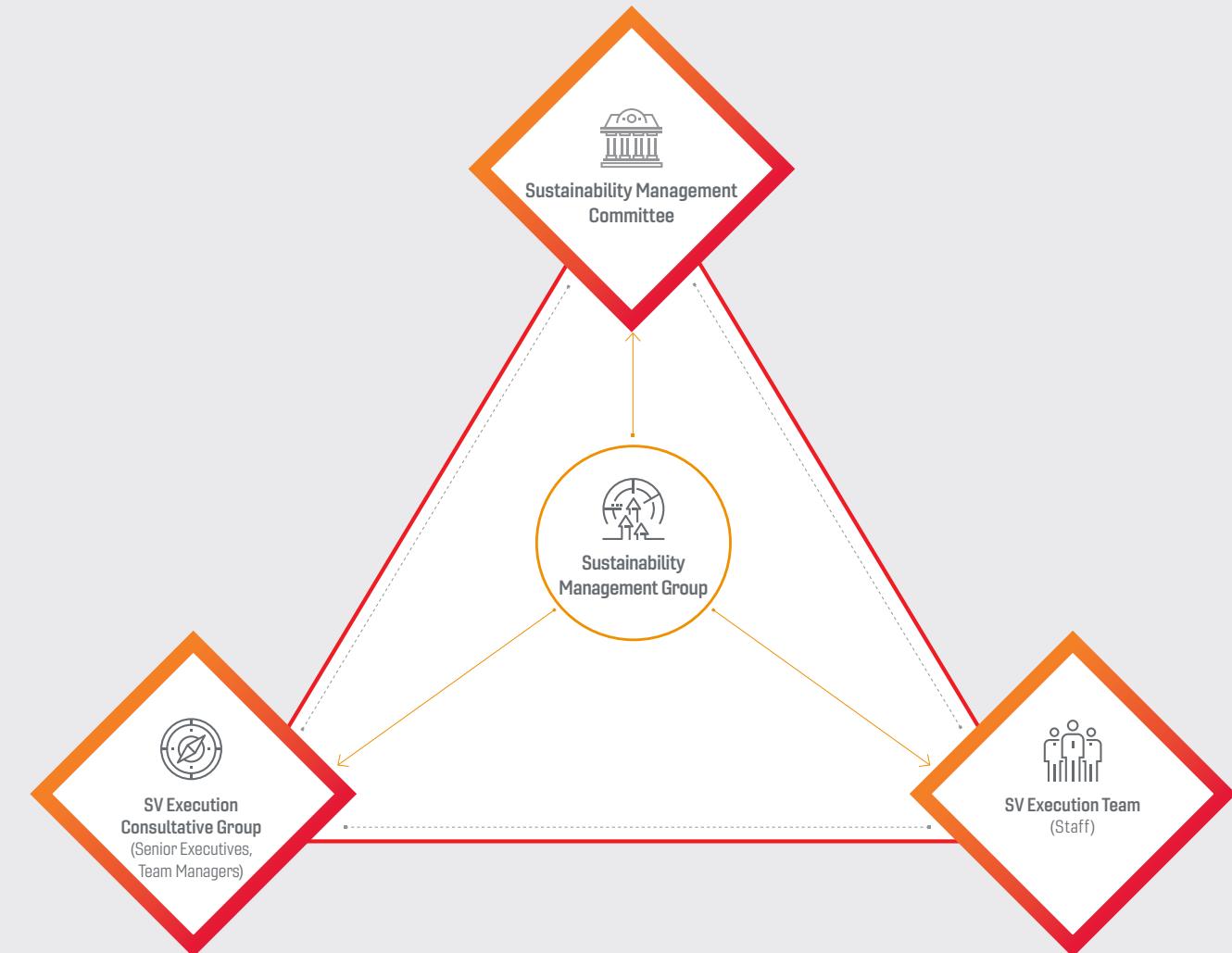
**SUSTAINABILITY****FOCUS AREA****PERFORMANCE****APPENDIX**

# SOCIAL VALUE CREATION STRATEGY OF SK hynix

SK hynix seeks to understand diverse social issues, offers solutions based on the production process and its result, products and services, and thus pursues the evolution of sustainable business models. To this end, we aim to create a virtuous circle of economic value and social value reinforcing each other in the long run, and establish a sustainable growth model together with stakeholders within our corporate ecosystem.

**System for Pursuing Social Value**

SK hynix has strengthened a system to make its pursuit of social value (SV) into an integral part of management system. To integrate DBL with our management strategy and execute it, we have set up a 'Sustainability Management Committee' within the Board of Directors, our foremost decision-making body and 'Sustainability Management Officers' comprising senior executives in charge of planning and supporting social value creation. To push forward more effective activities, we have formed an 'SV Innovation' consultative group and an 'SV Execution' team, in an effort to establish a system of developing and implementing SV items corporate-wide.



**SK hynix's NEW GROWTH STRATEGY**

Background of Social Value Creation

Social Value Creation in 2017

Social Value Creation Strategy of SK hynix

**Promises of SK hynix****SUSTAINABILITY****FOCUS AREA****PERFORMANCE****APPENDIX**

# PROMISES OF SK hynix

SK hynix will grow together with our society by balancing social values and economic values which we create in our progress towards innovation and growth.

SK hynix are convinced that its DBL management principle is an important keyword to innovation and growth.

SK hynix will continue to grow into a corporate citizen that progresses together with its stakeholders by balancing economic and social values in the process of innovation and growth.

# Our Promise

**Mapping UN SDGs to Our Priorities**

| <b>UN SDGs</b>  | <b>Key Activities of SK hynix</b>  |
|---|--|
| <b>3 GOOD HEALTH AND WELL-BEING</b><br>                | <ul style="list-style-type: none"> <li>Operate worksite safety management programs (P. 34)</li> <li>Establish a preemptive management system – Cohort (P. 36)</li> <li>Manage air pollutants at levels below legally-required levels (P. 46)</li> <li>Social contribution activities in health care, public health and safety – Happy Plus Nutritious Meal, 100-Year Longevity of Veterans, Happy Bus, Memory Guarding Angel (Happiness GPS) (P. 55-56)</li> </ul> |
| <b>4 QUALITY EDUCATION</b><br>                         | <ul style="list-style-type: none"> <li>Social contribution activities in education – Do Dream scholarship, Hyinsten (P. 56)</li> </ul>   |
| <b>7 AFFORDABLE AND CLEAN ENERGY</b><br>               | <ul style="list-style-type: none"> <li>Energy TF activities, including replacement into highly efficient facilities (P. 43)</li> <li>Development of low power-consuming, high-performance, eco-friendly products (P. 44)</li> </ul>  |
| <b>8 DECENT WORK AND ECONOMIC GROWTH</b><br>           | <ul style="list-style-type: none"> <li>Establishment of the HAPPY-MORE INC. (P. 20)</li> <li>System to guarantee work-life balance (P. 39)</li> <li>52-hour-a-week labor time management (P. 39)</li> </ul>  |
| <b>10 REDUCED INEQUALITIES</b><br>                   | <ul style="list-style-type: none"> <li>Compliance with the policy of respecting diversity and prohibiting discrimination (P. 38)</li> <li>Programs to support win-win growth (P. 51-52)</li> <li>Operate a sharing infrastructure portal (P. 14)</li> <li>Social contribution activities to help low-income families create income – Silver Angel for Happiness School Uniform (P. 56)</li> </ul>  |
| <b>12 RESPONSIBLE CONSUMPTION AND PRODUCTION</b><br> | <ul style="list-style-type: none"> <li>Activities to reduce chemicals (P. 48)</li> <li>TF activities to reduce water consumption and wastewater discharge (P. 47)</li> <li>Recovery of waste (P. 46)</li> <li>Comply with regulations to limit the use of harmful materials for products (P. 65)</li> </ul>  |
| <b>13 CLIMATE ACTION</b><br>                         | <ul style="list-style-type: none"> <li>Set an annual goal to reduce GHG emissions (P. 43)</li> <li>TF activities to reduce GHG emissions (P. 43)</li> </ul>  |
| <b>16 PEACE, JUSTICE AND STRONG INSTITUTIONS</b><br> | <ul style="list-style-type: none"> <li>Strengthen independence and diversity of the BOD (P. 26)</li> <li>Comply with code of ethics (P. 29)</li> </ul>   |

# SUSTAINABILITY

Sustainability is an integral part of SK hynix's corporate culture as well as the foremost value embedded. We will strive to create new economic, social and environmental values by building a sustainable management structure, based on which we develop breakthrough semiconductor products and technologies. In addition, we seek a harmony and balance of happiness among customers, shareholders, local communities and other stakeholders.



# SUSTAINABILITY MANAGEMENT SYSTEM

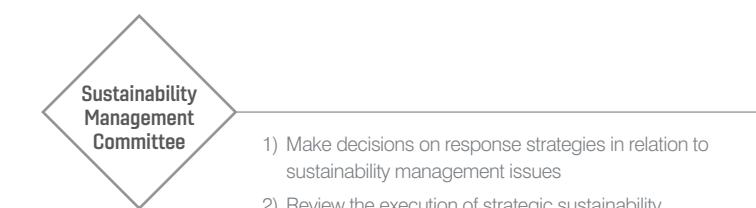
## Sustainability Management Principles

SK hynix strives to create economic, social and environmental values backed by innovative semiconductor products and technologies. Even amid rapid changes in the business environment, we pursue the co-existence of economic value and social value based on the SK Management System (SKMS) – SK Group's management philosophy. We also aim to achieve harmony and balance in happiness among all stakeholders, including customers, shareholders and local communities. To this end, all staff of SK hynix will continue to implement sustainability management that minimizes negative impact of business activities and maximizes the creation of social value.

## Sustainability Management Governance

SK hynix has set in place the Sustainability Management Committee within the BOD in March 2018 to review sustainability management principles of its business strategies and to supervise business activities related to sustainability management issues. Consisting of two outside directors and one executive director with expertise in sustainability management issues, the Committee supports effective execution of sustainability management. SK hynix changed the name of the Corporate Relations Division to the Sustainability Management Division in 2017, and in 2018, we established the Sustainability Management Execution Group, dedicated to creating social value, within the Sustainability Management Group (former Sustainability

Management Division), and thus strengthened our sustainability management system. The Sustainability Management Execution Group is in charge of identifying new social values of business activities, providing support to maximize corporate-wide social value creation, and inspecting the implementation status.



- 1) Make decisions on response strategies in relation to sustainability management issues
- 2) Review the execution of strategic sustainability management tasks at the company level
- 3) Review the disclosure of corporate-wide sustainability management performance and information



- 1) Identify strategic tasks and agenda items by CSM sector, conduct supervision, provide advice, and review the implementation status
- 2) Evaluate and manage sustainability management capabilities by CSM sector
- 3) Review external information disclosure in relation to CSM performance



Ethics Management    SHE Management    Social Contribution    Co-existence

A professional team by CSM sector implements independent CSM activities as well as corporate-wide CSM strategies through supervising and advising TFs and cross-functional groups



Various TFs and cross-functional groups are operated to achieve sustainability management goals, including the Conflict Mineral TF, Energy TF, Ethics Practice Leader, and Happiness Sharing Volunteer Group

# 2017 HIGHLIGHTS

01



## Establishment of HAPPY-MORE INC.

In October 2017, SK hynix established HAPPY-MORE INC. a subsidiary-type standardized social enterprise employing people with disabilities, and began to provide stable jobs to the disabled in the local community. HAPPY-MORE manufactures and cleans dust-free garment for SK hynix, and also produces subsidiary materials for clean rooms. SK hynix hired 80 people with disabilities in 2017, and plans to expand the employment to 170 persons by 2022.



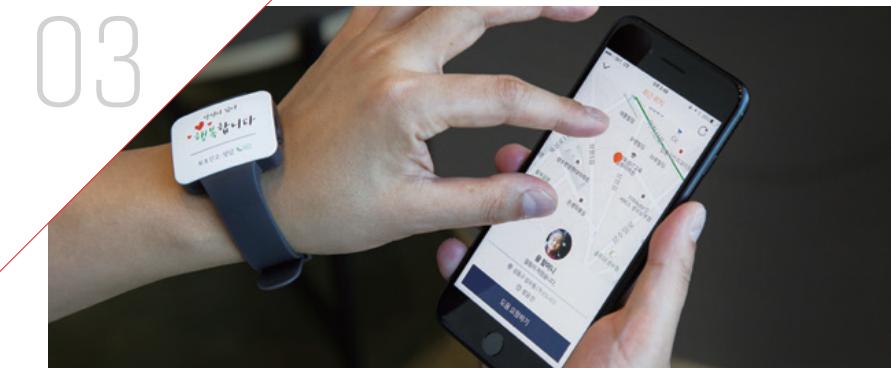
02

## 2017 SK hynix Shared Growth Day

In November 2017, SK hynix held the '2017 SK hynix Shared Growth Day' to strengthen the mutual cooperation system with suppliers at home and abroad. At the event, participated by SK hynix and 61 suppliers which are members of the Shared Growth Council, 14 suppliers were recognized for excellence and thus awarded. In addition, a forum was held on the theme of quality control and big data, in order to identify ways to achieve win-win growth with suppliers amid changes brought about by the Fourth Industrial Revolution.



03



## Memory Guardian Angel for seniors with dementia

SK hynix signed an agreement with the Korean National Police Agency on preventing seniors with dementia from going missing, which is one of major social issues in an aging society. Accordingly, we provided a wristband-type wearable location tracking device for free to 6,000 members of the underprivileged with dementia in their 80s. We plan to donate an additional 3,000 devices every year by 2020, and thus provide the location tracking device to a total of 15,000 seniors.

04

## Awarded for excellence in occupational health activities

In July 2017, SK hynix was honored with the Grand Prize at the 'Presentation Contest on Outstanding Cases of Occupational Health Activities', which was held as part of the 50th Week of Safety & Health hosted by the Ministry of Employment and Labor. Our efforts to make environmental improvements for workers were highly assessed, including the operation of the Industrial Welfare Verification Committee, improvements of work environment management, and disclosure of research results conducted with health experts on health promotion activities.



05

## Joined the CDP Platinum Club for two consecutive years

In October 2017, SK hynix entered the Platinum Club, regarded as the top Hall of Fame, for the second consecutive year. We strictly observe regulations on energy use and GHG emissions, while continuously expanding GHG reductions by enhancing operational efficiency based on GHG TF activities and adopting high-efficiency scrubbers.



06

## Korea's first Water Footprint-certified DRAM

SK hynix's mobile DRAM became the first among mobile DRAM products in Korea to receive the 'Water Footprint' certificate from the Ministry of Environment in October 2017. The Water Footprint certificate is an indicator to quantitatively measure the amount of water used in the entire process of producing, distributing, using and disposing of a product, and its impact on water quality. On average, 61.6 liters of water is used in the process of producing, distributing, using and disposing of one 8G LPDDR3 mobile DRAM product. We will clearly communicate with customers regarding our product's water consumption through the water footprint certification, enabling customers to easily identify and purchase eco-friendly products.

## ABOUT US

SK hynix's NEW GROWTH STRATEGY

## SUSTAINABILITY

Sustainability Management System

2017 Highlights

## Communication with Stakeholders

Materiality Test

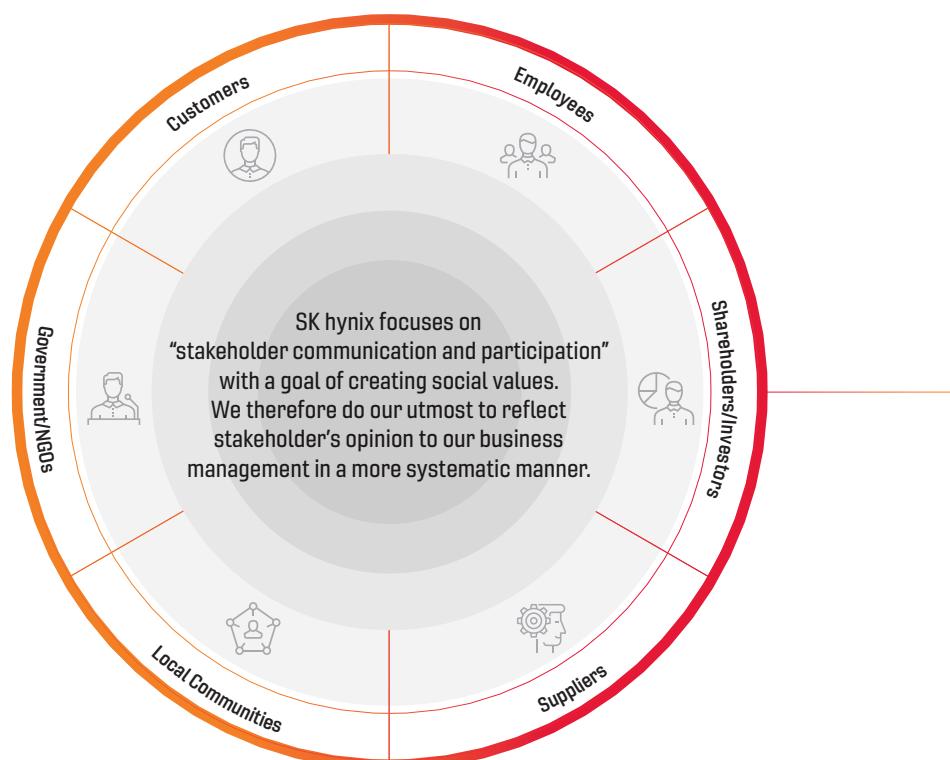
## FOCUS AREA

## PERFORMANCE

## APPENDIX

## COMMUNICATION WITH STAKEHOLDERS

The opinions and complaints of stakeholders are collected through our homepage, supplier portal and Labor-Management Council. In particular, with an aim to strengthen communication with external stakeholders, we issue regular publications, such as the sustainability report, and engage in real-time communication through our blog and other social media channels. We will continue to actively communicate with stakeholders and inform of major business activities and performance in our efforts to grow together with them.



| Stakeholder              | Core Issue  | Communication Channel   | Our Response   |
|--------------------------|---|---|--|
| Customers                | <ul style="list-style-type: none"> <li>Product and service quality</li> <li>Customer safety and health</li> <li>Climate change and energy</li> <li>Human rights and labor practices</li> <li>Communication</li> </ul>   | <ul style="list-style-type: none"> <li>Quarterly business review</li> <li>Customer-oriented quality intelligence activities</li> <li>Customer survey</li> <li>Mobile Solution Day</li> <li>Customer Service Center (CSC)</li> <li>Product exhibition</li> <li>Web site</li> </ul> | <ul style="list-style-type: none"> <li>Listen and respond to voice of customers (VOC)</li> <li>Activities to improve product quality through the corporate-wide quality portal</li> </ul>  |
| Employees                | <ul style="list-style-type: none"> <li>Human rights and labor practices</li> <li>Workplace safety and health</li> <li>Information security and personal information protection</li> <li>Financial performance</li> <li>Human capital investment</li> </ul>    | <ul style="list-style-type: none"> <li>Communication board (Hi-tong)</li> <li>Labor-Management Council</li> <li>Business presentation and operation presentation</li> </ul>   | <ul style="list-style-type: none"> <li>Resolve major labor management issues</li> <li>Handle grievances and complaints of employees and enhance employee welfare</li> <li>Workplace safety management</li> <li>Establish health management system</li> </ul>   |
| Shareholders / Investors | <ul style="list-style-type: none"> <li>Financial performance</li> <li>Risk management</li> <li>Transparent corporate governance</li> <li>Creating social values</li> <li>Information disclosure</li> </ul>  | <ul style="list-style-type: none"> <li>Annual general meeting (AGM)</li> <li>Disclosure of operating performance and earnings release conference</li> <li>Investor meeting</li> </ul>   | <ul style="list-style-type: none"> <li>Generate stable financial performance</li> <li>Pay dividends and interest</li> <li>Publish sustainability reports</li> <li>Disclose the result of the ESG Evaluation by the Corporate Governance Service, Korea</li> </ul>  |
| Suppliers                | <ul style="list-style-type: none"> <li>Win-win cooperation</li> <li>Ethics management and fair competition</li> <li>Human rights and labor practices</li> <li>Quality management</li> <li>Management of the origin of raw and subsidiary materials</li> </ul> | <ul style="list-style-type: none"> <li>Regular general meeting of the Shared Growth Council</li> <li>Shared Growth Day</li> <li>Win-win Town</li> <li>Visiting Ethics Class</li> <li>Win-win Academy</li> <li>CSR consulting</li> </ul>   | <ul style="list-style-type: none"> <li>Win-win growth support programs</li> <li>Support 2nd-tier and higher tier suppliers</li> <li>Provide consulting and reporting support for unfair trade</li> <li>Co-prosperity &amp; Cooperation Program</li> <li>SHE consulting</li> </ul>  |
| Local Communities        | <ul style="list-style-type: none"> <li>Creating social values</li> <li>Social contributions</li> <li>Win-win cooperation</li> <li>Indirect business effects</li> <li>Environmental impacts of local communicates</li> </ul>                                   | <ul style="list-style-type: none"> <li>Chemical Substance Committee</li> <li>Happiness Sharing Fund Operation Council</li> <li>Industry-academy cooperation program and sister school relationship</li> <li>Junior Engineering Class</li> <li>Local childcare center</li> </ul>   | <ul style="list-style-type: none"> <li>Experiential education on the safety and health environment for the local community</li> <li>Happiness Sharing Volunteer Group activities</li> <li>'No Sa Bul Ui (The company and the labor are intertwined and cooperate with each other)' Fund activities</li> </ul>  |
| Government /NGOs         | <ul style="list-style-type: none"> <li>Ethical management</li> <li>Creating social values</li> <li>Social contributions</li> <li>Management of hazardous substances and wastes</li> <li>Win-win cooperation</li> </ul>  | <ul style="list-style-type: none"> <li>Korea Semiconductor Industry Association</li> <li>Community Chest of Korea</li> <li>Environmental Management Advisory Committee</li> <li>Korea Chamber of Commerce and Industry</li> </ul>   | <ul style="list-style-type: none"> <li>Supplier support programs operated jointly with government organizations, such as the Industrial Innovation Movement and Co-prosperity &amp; Cooperation Program</li> <li>Comply with business activity-related regulations</li> <li>Participate in Responsible Business Alliance (RBA) activities</li> </ul> |

## ABOUT US

SK hynix's NEW GROWTH STRATEGY

## SUSTAINABILITY

- Sustainability Management System
- 2017 Highlights
- Communication with Stakeholders
- Materiality Test**

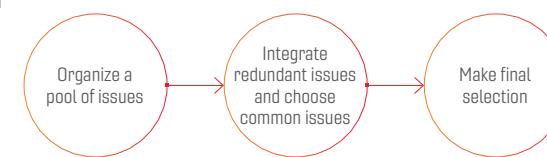
## FOCUS AREA

## PERFORMANCE

## APPENDIX

# MATERIALITY TEST

SK hynix chooses core issues that influence its business activities and stakeholders, identifies their status, and strives to come up with improvement measures. Materiality analysis of this report was carried out in three steps – selection of core issues, prioritization and internal review – based on the materiality analysis standards presented in the GRI G4 guideline. The core issues are connected to our business activities and strategies. Information on detailed activities and status of each issue is provided in the body of this report.

**Materiality Analysis Process****Step 1****SELECTION OF CORE ISSUES**

- |  |  |
|--|--|
| 01. Media analysis                       | <ul style="list-style-type: none"> <li>• Analyze domestic and overseas articles related to SK hynix from January 1 through December 31, 2017</li> </ul>  |
| 02. Research of industry material issues | <ul style="list-style-type: none"> <li>• GRI<sup>1)</sup> industry material issues</li> <li>• RobecoSAM industry material issues</li> <li>• SASB<sup>2)</sup> industry material issues</li> <li>• Electronics industry (EICC<sup>3)</sup>, GeSI<sup>4)</sup> material issues</li> <li>• Material issues chosen by benchmarked companies</li> </ul> |

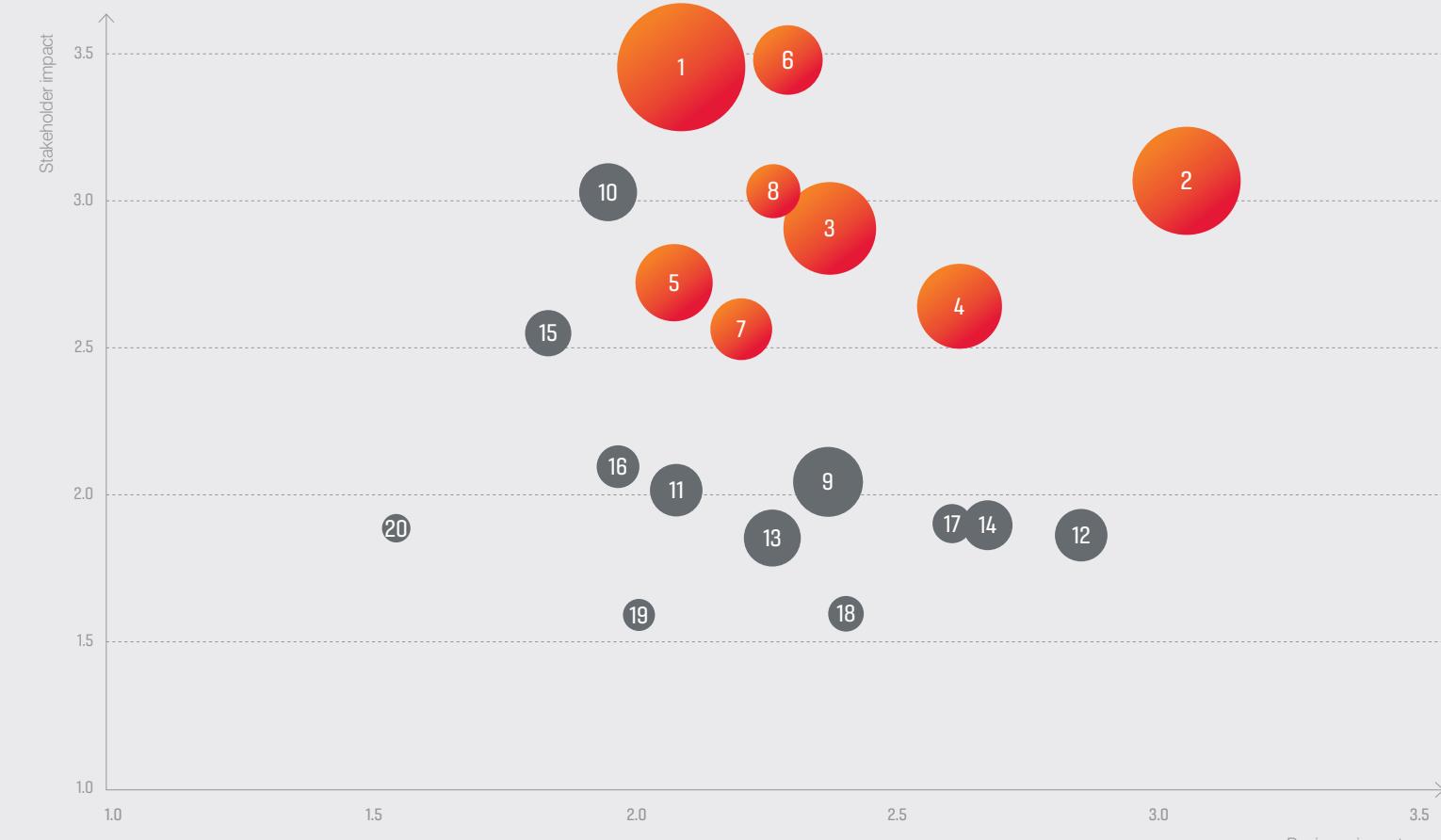
<sup>1)</sup> GRI: Global Reporting Initiative  
<sup>2)</sup> SASB: Sustainability Accounting Standard Board  
<sup>3)</sup> EICC: Electronic Industry Citizenship Coalition  
<sup>4)</sup> GeSI: Global e-Sustainability Initiative

**Step 2****PRIORITIZATION**

- |                         |  |
|-------------------------|--|
| 03. Stakeholder impact  | <ul style="list-style-type: none"> <li>• Materiality analysis by major stakeholder (shareholder/investor, customer/consumer, employee, supplier, local community (environment/NGO), government/local government, media)</li> </ul> |
| 04. Business importance | <ul style="list-style-type: none"> <li>• Assessment of impact on SK hynix's sales, costs, reputation, and regulatory response</li> </ul>   |
| 05. Value chain impact  | <ul style="list-style-type: none"> <li>• Assessment of each issue's impact on SK hynix's value chain</li> </ul>  |

**Step 3****INTERNAL REVIEW**

- |   |  |
|---|--|
| 06. Final selection after internal review | <ul style="list-style-type: none"> <li>• Review of SK hynix's sustainability management planning</li> <li>• Finalization after review by the management</li> </ul> |
|---|--|

**Materiality Analysis Results****Core Issues**

- |   |  |   |
|---|--|---|
| 1 Creating social values                        | 8 Ethics management and fair competition         | 15 Information security and personal information protection |
| 2 Workplace safety and health                   | 9 Product energy efficiency                      | 16 Management of the origin of raw and subsidiary materials |
| 3 Management of hazardous substances and wastes | 10 Transparent corporate governance              | 17 Strengthening of global competitiveness                  |
| 4 Win-win cooperation                           | 11 Environmental impacts of supply chain         | 18 Protection of intellectual property rights               |
| 5 Social contributions                          | 12 Financial performance                         | 19 Human capital investment                                 |
| 6 Human rights and labor practices              | 13 Water resource management                     | 20 Respect for diversity                                    |
| 7 Climate change and energy                     | 14 Quality management and customer communication |   |

## ABOUT US

SK hynix's NEW GROWTH STRATEGY

## SUSTAINABILITY

Sustainability Management System

2017 Highlights

Communication with Stakeholders

## Materiality Test

## FOCUS AREA

## PERFORMANCE

## APPENDIX

## Key Tasks for 2017 Sustainability Management

| Core Issue                                    | Key Task  | 2017 Performance  | Achievement | 2018 Plans   |
|---|---|---|-------------|--|
| Creating social values                        | Expand social value creation  | Measured social value creation and established a dedicated organization   | ■           | Establish a corporate-wide social value execution system and identify business-based social values   |
| Workplace safety and health                   | Fully establish and embed a safety culture  | Provided safety and health training for leadership  | ■           | Implement safety and health system improvement measures  |
|   | Strengthen internal supplier safety management  | Expanded safety risk diagnosis (construction projects, subsidiaries, overseas sites, etc.)  | ■           | Strengthen regular diagnosis by breaking down diagnosis targets  |
| Human rights and labor practices              | Guarantee work-life balance   | Conducted risk assessments at suppliers in co-prosperity and cooperation relationship   | ■           | Monitor the execution of improvement tasks   |
|   | Inspect human rights and labor impact   | Expanded the flexible working system  | ■           | Fully establish the maximum 52-hour-a-week working system  |
| Ethics management and fair competition        | Expand ethics management activities   | Conducted human rights, labor-related risk assessments at worksites   | ■           | Expand the target of human rights, labor-related risk assessments at worksites and conduct a human rights-related due diligence at suppliers |
| Management of hazardous substances and wastes | Reduce the use of hazardous chemical substances   | Received a pledge to practice the Code of Ethics at overseas sales and technology subsidiaries; and conducted prior voluntary inspections regarding ethics management | ■           | Develop ethics management training materials that are customized for employees at overseas subsidiaries and provide trainings                |
|   | Engage in safe management of designated waste   | Expanded disclosure of raw material chemicals information   | ■           | Conduct chemicals reduction activities, targeting departments that handle highly hazardous chemical substances                               |
|   | Reduce wastes   | Produced hazard information for handling of designated waste  | ■           | Establish internal guidelines to bring down safety-related accidents to zero when handling liquid designated waste                           |
| Win-win cooperation                           | Increase shared growth support for 2nd-tier and higher tier suppliers   | Recycled low-concentration IPA waste and sold it  | ■           | Engage in TF activities aimed at reducing waste liquid generation  |
|   | Strengthen the sustainability management capabilities of suppliers  | Established a shared growth fund worth KRW 60.2 billion that is dedicated to 2nd-tier and 3rd-tier suppliers  | ■           | Support the industrial innovation movement of 24 2nd-tier suppliers  |
| Climate change and energy                     | Reduce greenhouse gas emissions   | Completed self-inspection at 460 companies from among 1st-tier suppliers with a transaction amount of at least KRW 100 million  | ■           | Expand on-site due diligence at suppliers, and complete improvements to high-risk factors  |
|   | Energy saving   | Reduced GHG emissions by 610 thousand tons (Achieved 112% of the target)  | ■           | Reduce GHG emissions by 1.5 million tons   |
|   | Increase the number of products that obtain Carbon Footprint of Products (CFP) or Environmental Product Declaration (EPD) | Reduced domestic energy use by 2,050.08 TJ (Achieved 120% of the target)  | ■           | Reduce domestic energy use by 1,817.88 TJ  |
| Social contributions                          | Expand social value creation based on the Happiness Sharing Fund  | DE 8G LPDDR3 received the water footprint certification from the Korea Environmental Industry & Technology Institute  | ■           | Receive a certification for NAND flash products  |
|   | Increase support for the underprivileged  | Spent KRW 2.67 billion for total project expenditures; and generated social values worth KRW 5.56 billion   | ■           | Spend KRW 2.83 billion for total project expenditures; and generated social values worth KRW 5.74 billion                                    |
|   |   | Created jobs for seniors through the Silver Angel for Happiness School Uniform program  | ■           | Additionally identify new projects, including those for seniors and multicultural families   |

# FOCUS AREA

SK hynix pursues healthy growth by doing our business in a responsible way. Specifically, we focus on transparency in management, working environment, human rights and labor relations, climate change, environmental impact of our operations, win-win cooperation, and socially responsible management. Through these, we seek sustainable growth and a better tomorrow for SK hynix and all of our stakeholders.



# INTEGRITY

**Issue 01**

## Governance and Integrity

Calls for and interest in transparent management based on transparent, independent and ethical governance are growing both at home and abroad. In the Sustainable Development Goals (SDGs) adopted in 2015, the UN pursues justice, peace, and the establishment of effective systems, and aims to reduce all forms of corruption and bribery (Goal 16). On the domestic front, there has been the movement toward laying an institutional foundation for transparent management, including the adoption of the Financial Services Commission's system for corporate governance disclosures and the enforcement of the Improper Solicitation and Graft Act. As a result, advanced corporate culture, transparent governance, fair trade, and practice of corporate ethics have risen in status as key components of corporate competitiveness.

**Governance and Integrity**

- Creating a Safe Workplace
- Respecting Human Rights
- Addressing Climate Change
- Reducing our Environmental Impact
- Supporting Supply Chain Sustainability

## Corporate Governance

### Composition and Independence of the BOD

As the top decision-making body of SK hynix, the Board of Directors (BOD) determines the company's core business goals and basic management principles, and supervises the activities of the management. Directors are elected through a resolution at an annual general meeting (AGM). To enhance the BOD's independence, it is stipulated that outside directors account for a majority of all directors. As of March 2018, the BOD consists of two executive directors, one non-executive director and five outside directors, with outside directors accounting for 63% of the Board. All outside directors are independent directors and do not have a special relationship with the management. Outside directors cannot engage in a transaction that falls under the company's type of business on his/her own account or for a third party, or serve as a general partner or a director of a different company that engages in the same type of business unless there is BOD approval. This is to prevent

conflict of interests and is based on the Commercial Act and BOD rules.

SK hynix adopted the lead independent director system in March 2018, with an aim to ensure that the voices of stakeholders are extensively reflected in business activities through outside directors. A lead independent director chairs the Board of Outside Directors and supports efficient handling of tasks carried out by outside directors. The Board of Outside Directors can demand the management to report on major pending business issues. The tenure of lead independent directors in Korea and abroad is usually one year, but we set the lead independent director's tenure and incumbency to be the same as other directors in order to ensure continuity and independence in performing duties. The lead independent director has the right to evaluate BOD operations to further strengthen the check and supervision functions of outside directors.

### Composition of the BOD

| Classification         | Name            | Major Career  | Date of Appointment                                      | Position  |
|------------------------|-----------------|---|--|---|
| Executive Directors    | Park Sung-Wook  | <ul style="list-style-type: none"> <li>• Currently CEO &amp; Vice Chairman, SK hynix</li> <li>• President &amp; CEO, SK hynix</li> </ul>  | Newly appointed in Mar. 2009<br>Reappointed in Mar. 2018 | Chairman of the BOD<br>Council for Recommending Candidates for Outside Directors                              |
|                        | Lee Seok-Hee    | <ul style="list-style-type: none"> <li>• Currently Chief Operating Officer, SK hynix</li> <li>• Assistant Professor, Department of Electric and Electronic Engineering, KAIST</li> </ul>  | Newly appointed in Mar. 2017                             | Sustainability Management Committee   |
| Non-executive Director | Park Jung-Ho    | <ul style="list-style-type: none"> <li>• Currently CEO &amp; President, SK Telecom</li> <li>• President &amp; CEO, SK Holdings</li> </ul>   | Newly appointed in Mar. 2017                             | –   |
|                        | Choi Jong-Won   | <ul style="list-style-type: none"> <li>• Currently Professor at Graduate School of Public Administration, Seoul National University</li> <li>• Dean of Graduate School of Public Administration, Seoul National University</li> </ul> | Newly appointed in Mar. 2014<br>Reappointed in Mar. 2017 | Lead Independent Director<br>Board of Inspection<br>Council for Recommending Candidates for Outside Directors |
| Outside Directors      | Shin Chang-Hwan | <ul style="list-style-type: none"> <li>• Currently Professor, School of Electrical &amp; Computer Engineering, College of Engineering, University of Seoul</li> <li>• IBM Micro Electronics</li> </ul>                                | Newly appointed in Mar. 2017                             | Board of Inspection   |
|                        | Song Ho-Keun    | <ul style="list-style-type: none"> <li>• Currently Professor at College of Social Sciences, Seoul National University / Chair professor</li> <li>• Policy Advisory Committee Member, Constitutional Court of Korea</li> </ul>         | Newly appointed in Mar. 2018                             | Sustainability Management Committee   |
|                        | Cho Hyeon-Jae   | <ul style="list-style-type: none"> <li>• Currently Visiting Professor, Gwangju University</li> <li>• Representative Director, MBN</li> </ul>  | Newly appointed in Mar. 2018                             | Council for Recommending Candidates for Outside Directors<br>Sustainability Management Committee              |
|                        | Yun Tae-Hwa     | <ul style="list-style-type: none"> <li>• Currently Professor, Dept. of Business Administration, Gachon University</li> <li>• 25th Chairman, Korea Accounting Information Association</li> </ul>                                       | Newly appointed in Mar. 2018                             | Board of Inspection   |

### Appointment of Directors

In its appointment criteria for executive directors and outside directors, SK hynix does not consider any discriminatory factors, such as nationality, gender, religion and ethnicity, as a restrictive element in appointing candidates. In particular, outside directors are appointed at the AGM through a strict screening process as well as transparent and fair recommendation by the Council for Recommending Candidates for Outside Directors based on qualification criteria set forth in relevant laws, including the Commercial Act, and professionalism and independence for adequacy in performing director duties. Also, to have the BOD represent various stakeholders and support business activities and decision-making that consider social value, outside directors are appointed in consideration of diverse experiences and backgrounds. Based on this policy, outside directors with expertise in labor, welfare and communication were appointed in 2018.

### Subcommittees

| Name  | Composition                               | Roles   | 2017 Performance |
|---|---|---|------------------|
| Board of Inspection                                       | 3 Outside Directors                       | Audit accounting and business activities, and deliberate the appointment of independent auditors, etc.  | 9 times          |
| Council for Recommending Candidates for Outside Directors | 2 Outside Directors, 1 Executive Director | Recommends outside director candidates in accordance with relevant regulations and articles of association and the BOD rule                       | 1 time           |
| Sustainability Management Committee                       | 2 Outside Directors, 1 Executive Director | Deliberate the execution of donations that are more than KRW 1 billion, and establish sustainability management strategies and review the outcome | N/A              |

### Sustainability Management Committee

SK hynix established the Sustainability Management Committee under the BOD, the top decision-making body of the company, to expand social value creation. The Committee consists of two outside directors and one executive director with expertise in social value, with the goal of increasing expertise and transparency in the decision-making process related to sustainability management and social value. A Sustainability Management Committee meeting will be held every quarter. The Committee plans to deliberate various matters related to social issues, including the company's safety, health and environment (SHE), as well as such agenda items as social value creation strategies and outcome, disclosure of non-financial information, and donations of more than KRW 1 billion.

**ABOUT US**

## SK hynix's NEW GROWTH STRATEGY

## SUSTAINABILITY

**FOCUS AREA****Governance and Integrity**

Creating a Safe Workplace

Respecting Human Rights

Addressing Climate Change

Reducing our Environmental Impact

Supporting Supply Chain Sustainability

## PERFORMANCE

## APPENDIX

**Operation of the BOD**

SK hynix established the Corporate Governance Charter in 2009, and presented corporate governance principles and direction, as well as its determination towards BOD-centered transparent management. SK hynix holds regular board meetings as well as special meetings if necessary, and they are convoked by the Chairman or a director separately determined by the BOD. The company's BOD is chaired by CEO Park Sung-Wook. In 2017, the BOD convoked 11 meetings to deliberate and make decisions on a 27 agenda items. The average attendance rate of outside directors was 95%. A decision on an agenda item is made by the attendance of a majority of directors and a majority vote of attending directors, with the exception of cases separately stipulated in accordance with relevant laws.

SK hynix provides IT devices, security-rich network, and video conference systems so that directors can join board meetings or perform their work anytime, anywhere. Through the director information provision system (BOD.skhynix.com), we provide information related to BOD agenda and the company's diverse business information, including finance, sales and PR materials in real time. To increase outside directors' understanding of the business and strengthen their expertise, information is regularly provided with recent industry trends and major business issues. In 2017, two training sessions were provided through a BOD workshop, including training on the semiconductor business outlook and strategies as well as 'Deep Change' strategies based on shared infrastructure.

**Performance and Compensation of the BOD**

SK hynix discloses the outcome of an ESG evaluation by the Corporate Governance Service, Korea to stakeholders through our website. Remuneration of executive directors is determined based on economic performance and expertise, leadership, and other contributions to the company's business performance. The individual remuneration amount and type of remuneration as well as the calculation criteria for some executive directors are disclosed in our business report in accordance with relevant laws. To guarantee independence of outside directors, performance evaluation-based remuneration is not provided other than the basic salary and domestic and overseas traveling expenses from business trips for their board duties.

**Remuneration of Directors**

(As of the end of 2017, Unit: KR W million)

| Classification     | Number of People | Total Remuneration | Remuneration per Person |
|--------------------|------------------|--------------------|-------------------------|
| Executive director | 4                | 3,695              | 977                     |
| Outside director   | 6                | 450                | 78                      |

**Annual Rate of Compensation**

(As of the end of 2017, Unit: KRW million)

| Classification                     | 2015  | 2016  | 2017  |
|------------------------------------|-------|-------|-------|
| Highest compensation (A)           | 1,549 | 1,649 | 1,893 |
| Average employee wage in Korea (B) | 90    | 96    | 85    |
| Rate (A/B, multiples)              | 17.2  | 17.2  | 22.3  |

**ESG Evaluation**

| Classification | 2015 | 2016 | 2017 |
|----------------|------|------|------|
| Class          | B+   | B+   | A    |

By the Corporate Governance Service, Korea



Field trip to IMEC



Orientation for newly assigned directors

**Governance and Integrity**

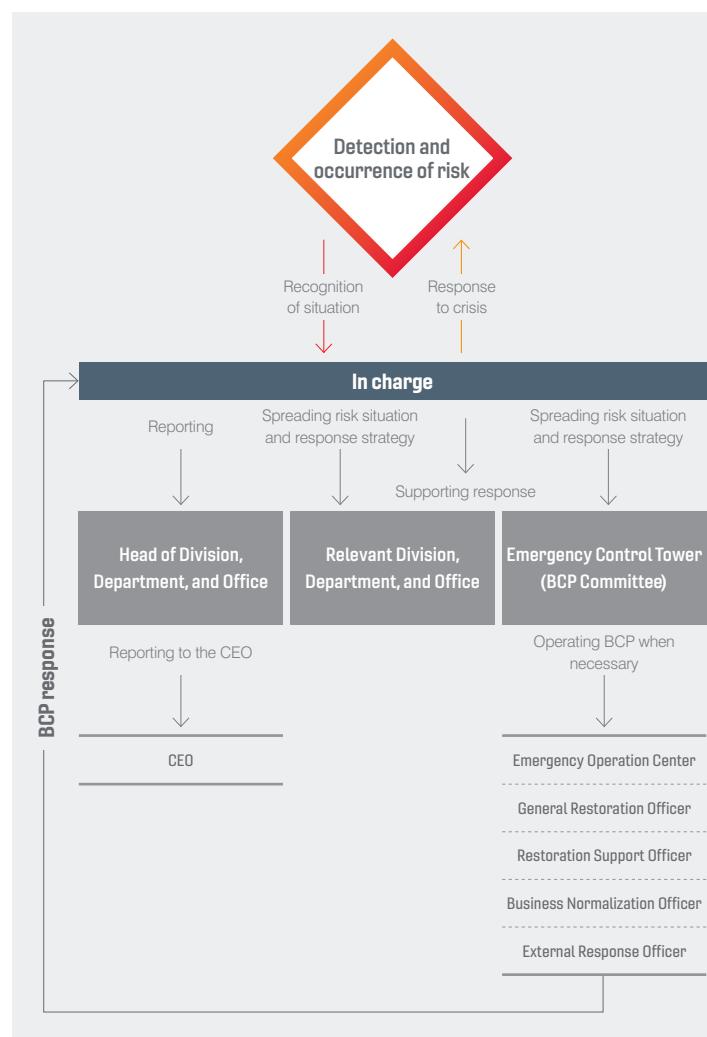
- Creating a Safe Workplace
- Respecting Human Rights
- Addressing Climate Change
- Reducing our Environmental Impact
- Supporting Supply Chain Sustainability

## Risk Management

### Enterprise Risk Management

SK hynix operates an integrated risk management system to detect and identify possible risk factors that can have a negative impact on the achievement of business goals in order to preemptively respond to the risk factors. The management organization and council for each risk area are in charge of recognizing and spreading information on risks, establishing response strategies and taking responsive measures.

#### Risk Management System



**Committees for Integrated Risk Management** \_ We operate various risk management councils to efficiently manage complex risks that require seamless collaboration among management departments in different areas. Risks related to sustainability management, which is a non-financial area, as well as financial risks are comprehensively managed at the corporate-wide business strategy level through the SHE Management Committee and HR Committee.

**System-based Integrated Management** \_ SK hynix has adopted IT systems to identify and manage potential risks, and thus systematically manages corporate-wide risks. There are diverse IT systems in operation, including the G-ERP for integrated management of corporate-wide financial risks, SHE portal for integrated management of safety, health and environment (SHE) risks, G-PIS for integrated management of supply chain risks, and EthicsPlus for internal control of ethics management. Based on these systems, we are advancing our prior inspection system, engaging in regular risk monitoring, and identifying physical, technical vulnerabilities and making necessary improvements.

### Business Continuity Management

SK hynix has set in place a Business Continuity Planning (BCP) system that is based on global standards to protect employees from various accidents and emergencies and to ensure sustainable business operation. We used the investigation results conducted by disaster and accident-related organizations at home and abroad, such as the National Fire Protection Association (NFPA), Emergency Events Database (EM-DAT), Federal Emergency Management Agency (FEMA) and Korean Ministry of Public Safety and Security, and thus ascertained risk factors in regions where our facilities are located. We then identified 46 risk factors of which we chose risk factors that are subject to BCP management and reflected them in our BCP. We also formulated strategies that are needed for business normalization based on work that needs to be restored and required resources per identified risk factor. By conducting corporate-level emergency drills every year, we are doing our best to develop effectiveness of our emergency response and restoration process.

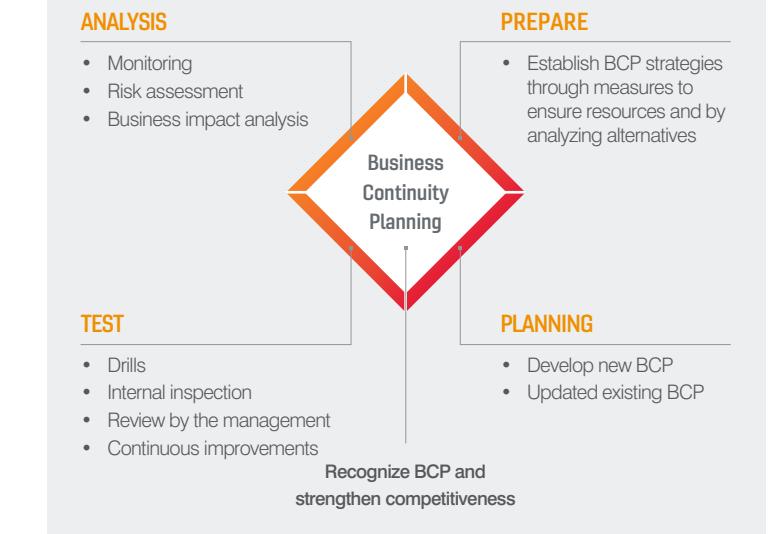
**ISO 22301 – International Standard on Business Continuity Plan** \_ SK hynix received ISO 22301 certification for its Icheon and Cheongju Campus in 2014, followed by its Wuxi Campus in China in 2015. Regular re-assessments are conducted for ISO 22301 certification on a regular basis, as part of our continued efforts to maintain a BCP system that complies with international standards.

### BCP Policy Declaration

01. In case of a BCP situation, use all company resources to restore all areas of business within the shortest time possible to prevent stoppage of customers' business
02. Regularly analyze risk factors that threaten business continuity and their impact, and amend and improve the business continuity plan so that key work can be restored within a restricted period in the event of an emergency situation
03. Actively comply with regulations, bylaws, and stakeholder (especially customer) requirements that are needed to secure business continuity
04. Based on activities that are aimed at reducing (improving) risk factors that threaten business continuity, regularly hold emergency drills using diverse scenarios to strengthen emergency response capabilities
05. Fully establish the company's unique BCP culture through continued PR and training of all employees
06. Maintain a world-leading BCP level by regularly verifying and improving the company's BCP operation activities in accordance with international standards
07. Disclose BCP policies and goals to stakeholders, and regularly review them



### BCP Framework



**Governance and Integrity**

- Creating a Safe Workplace
- Respecting Human Rights
- Addressing Climate Change
- Reducing our Environmental Impact
- Supporting Supply Chain Sustainability

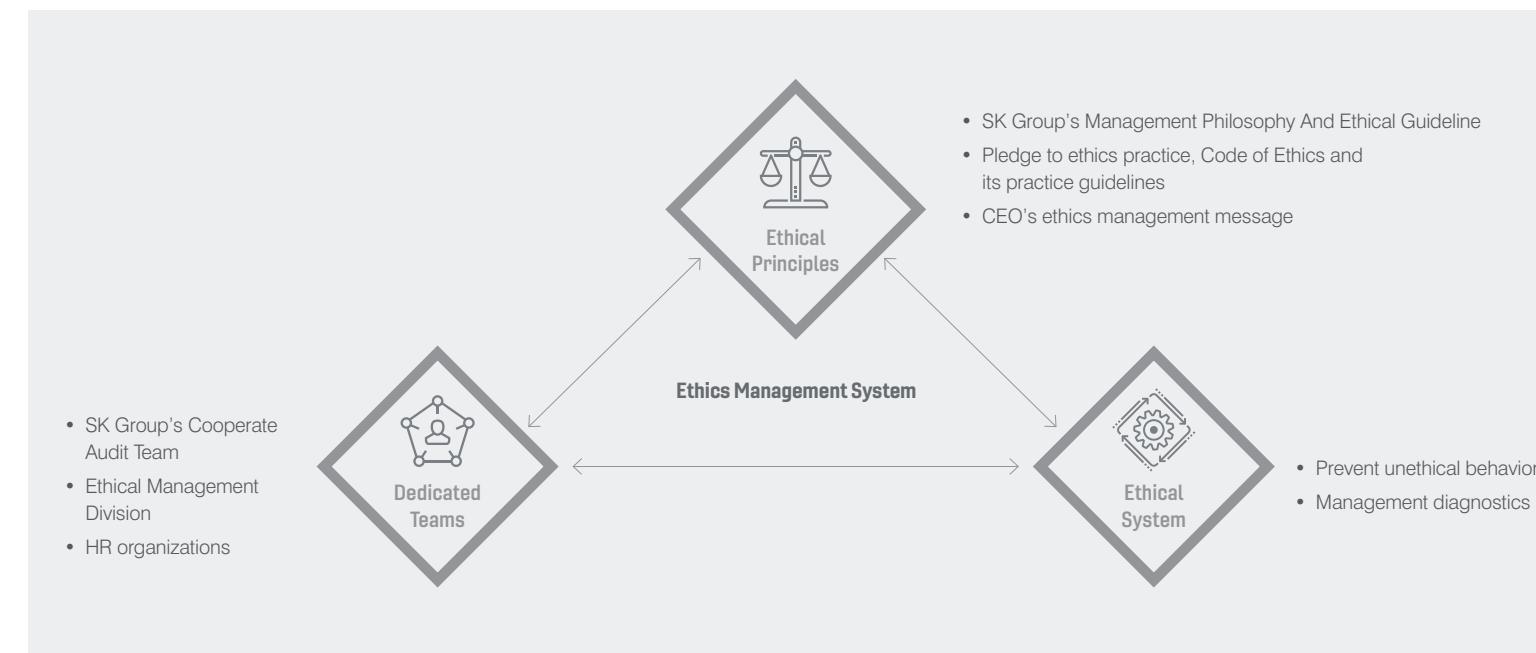
## Ethics Management

### Management System and Approach

SK hynix's ethics management is aimed at preventing unethical conduct by the organization and employees to protect human and material resources, and to address inefficient or irrational factors in business activities to support the accomplishment of business goals. Our 'Code of Ethics' is amended regularly to reflect domestic and overseas ethics management trends and to provide ethical judgment standards for employees. The Code of Ethics consists of the 'declaration of ethics management', 'principles of ethics', and 'practice guidelines'. The current Code of Ethics is the 10th version amended in October 2016. All employees of SK hynix voluntarily take part in the pledge to practice ethics every year. They understand the importance and need for ethics management, and commit themselves to practicing ethics management.

The Ethical Management Group is dedicated to implementing ethics management. It is under direct control of the CEO to guarantee its independence and strengthen its executive ability. Consisting of three professional organizations – ethics management, business audit and business diagnosis – the Ethical Management Group performs prevention activities and audit functions.

#### SK hynix Ethics Management System



### Ethical Risk Monitoring

**Vigilance System** – A front office-centered self inspection is conducted every year to identify and prevent possible ethical risks. We monitor five major areas – personnel, cost, receivables, purchasing agents and suppliers as well as special risk management – on a regular basis. In 2017, we expanded the scope of self inspections that were previously focused on domestic and production worksites to include overseas sales and technical subsidiaries. In addition, we have an integrated ethics management portal 'EthicsPlus' is place to efficiently and effectively prevent potential risks.

**Ethics Survey** – We conduct an ethics survey on a regular basis to determine whether employees comply with ethics management codes and the degree of internalization of the culture of practicing ethics management, and to define a future direction for improvement. In 2017, we expanded the scope of the survey to include overseas sojourning employees and global employees, resulting in a total 18,751 survey participants. The results of the survey are reflected to improve our ethics management system.

### Consulting and Reporting System

SK hynix operates various online<sup>1)</sup> and offline channels to receive reports on ethics-related issues, with an aim to promote participation by all internal and external stakeholders. In 2017, a total of 117 cases were reported, 46 of which were verified in depth, and 65 employees received disciplinary measures. We operate the informant protection program<sup>2)</sup>, which guarantees anonymity of internal and external informants, as a measure to prevent retaliation, including disadvantages in relation to status or discrimination in work conditions. We clearly state that leakage of informant information is a cause for serious disciplinary action. In 2017, we examined whether there were cases of additional damage, including retaliation, suffered by people who made reports in their real names. Based on such continuous monitoring activities, we are creating a culture where informants can receive consultation or report without concern.

#### Consultation and Report on Ethics Management

| Classification  | Unit   | 2015   | 2016   | 2017   |
|---|--------|--------|--------|--------|
| Total reports   | Case   | 155    | 104    | 117    |
| Effective reports   | Case   | 64     | 44     | 47     |
| Disciplinary actions on unethical behaviors <sup>1)</sup> | Person | 88(22) | 60(18) | 65(37) |

<sup>1)</sup> Number of employees subject to heavy punishment

 <sup>2)</sup> SK Ethics Management Online Reporting System

 <sup>2)</sup> Regulations to Protect Informants

## ABOUT US

SK hynix's NEW GROWTH STRATEGY

SUSTAINABILITY

## FOCUS AREA

## Governance and Integrity

Creating a Safe Workplace

Respecting Human Rights

Addressing Climate Change

Reducing our Environmental Impact

Supporting Supply Chain Sustainability

## PERFORMANCE

## APPENDIX

## Spreading the Culture of Practicing Ethics

**Enhancing Understanding of Ethics Management** We have set in place the 'Correctly Understanding Ethics Management', which provides information on major policies related to ethics and relevant questions that employees may have by categorizing the information in different themes. It is provided once a month on our internal online bulletin board and is increasing employee understanding of ethics management. Also, the 'Ethics Letter for Leaders' is sent to spread the culture of leader-centered ethics practice. The 'Ethics Letter for Leaders' is designed to have readers contemplate ethics management-related implications by providing news at home and abroad, films, broadcasts, internal consulting cases, and cases of reports and disciplinary measures, and also can be used as a training material on ethics management.

**Ethics Management Trainings** Online and offline trainings to prevent unethical conduct prevention are provided every year. In 2017, we developed online training content in English and Chinese and expanded the scope of trainees to include overseas subsidiary employees. Offline training is provided in the form of customized in-depth training in consideration of trainee characteristics. We especially held the 'Leader-led Ethics Practice Workshop', where executives and team managers led free discussions on cases of unethical conduct and ethical dilemmas that can occur within organizations. Offered to high-risk group departments, the 'Visiting Ethics Class' is customized training that reflects each department's characteristics. It provides detailed guidelines to improve and implement ethical decision-making capabilities.

**Expanding Ethics Management to Suppliers** In an effort to enhance the ethical mindset in the overall semiconductor ecosystem, including suppliers, the company's executives in charge of ethics management visit major suppliers and collect information on the difficulties they experience, and distribute win-win ethics management guidelines to suppliers. We receive a pledge on practicing ethics from all suppliers every year. In 2017, a total of 1,353 suppliers joined the pledge.

## Ethics Education Results in 2017

| Classification                 | Target                              | Education (times)                                | Participants (persons) | Education Hours (min) |
|--------------------------------|-------------------------------------|--|------------------------|-----------------------|
| Collective education (offline) | Entry-level education               | New employees                                    | 10                     | 1,088                 |
|                                | Visiting Ethics Class (Domestic)    | Office and division in alternate years           | 80                     | 3,647                 |
|                                | Visiting Ethics Class (Overseas)    | Production subsidiaries in China                 | 10                     | 252                   |
|                                | Leader-led Ethics Practice Workshop | Executives, team leaders, directors and managers | 679                    | 19,723                |
| Online education               | All employees in Korea and overseas | 1  | 25,940                 | 0.5                   |

## Hours Spent on Ethics Education

(Unit: hour)



1.05

2015

0.72

2016

1.46

2017

## Leader-led Ethics Practice Workshop

SK hynix holds the 'Ethics Practice Workshop' to develop ethical decision-making capabilities and enhance executive ability in dilemma situations that may arise while employees handle their work. As the first step, at least two cases were chosen from among around 40 actual cases that were collected by the ethics management organization, after which discussions led by team managers took place either online or offline on resolution measures and implications. Based on the discussion outcome, ethics practice guidelines were established per team. Also, team-level training results were used as a basis for executive-led team member discussions. Each unit organization's ethics practice guidelines that were established based on the two-phase workshop results were registered in our ethics management portal system. In this way, employees and stakeholders can check the guidelines, and more easily apply the guidelines on practicing our principles of ethics to their work and internalize the guidelines.

## Ethics Management Riddle Event in Wuxi

SK hynix held an event aimed at developing the ethical mindset of employees. The event adopted the form of a traditional event called the 'Spring Lantern Festival', which is a lantern festival held across China on the 15th day of the first month in the lunisolar Chinese calendar. During the 'Spring Lantern Festival', people solve riddles that are attached to hanging lanterns or silk-covered lanterns. For SK hynix's event, ethics-related riddles were attached to silk-covered lanterns, enabling employees to have fun while learning about ethics management. Employees were highly satisfied with the event. We plan to steadily carry out activities that enhance the ethical mindset of global employees by reflecting regional cultural characteristics.



**Governance and Integrity**

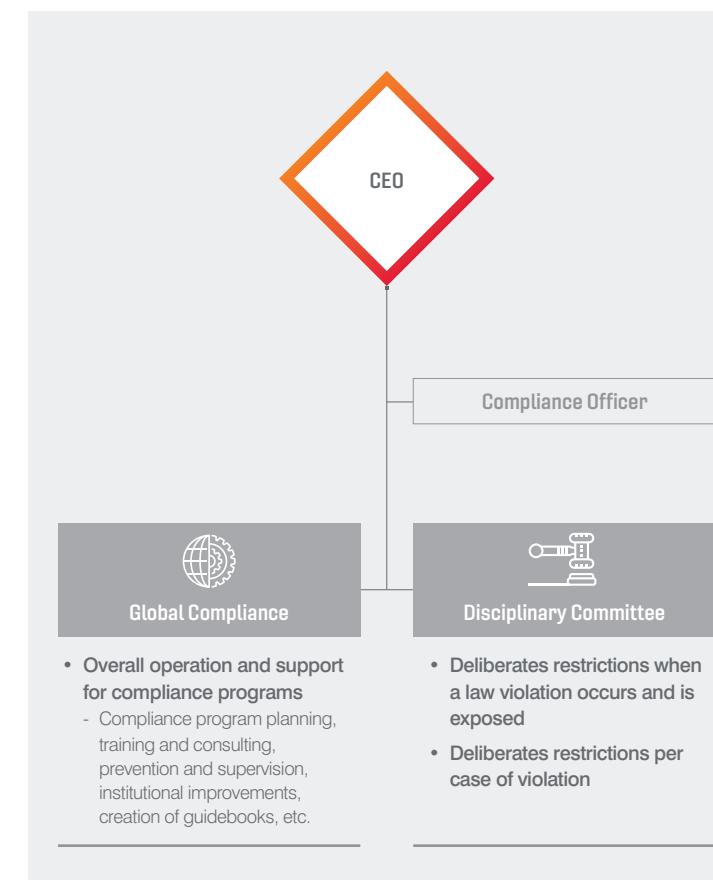
- Creating a Safe Workplace
- Respecting Human Rights
- Addressing Climate Change
- Reducing our Environmental Impact
- Supporting Supply Chain Sustainability

## Compliance Management

### Management System and Approach

The compliance principles of SK hynix have been established based on relevant laws of countries in which we do business, international regulations, conditions requested by customers, and distinct characteristics of the semiconductor industry. Our global compliance program covers compliance activities in major areas, including antitrust, anticorruption, supply chain management, information protection, conflict minerals, and strategic materials. In 2017, we conducted employee training that was aimed at monitoring and responding to changes in personal information protection regulations in China and Europe. We are striving to comply with major compliance principles, with central roles performed by Global Compliance – an organization dedicated to compliance.

#### Organization Dedicated to Compliance



### Strengthening the Antitrust Compliance System

To comply with fair market competition principles, SK hynix inspects fair trade procedures and details of major sales subsidiaries every year, and carries out improvement activities that reflect inspection results and preventive antitrust training. In 2017, we offered specialized training that reflected the semiconductor market status and our business status to major overseas subsidiaries. Through panel training that included internal attorneys and antitrust-specializing attorneys, we engaged in one-on-one exchange with employees, and also held a seminar that was based on a Q&A format, resulting in maximized training effects. For the purpose of fully establishing a compliance culture across all overseas subsidiaries, we designated a Compliance Day every month and provided antitrust training. In particular, we produced and distributed antitrust guidelines by job duties and work areas by reflecting the antitrust laws and relevant trends in countries where our subsidiaries are located and trends.

### Strengthening the Anticorruption Compliance System

As a principle, SK hynix prohibits all forms of corruption and bribery in countries where it does business. Accordingly, we provide employee trainings in a consistent manner, and if there are any changes in relevant laws and regulations, we offer staff at major departments guidelines on regulatory changes. To respond to the Improper Solicitation and Graft Act, which was announced in 2016 in Korea, all employees pledged to comply with the Act. In addition, online training on the Improper Solicitation and Graft Act was provided, with focus on relevant cases, to each department in 2017. Advisory services are also offered to support decision-making by employees.



Training on the Improper Solicitation and Graft Act

### Fair and Transparent Trade

SK hynix operates a prior review process to ensure compliance with fair trade laws when trading with suppliers, including affiliates and subcontractors. We provide training on the Fair Trade Act and Fair Transactions in Subcontracting Act to major employees related to trade. In 2017, we expanded the target of such training from the purchasing department to include all purchase and purchase-related departments, and broke down themes in line with individual departments. By doing so, we made efforts to practically settle down a fair trade compliance culture.

### Consultation and Reporting on Compliance

SK hynix has set in place an online channel<sup>1)</sup> at our website, in order to provide consultations and receive reporting on unfair trade. In addition to providing an online reporting system, we offer information on other diverse channels, including email, telephone and website. We guarantee anonymity to protect informants and consultants, and strictly ensure confidentiality so that information is not disclosed against the wishes of informants and consultants. If informants use the online reporting system, a function to check the progress is available, so that informants and consultants share the status of reporting and consulting.

 <sup>1)</sup> Reporting channel for unfair trade

**Issue 02**

## Creating a Safe Workplace

The safety of the workplace is a key component of the sustainability of corporates and societies. According to ISO 26000, an international standard on social responsibility, industrial accidents cost societies a great deal, for they have a serious impact not only on the workers themselves but also on local communities and the overall environment. For companies to safeguard employees and families, and to maintain a win-win relationship with local communities, they need to adopt a health and safety system that includes regular management of risk factors and provision of safety devices for accident prevention and use in the event of emergencies. In particular, an advanced safety culture, which requires an active participation of all employees with a strong sense of awareness, constitutes the foundation underlying a safe workplace.

## ABOUT US

SK hynix's NEW GROWTH STRATEGY

SUSTAINABILITY

## FOCUS AREA

Governance and Integrity

## Creating a Safe Workplace

Respecting Human Rights

Addressing Climate Change

Reducing our Environmental Impact

Supporting Supply Chain Sustainability

## PERFORMANCE

## APPENDIX

## Management System and Approach

### SHE<sup>1)</sup> Management Strategy

With the vision of 'Pursuing Value for Human and Environment', SK hynix will achieve safety management at worksites and promote the health of its members by practicing four major SHE management principles through 2020. We announced a comprehensive SHE measure and adopted the world's highest SHE management standards in 2016, and now we are making improvements to overall SHE management, while also increasing SHE-related investments. In 2017, a total of KRW 265 billion was invested, indicating a 150% increase from 2016 (KRW 106 billion), to carry out environmental improvement projects and activities aimed at enhancing worksite safety and employee health.

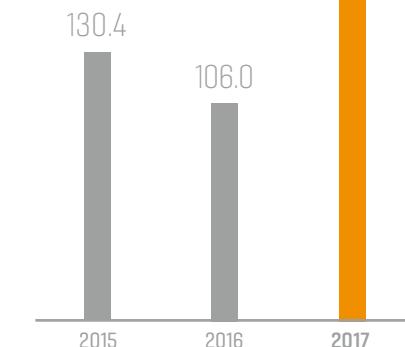
### SHE Management System

SK hynix has received international certification standards, including OHSAS 18001 and ISO 14001 (environmental management system), and we are also preparing for the change to ISO 45001, which is a new safety and health standard, by 2019. We reorganized our SHE for systematic SHE management and response, and carry out safety management by worksite through onsite monitoring. Consisting of outside experts, the SHE Advisory Committee verifies the effectiveness of our SHE activities. Also, we regularly hold the SHE Management Committee, which is a CEO-led top decision-making body for SHE matters, and examine pending issues.

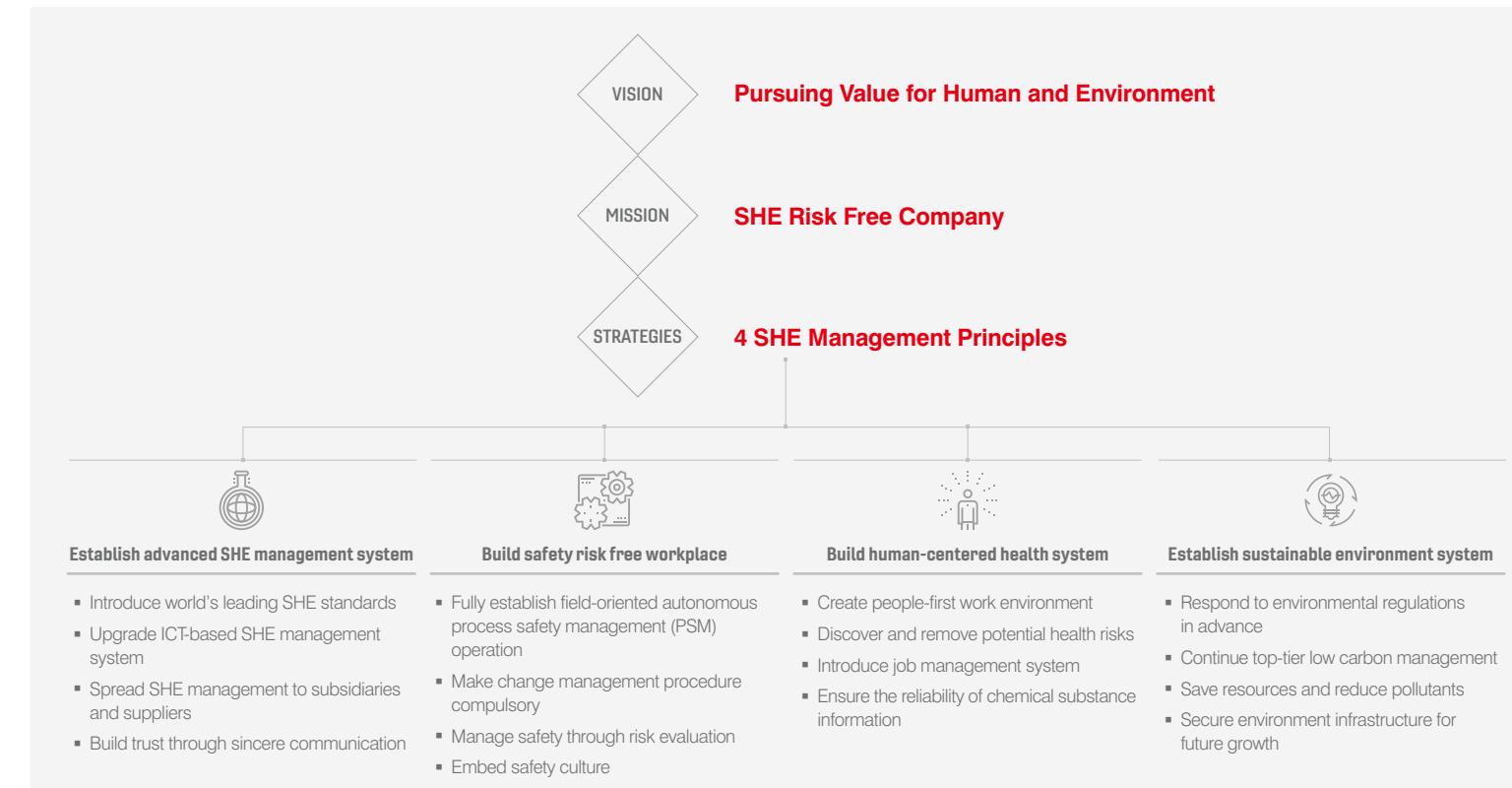
### SHE Investment

(Unit: KRW billion)

288.3



### SHE Vision (2016-2020)

<sup>1)</sup> Safety, Health, Environment

## Worksite Safety

### Safety Risk Management

SK hynix operates a regular and ongoing safety and health risk diagnosis system. We have established the SHE Diagnosis Team in 2016 to regularly assess the degree of implementation of the corporate-wide SHE management system in the form of on-demand and special audits, in addition to a regular audit that is conducted once a year. For any shortcomings that are identified as a result of the evaluations, recommendations are made on improvements and compliance with the recommendations is checked. In 2017, our risk diagnosis focused on construction projects and subsidiaries as well as overseas worksites, including those in Wuxi and Chongqing, China. We plan to further break down targets of diagnosis, and reinforce regular diagnosis process.

Furthermore, we conduct risk evaluations that involve identifying potential hazards and risk factors before work and making improvements so as to minimize the possibility of an accident. To effectively apply our newly adopted risk evaluation technique, we provide training to employees, supplier managers and supervisors to foster experts who can inspect compliance with safety procedures when handling work.

### Adopting the Accident Management System

Since 2017, SK Hynix has the accident management system in place for transparent safety accident reporting by worksites and suppliers. All accidents that occur at SK hynix's worksites located in Icheon, Cheongju, Bundang in Korea, as well as Wuxi and Chongqing in China are registered on the system. Based on this information, SHE and relevant departments conduct investigations on the accidents, establish and implement recurrence prevention measures. The number of accidents and the results of implementing measures are regularly reported to the SHE Management Committee. We plan to further advance the accident management system so that it helps with analyzing the causes of accidents by type of work, form of accident occurrence, etc., and establishing effective recurrence prevention measures.

### Establishing the Emergency Response System

SK hynix maintains an emergency response system for quick initial response and control in the event of emergencies and to prevent further accidents. We conduct 24/7 monitoring of our worksites that use the safety and fire prevention system for initial response and control in case of emergencies, and also operate the Emergency Control Tower (ECT) to prevent the spread of accidents. On ordinary days, we maintain and repair emergency equipment in preparation for each type of accident, provide training for each situation, and conduct emergency evacuation training for each building. In November 2017, employees at our Icheon Campus took part in 'Disaster Response Training for Safe Korea', which was organized by Gyeonggi-do Fire Services and jointly participated by the private, government, and military sectors, and practiced how to respond to explosions caused by large amounts of ammonia ( $\text{NH}_3$ ) leakage and treat casualties.

### Building a Safety Culture

In 2017, SK hynix received an international safety rating system diagnosis to objectively evaluate the company's safety and health system and to address shortcomings. We then identified core tasks for safety system improvements, and have been implementing them. As part of these measures, we provided safety and health leadership improvement training in 2017 to the CEO, all worksite executives and team managers, CEOs of suppliers and our labor union leaders. Aiming to have our international safety rating reach the top level in Korea's manufacturing industry by 2020, we will conduct reassessments every two years and strive to build a safety culture.

In addition, we offer field-centered experiential safety and health trainings by strengthening content at the SHE Experience Hall, which is equipped with a diverse safety rule experience space as well as empirical learning facilities, including those for fire-extinguishing and evacuation experience. Starting in 2017, we have expanded technical training that is designed to strengthen the risk management capabilities of field managers in order to prevent SHE-related accidents. To enhance awareness of safety-related accidents in daily life, we are sharing L.F.I<sup>1)</sup>, which consists of an outline of accident cases and information on countermeasures, through our Intranet.

SK hynix is also providing SHE trainings to local communities by signing an MOU with the Korea Occupational Safety & Health Agency. In addition,

<sup>1)</sup> Lesson From Incident: SHE-related information that is shared to enhance safety awareness based on lessons learned from incidents and to prevent recurrence of the same or similar incidents

we share virtual reality training materials as well as SHE experience content with relevant organizations, thereby contributing to the creation of social value in SHE.



Safety trainings



Emergency first response trainings for employees

## Suppliers Safety and Health

### Supplier SHE Evaluation

SK hynix implements safety and health management mainly for suppliers that handle hazardous substances, including gas and chemical substance suppliers. All suppliers which provide gas and chemical substances are required to pass certain standards through an adequacy evaluation for their SHE management, including on-site safety and health audit, in order to be registered as a supplier of SK hynix. Even after contracts are signed, we regularly choose 20 major domestic suppliers every year and conduct a safety and health audit (SHE inspection), after which we provide support for improvement measures. In 2017, we expanded the scope of our SHE inspection from gas and chemical substance suppliers to include outside cleaning suppliers. We plan to launch an SHE consulting program in 2018 that involves providing outside expert consulting to suppliers that apply for consultation, from among suppliers that are subject to SHE inspection, thereby contributing to spreading social values. In 2018, we have established measures on strengthening safety management of prime contractors and subcontractors and are striving to fully establish a culture of safety at suppliers. Over the long term, we will expand the scope of supplier support and

strengthen management to advance the voluntary safety culture at suppliers and to achieve zero accidents.

### Supplier SHE Inspection

| Classification       | Unit        | 2015       | 2016       | 2017       |
|----------------------|-------------|------------|------------|------------|
| Safety               | Case        | 63         | 75         | 31         |
| Environmental impact | Case        | 26         | 27         | 29         |
| Health               | Case        | 27         | 39         | 43         |
| Fire safety          | Case        | 20         | 13         | 4          |
| <b>Total</b>         | <b>Case</b> | <b>136</b> | <b>154</b> | <b>107</b> |

### Co-prosperity & Cooperation Program

In partnership with the Korea Occupational Safety & Health Agency, parent companies provide support to internal and external suppliers in relation to

their safety and health situation through the Co-prosperity & Cooperation Program. In 2017, SK hynix ran a safety and health council and provided material support to 23 of 1st-tier suppliers and 16 of 2nd-tier suppliers. We held the safety and health council meetings regularly, conducted joint workplace inspections, provided risk evaluation training, and offered technical support. We also provided protection devices for safety, rewarded outstanding suppliers in SHE, and helped suppliers promote the health of their employees. In particular, we trained 34 managers and supervisors at suppliers, with which we have formed a co-prosperity and cooperation relationship, on the newly adopted risk evaluation methods. We also conducted a risk evaluation on all suppliers in co-prosperity and cooperation relationship. As a result, we identified 324 risk factors and have been providing technical support and investments to make improvements. To motivate suppliers, we held a risk evaluation contest in the first and second half of the year and provided incentives. We plan to steadily expand the Co-prosperity & Cooperation Program in consideration of the atmosphere where emphasis is placed on the importance of a safety culture.

### Measures to Strengthen Safety Management of Prime Contractors and Subcontractors in 2018

|   |                           |   |
|---|---------------------------|---|
| Clarify safety management roles and responsibilities of each supplier   | Prime contractor          | Expand the scope of supplier management; and increase the weight of safety evaluations when choosing suppliers  |
|   | Supplier                  | Obligate the employment of safety and health managers for companies with at least 300 staff; and strengthen inspections on execution of risk evaluations  |
|   | Worker                    | Break down supervision, inspection measures and penalties; and increase training to strengthen workers' safety capabilities   |
| Prevent major accidents through focused management of high-risk areas   | High-risk process         | Carry out a special diagnosis of high-risk processes based on repetitive accident analysis; and expand the operation of an internal risk alert system for hazardous chemical substances   |
|   | High-risk work            | Conduct focused inspections of construction equipment, including cranes and old equipment; and establish an inspection team dedicated to eight major types of high-risk work  |
|   | Supplier management       | Apply tender restrictions to suppliers that engage in poor safety management; and operate a safety program for high-risk suppliers  |
| Systematize the field management-supervision system                     | Guidance and supervision  | Provide in-depth guidance and consultations at supplier workplaces once a week; and inspect the work operation status twice a year  |
|   | Restrictions              | Strengthen detailed standards for safety inspections and safety measures – warning for first violation and permanent access restriction for second violation)   |
| Expand the safety infrastructure and spread the safety-emphasis culture | Address unfair practices  | Conduct audits to determine whether safety management expenses are actually used for the purpose; and establish and reflect subcontracting-related standards when contracts are signed  |
|   | Expand the infrastructure | Operate experiential SHE training; expand meetings with the management; and support the acquisition of safety qualifications  |
| Safety culture  |                           | Have safety week events, including the Innovative Case Contest and Safety Culture Dissemination Campaign; expand rewarding of outstanding suppliers in the area of safety; and hold a Safety Inspection Day event for suppliers every month |

### Strengthening Suppliers' Capabilities in Safety and Health

SK hynix helps its suppliers foster safety and health experts by running trainings for workers, signalers and supervisors of suppliers. In the first half of 2017, we offered a program that nurture safety supervisors for the purpose of improving capabilities related to the Work Safety Permit procedure and risk evaluations. Organized by the Icheon Campus, the program included trainings on procedures and execution measures to earn work safety permit. In addition, we held participatory events for suppliers to establish a safety culture for 23 internal suppliers in 2017, including campaigns related to major accidents and safety in daily life as well as safety quiz events for supplier employees.

### HRD Programs for Suppliers in 2017

|   |   |        |
|---|---|--------|
|  | Number of supplier's employees who have received worker trainings     | 37,614 |
|  | Number of supplier's employees who have received signaler trainings   | 554    |
|  | Number of supplier's employees who have received supervisor trainings | 1,096  |

## Employee Health and Safety

### Industrial Health Advancement Sustainability Committee

In June 2017, SK hynix launched the 'Industrial Health Advancement Sustainability Committee' together with the Department of Preventive Medicine and Public Health of Ajou University for voluntary and preemptive health management. Consisting of external experts and representatives of labor and management, the Sustainability Committee's roles and responsibilities include objective verification for 127 tasks, establishment of a preemptive management system (Cohort), improvements to chemical substances and the work environment, and win-win cooperation for safety and health at suppliers. By carrying out these activities, we plan to fulfill our social responsibilities and strive to build a healthy workplace.



Industrial Health Advancement Sustainability Committee

### Establishing the Health Management System

SK hynix established a health management system to prevent occupational disease. The health management system is a preventive measure that involves determining the degree of exposure to harmful factors from the work environment, examining the possibility of specific disease occurrence in relevant jobs, and making improvements. In the second half of 2017, we provided briefings on the establishment of a health management system to all employees, through which participants shared information on the progress of a semiconductor occupational disease investigation conducted by the Industrial Welfare Verification Committee, and filled out consent forms on data collection.



Briefings on the Cohort system

### Mind Stroll

SK hynix provides various mental health management services to help employees free themselves from stress and resolve issues that arise in work or personal life. We operate 'Mind Stroll', an internal counseling center, to promote employees' mental health. Certified psychologists provide various services for free, including psychology counseling and testing. The confidentiality of counseling content is strictly guaranteed pursuant to professional ethical regulations of counselors and the Personal Information Protection Act. We also operate the '24-hour Mental Health Wiki Call' system. This is a hotline that makes direct connection to professional psychology counselors. It helps callers quickly regain a sense of emotional stability in a psychological crisis situation. We plan to expand mental health management programs in 2018, including recruitment of additional internal psychology counselors.



**Issue 03**

## Respecting Human Rights

Respect for human rights and labor environment improvements are based on human rights management, which is the spirit of management that sees the fulfillment of international human rights standards as a corporate responsibility and accepts that international human rights laws have the power of rule in the matters of corporate business. Since the 2011 UN adoption of guiding principles on business and human rights and its call on corporates to practice human rights management, relevant discussions have multiplied in the international community with the interest of stakeholders. In particular, human rights management is gaining importance following corporates' growing social influence in the era of the Fourth Industrial Revolution. Amid such situations, companies can develop a new perspective on human rights in relation to corporate management, such as seeing human rights management as an opportunity for sustainable growth.

## Management System and Approach

### Human Rights and Labor Policy

In 2013, SK hynix established the 'Human Rights & Labor Policy of SK hynix'<sup>1)</sup>, which is applied to SK hynix and supplier employees. The policy consists of main contents and detailed guidelines which cover eight items of respect for human rights, prohibition of forced labor, prohibition of child labor, employment of minors, working hours, wage, non-discrimination and freedom of association. Through the Human Rights & Labor Policy of SK hynix, we expressed our determination to comply with human rights protection and labor standards of international organizations like the UN and International Labour Organization that deal with labor issues, as well as regulations set by the Responsible Business Alliances and authorities in countries or regions where our worksites are located. The Human Rights & Labor Policy of SK hynix is developed based on the 'Universal Declaration of Human Rights' of the UN, 'UN Guiding Principles on Business and Human Rights (Ruggie Framework)' of the UN Commission on Human Rights, and 'Dhaka Principles for Migration with Dignity'.

 <sup>1)</sup> Human Rights & Labor Policy of SK hynix

### Respect for Diversity

SK hynix prohibits unfair discrimination based on gender, academic background, religion and other factors, and respects employee diversity. As of 2017, male employees account for 59.6% at 17,449 persons, while female employees account for 40.4 % at 11,813 persons, of which the percentage of female managers increased to 15.6% in 2017, reflecting a continued upward trend. In particular, we operate W-network, a female leadership development program, as part of our efforts to increase diversity among managers. In addition, we established HAPPY-MORE INC. a subsidiary-type standardized social enterprise employing the disabled, to fulfill our social responsibilities in relation to hiring the underprivileged, and hired 80 people with disabilities.

#### Ratio of Female Managers

(Unit: %)



14.9

2015

15.3

2016

15.6

2017

#### Employee Diversity (Domestic)

| Classification   | Unit   | 2015 | 2016 | 2017 |
|--|--------|------|------|------|
| Ratio of female employees  | %      | 43.7 | 42.6 | 40.4 |
| Ratio of female managers <sup>1)</sup>                                   | %      | 14.9 | 15.3 | 15.6 |
| Ratio of entry-level female managers <sup>2)</sup>                       | %      | 34.7 | 34.8 | 27.4 |
| Ratio of female managers at departments generating profits <sup>3)</sup> | %      | 23.1 | 23.5 | 23.4 |
| Employees with disabilities <sup>4)</sup>                                | Person | 129  | 132  | 129  |
| National veterans  | Person | 264  | 244  | 272  |
| Senior employees <sup>5)</sup>   | Person | 46   | 61   | 80   |

<sup>1)</sup> (Female managers and above + Female supervisors)/(Company-wide managers and above + Supervisors of production employees)×100

<sup>2)</sup> Based on technology/office part managers and above

<sup>3)</sup> Based on marketing and sales departments, and sales subsidiaries

<sup>4)</sup> Excluding HAPPY-MORE INC. employees

<sup>5)</sup> Person aged 55 or more with an employment period of no less than 1 year

### W-network

SK hynix has established the 'W-network' in 2015, with an aim to strategically foster next-generation female leaders, and has been fully establishing a culture of gender equality. The W-network consists of regular meetings and communication with the management, lectures and mentoring provided by outside female leaders in similar business areas, and a networking program for female employees. Ideas are collected on ways to improve cultural and institutional conditions that obstruct growth of female leaders.



## Reasonable Work Environment

### Working Hour Management

SK hynix complies with local regulations regarding work hours in countries where its worksites are located, and uses the e-HR system to manage such information as working hours and overtime allowance. By expanding the operation of the flexible working system, which allows employees to flexibly choose working hours, we are helping employees achieve balance between work and personal life. In February 2018, we launched pilot operation of the maximum 52-hour-a-week system to improve upon long work hour practices and to help establish a healthy work-life balance. We also established the HR Committee in 2018 that is participated by executives from relevant departments, including legal affairs, HR, and corporate culture. Discussions will be held on responding to labor environment issues within the corporate-wide strategy system.

#### Working Hours<sup>1)</sup>

| Classification                             | Unit | 2015  | 2016  | 2017  |
|--|------|-------|-------|-------|
| Annual working hours <sup>2)</sup>         | Hour | 2,028 | 2,126 | 2,116 |
| Average weekly working hours <sup>3)</sup> | Hour | 39    | 41    | 41    |

#### No. of Employees Who Joined the Flexible Working System<sup>4)</sup>



(Unit: person)

1,667    2,093    3,115  
2015            2016            2017

<sup>1)</sup> Based on Icheon, Cheongju, and Bundang Campus<sup>2)</sup> Annual working hours per person; 2016 figure has been corrected<sup>3)</sup> Weekly working hours per person based on annual working hours per person for 52 weeks<sup>4)</sup> Job-absorbing employees, pregnant employees and flextime employees

### Reasonable Compensation Policy

SK hynix pays statutory wages in accordance with local laws of regions where our worksites are located to enhance the quality of life of employees, and also operates diverse welfare systems. The wages that the company pays to employees are above the legal minimum wage of each worksite. The starting salary of newly hired college graduates at our domestic campuses is around 265% of the statutory minimum wage as of 2017. Salaries are paid according to role and performance, irrespective of gender.

#### Level of Starting Salary of New Employees<sup>1)</sup>

| (Unit: %) |      |      |
|-----------|------|------|
| 2015      | 2016 | 2017 |
| 300       | 280  | 265  |

<sup>1)</sup> Based on newly hired college graduates at Icheon and Cheongju Campus in Korea

### Programs for Female Employees

SK hynix has a wide range of maternity protection programs in place to reduce difficulties that female employees experience in their work life after pregnancy and childbirth. Offered to female employees, the 'Childcare Leave Automatic Switch System' makes a connection between maternity leave and childcare leave to help female employees maintain their careers. In consideration of our work environment, where there are many shift workers, we run 24-hour national-public daycare centers. Pregnant employees get two hours of break time between their work shifts. There is also the DoDam Room, a rest area for pregnant employees. We also have such systems as providing post-natal care services and discounts for visiting gynecologists. In 2017, we increased miscarriage condolence fund support.

#### Use of Maternity Leave and Childcare Leave<sup>1)</sup>

| Classification  | Unit         | 2015    | 2016    | 2017                  |
|---|--------------|---------|---------|-----------------------|
| Rate of return to work after childcare leave            | %            | 97      | 97      | 98                    |
| No. of employees who used maternity leave               | Person       | 926     | 823     | 732                   |
| No. of employees who used childcare leave               | Person       | 1,033   | 1,083   | 919                   |
| Subsidy for childcare leave                             | KRW<br>1,000 | 623,291 | 715,694 | 303,773 <sup>2)</sup> |
| Rate of working for over 12 months after return to work | %            | 90.0    | 91.0    | 90.9                  |

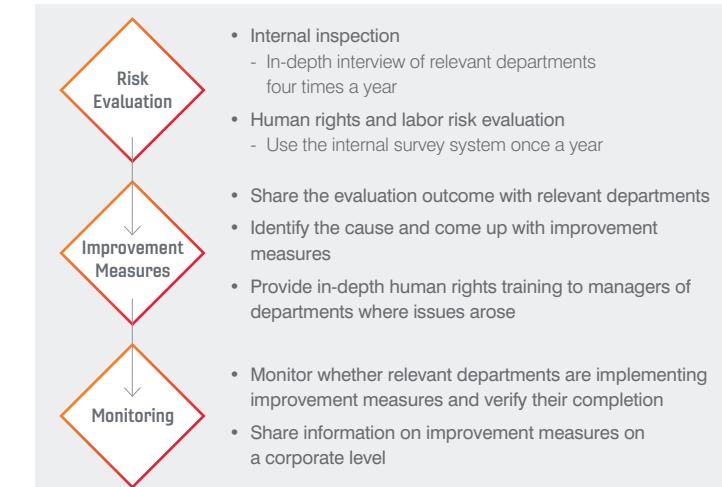
<sup>1)</sup> Based on Icheon, Cheongju, and Bundang Campus<sup>2)</sup> Offered to employees who took a childcare leave before December 31, 2016

## Impacts of Human Rights and Labor

### Managing the Impacts of Human Rights and Labor at Worksites

SK hynix reviews the level of human rights and labor at its domestic and overseas worksites on a regular basis to identify factors that negatively impact human rights and to improve the worksite environment. Human rights and labor risk assessments consist of major inspection items of the Responsible Business Alliance – formerly Electronic Industry Citizenship Coalition (EICC). In 2017, we carried out an assessment of 1,614 domestic full-time employees who have worked for the company for five years or less and thus have a high risk of human rights violation. We identified a lack of training in relation to employment policy, which was addressed through training provided by departments in charge of HR and labor & management. We plan to increase the scope of human rights and labor risk assessments to cover all employees, including overseas worksites, in 2018.

#### Human Rights Risk Assessment Process



### Managing the Impact of Human Rights and Labor in Supply Chains

SK hynix manages human rights and labor risks that may arise in the supply chain by conducting regular inspections on the human rights management status of suppliers. We use the Validated Audit Process of the Responsible Business Alliance for inspections. In 2018, we plan to increase the number of suppliers subject to on-site human rights and labor audits, and we will also improve the supply chain human rights and labor inspection process based on collaboration between the Joint Growth Cooperation Team and the organization dedicated to social value creation.

- Governance and Integrity
- Creating a Safe Workplace
- Respecting Human Rights**
- Addressing Climate Change
- Reducing our Environmental Impact
- Supporting Supply Chain Sustainability

## Training and Communication

### Human Rights Training and Reporting Channel

SK hynix provides ethics management and sexual harassment prevention training to all employees every year. In addition, new executives are required to receive ethics management training that is organized by SK Group. In 2016, we revised the Code of Conduct to prevent any unethical behavior that harms our corporate culture, such as sexual harassment, and made detailed guidelines to specify misbehaviors which are not allowed in the company. We also set up an anonymous bulletin board on our Intranet to allow the reporting of human rights issues. Victims or witnesses can immediately report issues, after which investigations are conducted and measures are taken in accordance with relevant standards.

We distribute the 'Security Work Process Manual' to security guards to meet strengthened industrial security standards, and train them on industrial safety and sexual harassment to prevent human rights issues at work.

#### Time Spent on Sexual Harassment Prevention Education

| Classification | (Unit: Minute/Person) |      |      |
|----------------|-----------------------|------|------|
|                | 2015                  | 2016 | 2017 |
| Domestic       | 27                    | 27   | 27   |
| Overseas       | 10                    | 7    | 68   |

### No Sa Bul Ui New Culture Council

SK hynix and the labor union raise an operational fund by combining donations that are raised by deducting small change that is less than KRW 1,000 from the monthly salary of employees and the company's matching grant. This is used to support internal employees and the underprivileged in local communities. When employees recommend an employee who needs help due to an unexpected accident or disease, a certain amount of support funds is delivered after deliberation by the No Sa Bul Ui Operating Committee. Detailed information on the support we provide is available in Happiness Sharing Story<sup>1)</sup>, a social contribution report of SK hynix.

 <sup>1)</sup> Happiness Sharing Story

### Labor-Management Communication

Based on the spirit of 'No Sa Bul Ui (the company and labor are intertwined and cooperate with each other)', SK hynix has continued its labor dispute-free record for 35 years since its founding, and is implementing win-win measures that were mutually agreed upon. Discussion channels across various classes allow discussion on resolving major labor issues, handling worker grievances and complaints and enhancing the welfare and working conditions of employees. By systematizing our four-stage labor-management discussion channels, we are supporting adequate problem resolution. SK hynix regards the labor union as a partner in corporate management, and shares information on the monthly business and personnel status through various channels, including the production performance-sharing meeting, business presentation, SUPEX meeting, and personnel information sharing meeting. We are also striving to strengthen labor-management communication at our overseas campuses. The Wuxi Campus holds presentations to share information on corporate systems and policies, and the Chongqing P&T holds a monthly meeting.



#### Labor Union

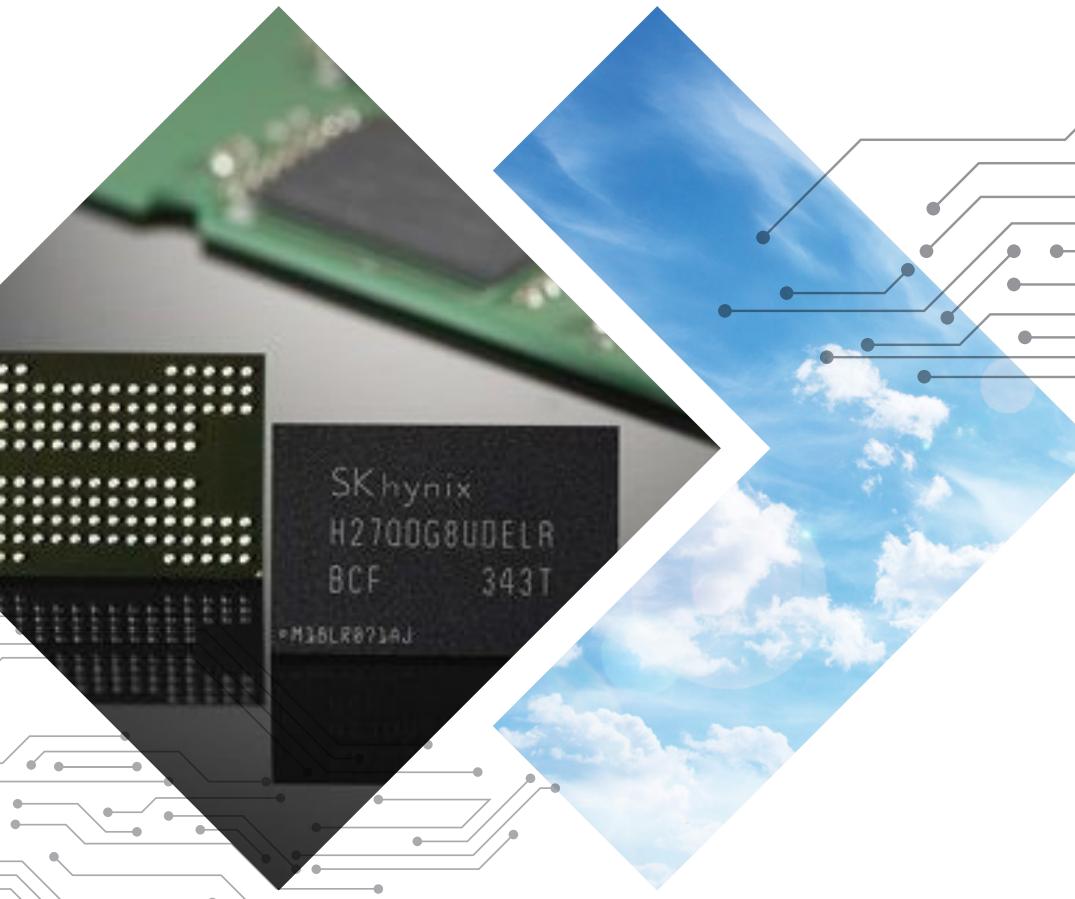
| Classification                                     | Unit   | Domestic      |                 | Overseas    |               |
|--|--------|---------------|-----------------|-------------|---------------|
|  |        | Icheon Campus | Cheongju Campus | Wuxi Campus | Chongqing P&T |
| Employees who are eligible to join the labor union | Person | 7,445         | 4,884           | 3,486       | 1,333         |
| No. of labor union members                         | Person | 7,222         | 4,855           | 3,473       | 1,272         |
| Labor union enrollment rate                        | %      | 97.0          | 99.4            | 99.6        | 95.4          |

#### Four-stage Labor-Management Discussion Channel<sup>1)</sup>

| Classification                                  | Details   | Discussion Meetings in 2017 |
|---|---|-----------------------------|
| 1st stage<br>Weekly labor-management meeting    | Channel for sharing labor-management issues on a regular basis            | 76 times                    |
| 2nd stage<br>Monthly task division meeting      | Handling on-site complaints and delivering management issues and messages | 14 times                    |
| 3rd stage<br>Quarterly labor-management council | Channel for discussing labor-management issues by worksite                | 8 times                     |
| 4th stage<br>Central labor-management council   | Channel for discussing company-wide labor management issues               | Zero <sup>2)</sup>          |

<sup>1)</sup> Based on Icheon and Cheongju Campus

<sup>2)</sup> In 2017, the central labor-management council meeting was not held because discussions on all agenda items were completed through lower-level labor-management councils

**Issue 04**

## Addressing Climate Change

The international community has been striving to reduce greenhouse gas emissions as a way to address global warming since the United Nations Framework Convention on Climate Change in 1992. The Paris Agreement, agreed upon at the Conference of Parties (COP 21) held in December 2015, will take effect in 2020. It broke away from the previous differentiated approach between advanced nations and developing countries, and instead emphasizes the roles of all countries. Since the COP 21, the Financial Stability Board (FSB), an international financial organization, has set up a Task Force on Climate-related Financial Disclosures (TCFD) and set forth global standards for companies to voluntarily disclose information on the effect of climate change on their financial performance and countermeasures in their financial reports.

- Governance and Integrity
- Creating a Safe Workplace
- Respecting Human Rights
- Addressing Climate Change**
- Reducing our Environmental Impact
- Supporting Supply Chain Sustainability

## Management System and Approach

### Governance for Responding to Climate Change

SK hynix's performance in responding to climate change is reported to the management and relevant decisions are made through the SHE Management Committee. Based on the Committee, organizations related to SHE, purchasing, legal affairs and facility are collaborating with one another, including the establishment of guidelines on purchasing emissions rights and the breakdown of GHG TF activities to achieve our allocated goal. In addition, the 'GHG IT System' allows us to examine monthly energy and process gas use, and determine GHG emissions.

### Climate Change Risks and Opportunities

To formulate climate change response strategies, we analyze regulatory and physical environment changes that are caused by climate change and monitor their impact on our business. To reduce potential risks and maximize business opportunities, we are engaging in corporate-wide investments and activities by identifying energy-saving items and increasing the development of low power-consuming products.

### Risks and Opportunities Regarding Climate Change

| Classification | Risks Regarding Climate Change             |  | Opportunities Regarding Climate Change  |   | Our Response   |
|----------------|--|--|---|---|--|
|                | Risk Factor                                | Potential Financial Impact   | Opportunity   | Potential Financial Impact  |  |
| Regulatory     | Emissions trading scheme                   | <ul style="list-style-type: none"> <li>GHG reduction costs are shifted onto electric charges</li> <li>Mandatory GHG emissions reporting (submission)</li> </ul>                | <ul style="list-style-type: none"> <li>Increased costs, such as electric charges, the establishment of GHG inventory, and third-party verification</li> </ul> | <ul style="list-style-type: none"> <li>Secure GHG emissions reduction technologies</li> </ul>   | <ul style="list-style-type: none"> <li>Generate revenue by obtaining emission permit</li> </ul>  |
|                | Fuel/energy tax and regulations            | <ul style="list-style-type: none"> <li>Government regulations on energy take concrete shape</li> </ul>   | <ul style="list-style-type: none"> <li>Increased energy costs</li> </ul>  | <ul style="list-style-type: none"> <li>Improve and replace equipment at the production FAB with highly efficient production equipment</li> </ul>              | <ul style="list-style-type: none"> <li>Build and verify GHG inventory</li> <li>Develop GHG measuring technology</li> <li>Discover GHG/energy reduction items (TF activities)</li> </ul>  |
|                | Product labeling regulations and standards | <ul style="list-style-type: none"> <li>Advancement of customers' product certification standards</li> </ul>  | <ul style="list-style-type: none"> <li>Delay and failure in sales</li> </ul>  | <ul style="list-style-type: none"> <li>Secure future technologies that satisfy product efficiency regulations</li> </ul>                                      | <ul style="list-style-type: none"> <li>Curtail energy costs by reducing power use</li> </ul>   |
| Physical       | Extreme weather                            | <ul style="list-style-type: none"> <li>Increased failure rate of precision instruments used for producing semiconductors</li> </ul>  | <ul style="list-style-type: none"> <li>Sales loss caused by product quality issues</li> </ul>   | <ul style="list-style-type: none"> <li>Increased smart device and IoT solution market in tandem with greater uncertainty caused by extreme weather</li> </ul> | <ul style="list-style-type: none"> <li>Increase profits by preoccupying the market</li> </ul>  |
|                | Unusual weather and depletion of resources | <ul style="list-style-type: none"> <li>In the event of a blackout caused by a typhoon, serious damage is inflicted on products (wasted products, lower yield, etc.)</li> </ul> | <ul style="list-style-type: none"> <li>Direct/indirect losses, including a setback in sales</li> </ul>  | <ul style="list-style-type: none"> <li>Increase the supply of new &amp; renewable energy</li> </ul>   | <ul style="list-style-type: none"> <li>Strengthen Heating, Ventilation, Air Conditioning (HVAC) management</li> <li>Conduct employee training on cleanliness</li> <li>Strengthen the non-memory semiconductor business, including CIS</li> </ul> |
|                | Change in customer behaviors               | <ul style="list-style-type: none"> <li>Increased customer demand for low power-consuming products</li> </ul>   | <ul style="list-style-type: none"> <li>Setback in product sales and decreased market share</li> </ul>   | <ul style="list-style-type: none"> <li>Secure production technologies for low power-consuming products</li> </ul>   | <ul style="list-style-type: none"> <li>Increase product sales and market share</li> </ul>  |
| Others         | Corporate reputation                       | <ul style="list-style-type: none"> <li>Lower score from evaluating corporate sustainability in relation to climate change response</li> </ul>                                  | <ul style="list-style-type: none"> <li>Falling stock price and ownership</li> </ul>   | <ul style="list-style-type: none"> <li>Improve performance through sustainability risk response</li> </ul>  | <ul style="list-style-type: none"> <li>Develop high-performance, low power-consuming products</li> <li>Improve the product planning and supply chain management process</li> </ul>   |
|                |  |  |   | <ul style="list-style-type: none"> <li>Increased possibility of a rise in stock price and ownership</li> </ul>  | <ul style="list-style-type: none"> <li>Expand communication channels with stakeholders</li> <li>Engage in sustainability risk diagnosis and improvement activities</li> </ul>  |

## Greenhouse Gas

### GHG Emissions Reduction Goal

SK hynix established a mid- to long-term goal to reduce the intensity of GHG emissions by 20% from business-as-usual (BAU) emissions in 2014 by 2025. In addition, we set a goal to address the emissions trading scheme every year and carry out GHG emissions reduction activities.

### GHG Reduction Activities

The semiconductor industry emits GHG during the product manufacturing process, including perfluorocarbons (PFCs) and sulphur hexafluoride (SF<sub>6</sub>). In accordance with a recommendation made by the World Semiconductor Council (WSC), we are making continued investments to replace our GHG reduction device (scrubber) with highly efficient equipment every year and to develop technologies that reduce GHG emissions. In addition, through our GHG reduction TF, we are continually discovering items that can reduce GHG emissions throughout our manufacturing processes.

SK hynix provides compensation to employees based on their performance in responding to climate change. Through efficiency management projects and GHG emissions reduction goals, SK hynix provides incentives to all employees, including the management, energy managers and facility managers. In addition, if a facility building supplier achieves a certain target of scrubber efficiency, we increase orders placed to the supplier as a means of offering incentives.

Our GHG reduction goal for 2018 is 1.5 million tons. To this end, we plan to focus on implementing initiatives that improve the PFC treatment efficiency of our first scrubber from 85% to 95% and improve N<sub>2</sub>O gas treatment efficiency by 10%. We also plan to establish a methodology for measuring reduction levels of the waste heat recovery system, which was identified as a new item for GHG reduction.

### GHG Reduction Outcome

SK hynix entered the Global Leaders Club, selected by the Carbon Disclosure Project (CDP) Korean Committee, for excellent carbon management, and became the first and the only company in Korea to join the Hall of Fame, maintaining the status for the fifth year in 2017. In addition, we received award certification from award certification from the 'Minister of Trade, Industry and Energy' in recognition of our activities to respond to climate change and reduce GHG emissions.

## Energy

### Energy Saving Activities

SK hynix has adopted ISO 50001, and operates a corporate-level TF to save energy. We systematically manage energy with energy performance indicators that we internally developed using variables of the number of equipment, movement per unit, and enthalpy. We built an integrated IT management system that enables real-time monitoring of the energy usage status per user at our domestic worksites, and control energy use. Also, energy management goals and performance are reported to the management.

Major energy-consuming departments, including manufacturing, technology and processing as well as supporting departments, such as environment, strategy and purchasing, participated in the energy saving TF. It implements comprehensive energy reduction activities. By leveraging the integrated energy management system, we compare and analyze energy efficiency between the same processes or facilities, and maximize energy efficiency in the manufacturing process. TF members discover energy-saving items, and define investment priorities based on return on investment, amount of reduction against the target, easiness of operation, and urgency.

### Energy-saving Performance

|            | Icheon  | Cheongju  | Wuxi  | Chongqing P&T   |
|------------|---|---|---|---|
| Activities | <ul style="list-style-type: none"> <li>Reduced power load through efficient refrigerator operation</li> <li>Cut power at idle facilities</li> </ul> | <ul style="list-style-type: none"> <li>Adopted highly efficient refrigerators</li> <li>Cut power of idle refrigerators</li> </ul> | <ul style="list-style-type: none"> <li>Replaced with LED lights</li> <li>Optimized the steam temperature of the OAC system</li> </ul> | <ul style="list-style-type: none"> <li>Cut power to unused equipment, such as indoor light, streetlamp, elevator, pump, air-conditioner, etc.</li> <li>Reuse condensed water</li> </ul> |
| Outcomes   | <ul style="list-style-type: none"> <li>Undertook 1,055 energy-saving items</li> <li>Reduced 1,228TJ</li> </ul>                                      | <ul style="list-style-type: none"> <li>Carried out 118 items to reduce energy consumption</li> <li>Reduced 1,034TJ</li> </ul>     | <ul style="list-style-type: none"> <li>Reduced 3.08 million Kwh of electricity</li> <li>Reduced 39,000 tons of steam</li> </ul>       | <ul style="list-style-type: none"> <li>Reduced 2.45 million kWh of electricity</li> <li>Reduced 174,000 Nm<sup>3</sup> of natural gas</li> </ul>  |

## Product Responsibility

### Developing Eco-friendly Products

SK hynix strives to develop high-performance, low power-consuming products to satisfy customer demand. To provide objective, official materials on products' environmental impact, we apply the Life Cycle Assessment (LCA) of the Ministry of Trade, Industry and Energy and the Ministry of Environment to major DRAM and NAND flash memory products, and analyze environmental impact. LCA is a technique that quantitatively evaluates the environmental impact of substances and energy that are consumed and discharged throughout all product steps, ranging from collection of resources to raw material production, shipment, manufacturing, assembly, distribution, use, and discard. We plan to continually reduce products' environmental impact based on LCA results.

### Environmental Product Declaration

Environmental Product Declaration, organized by the Korea Environmental Industry & Technology Institute under the Ministry of Environment, includes water and carbon footprints. It is a national certification system that analyzes and discloses the environmental impact of a production process that ranges from acquisition of raw materials to manufacturing. Since 2013, we have been choosing our major products every year based on the number sold, yield, and recent sales trends, and working on receiving Environmental Product Declaration (EPD) certification for the products. In 2017, our DE 8Gb LPDDR3 product received water footprint certification, which measures the quantity of water consumed throughout the entire process of the product life cycle.

We plan to receive diverse EPD certifications, including the carbon footprint, water footprint and eutrophication. Our plan for 2018 is to expand the acquisition of certification from DRAM to include NAND flash, and to have our DRAM product – DE 8G DDR4 – receive water footprint and carbon footprint certifications and have our NAND flash products obtain EPD certifications.

**Water Footprint Certification from the Korea Environmental Industry & Technology Institute in 2017**

Product Name

**DE 8G LPDDR3**



61.6L H<sub>2</sub>O eq./unit

Water footprint



73.8g SO<sub>2</sub> eq./unit

Acid rain



192g PO<sub>4</sub><sup>3-</sup> eq./unit

Eutrophication

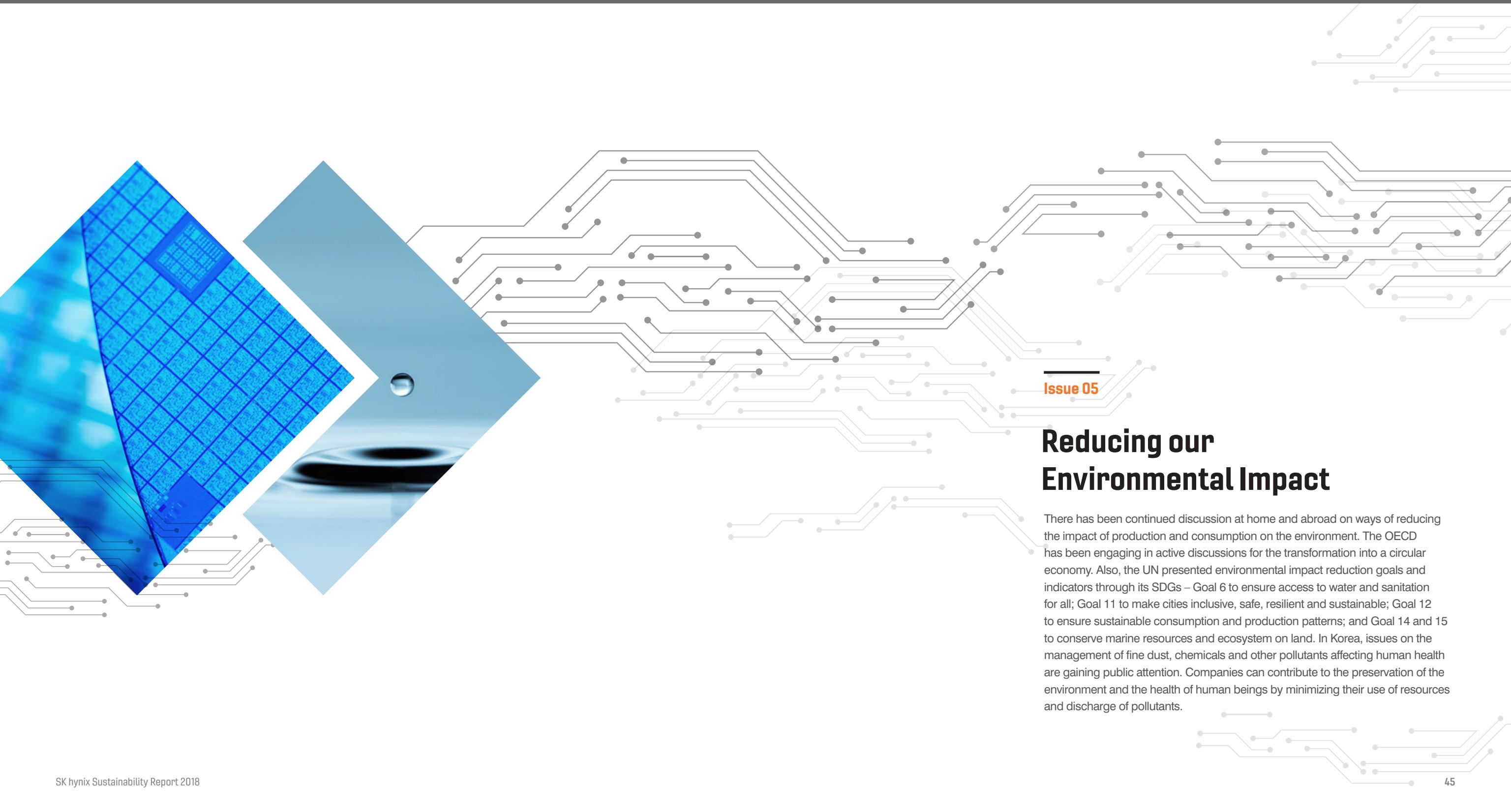
### Eco-friendly Product Certifications

| Product Group | Certification                                   | Product                  | Carbon Footprint       |
|---------------|---|--------------------------|------------------------|
| DRAM          | Carbon label certification                      | 50-nano 1GB DDR3         | 602gCO <sub>2</sub>    |
|               | Low carbon product certification                | 40-nano 2GB DDR3         | 530gCO <sub>2</sub>    |
|               | Environmental product declaration certification | 30-nano 4GB LPDDR3       | 807gCO <sub>2</sub>    |
|               | Carbon label certification                      | 30-nano 2GB DDR3         | 459gCO <sub>2</sub>    |
| NAND Flash    | Low carbon product certification                | 20-nano 4GB LPDDR2       | 634gCO <sub>2</sub>    |
|               | Carbon label certification                      | 20-nano 4GB LPDDR3       | 735gCO <sub>2</sub>    |
|               | Low carbon product certification                | 30-nano 32GB NAND flash  | 985gCO <sub>2</sub>    |
|               | Environmental product declaration certification | 2x-nano 64GB NAND flash  | 1.321gCO <sub>2</sub>  |
| SSD           | Carbon label certification                      | 2y-nano 64GB NAND flash  | 891gCO <sub>2</sub>    |
|               | Carbon label certification                      | 10-nano 64GB NAND flash  | 691gCO <sub>2</sub>    |
|               | Carbon label certification                      | 10-nano 128GB NAND flash | 62.14kgCO <sub>2</sub> |

### Launched an Ultra-Low Power-Consuming Mobile DRAM with World's Largest Capacity

In January 2017, SK hynix released an ultra-low power-consuming mobile DRAM with 8GB capacity – LPDDR4X. A mobile DRAM is a device that temporarily stores information in smartphones. This product was manufactured by stacking a 16Gb chip that connects two 8Gb chips in four layers. This ultra-low power-consuming product's power efficiency is around 20% higher than previous 8GB mobile DRAMs. Its size has been reduced more than 30%, and its thickness is less than 1mm. It takes up the smallest area from among products with the same capacity.





## Management System and Approach

### Environmental Impact Management System

A department in charge establishes corporate-level SHE policy, and we have set in place a department in charge at each worksite that manages goals and performance of the SHE management system. Departments that handle field work carry out practical activities, such as conducting environmental impact assessments, establishing and implementing SHE goals and operating and improving prevention facilities. Information on these activities is shared through our internal systems, including the internal standards management system 'HESS' and SHE portal. Environment-related issues and performance are discussed together with safety and health issues at the SHE Management Committee meeting, which is held every month and led by the CEO.

Based on our philosophy of 'Pursuing Value for Human and the Environment', SK hynix has been making concentrated efforts to efficiently use resources and minimize environmental impact. We manage the environmental impact of our worksites and suppliers based on our SHE policy<sup>1)</sup> and environmental management system (ISO 14001:2015), and also set up short-term as well as mid- to long-term goals for each area of environmental impact in an effort to contribute to sustainable development. Furthermore, in order to eliminate internal and external environmental risks from our worksites, we carry out preventive activities and manage chemicals using internal standards that are stricter than the legal criteria.

#### Environmental Impact Management Goals

| Area  | Short-term Goal   | Mid-to Long-term Goal  |
|---|---|--|
| Environmental Management System               | <ul style="list-style-type: none"> <li>Enhance employee understanding of ISO 14001:2015</li> </ul>  | <ul style="list-style-type: none"> <li>Minimize environmental impact through eco-friendly design in consideration of all processes, and by efficiently using resources and adopting optimal pollution prevention facilities</li> <li>Protect the environment of worksites and local communities by transparently disclosing information on hazardous chemical substances and systematically managing them</li> </ul> |
| Water Resource Management                     | <ul style="list-style-type: none"> <li>Respond to water use by M14 Phase II production equipment</li> </ul>   | <ul style="list-style-type: none"> <li>Improve stability in the supply of water resources by diversifying water resource supply lines by 2020</li> </ul>   |
| Waste Management                              | <ul style="list-style-type: none"> <li>Produce/provide/display hazard information for safe collection, shipment and treatment of designated waste</li> <li>Establish internal guidelines to achieve zero accidents when handling designated liquid waste</li> </ul> | <ul style="list-style-type: none"> <li>Achieve zero environmental impacts through continued recover of waste</li> </ul>  |
| Management of Chemical Substance at Worksite  | <ul style="list-style-type: none"> <li>Carry out chemical substance reduction activities, targeting departments that handle highly hazardous chemical substances</li> </ul>   | <ul style="list-style-type: none"> <li>Achieve risk free worksites where the use of highly hazardous chemical substances is not allowed</li> </ul>   |
| Management of Chemical Substance at Suppliers | <ul style="list-style-type: none"> <li>Implement a pre-certification system for suppliers that handle chemical substances</li> </ul>  | <ul style="list-style-type: none"> <li>Improve the overall SHE level of companies that have a contract with SK hynix</li> </ul>  |

 <sup>1)</sup>SHE Policy of SK hynix

## Air Quality

### Air Quality Management

SK hynix treats air pollutants to levels that are 20% below legal standards before discharge. We monitor the concentration of pollutants inside and outside the company through authorized agencies, and reflect the results in our operation plans to optimize treatment efficiency of air pollution prevention facilities. In addition, we measure noise levels at the boundaries of our sites at least every six months and make efforts to minimize external impact of noise.

We will make continued efforts to improve air quality by complying with the emission permits for specific air pollutant and total air pollutant. Also, the impact of air pollution will be minimized through continued development of new technologies and optimal management of air pollution prevention facilities.

## Waste

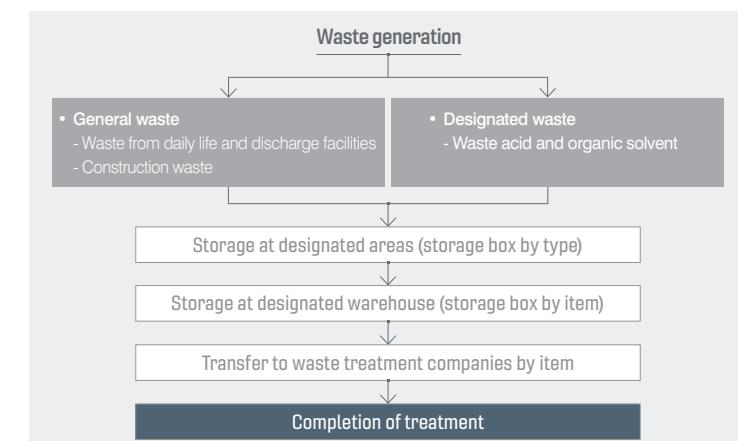
### Waste Management

SK hynix manages discharge and collection of waste from the stage where general or designated wastes are generated, in order to ensure safe management of waste. To prevent safety-related accidents during waste collection, sorting, and transportation, we established work procedures, conduct risk assessments, and provide training.

We outsource waste treatment to professional waste treatment companies by waste type. Pre-evaluations are conducted on-site when choosing waste treatment companies. Even after signing contracts, we carry out follow-up onsite evaluations on all companies every year to make sure that wastes are legitimately stored and treated in accordance with environmental laws. If any one of the evaluation items is found to be non-compliant<sup>1)</sup>, we suspend transactions with the company. In 2017, we provided consulting on legal compliance of waste treatment companies to prevent supplier risks, and identified 58 new treatment companies for stable waste treatment.

We recycle most of the waste we generate by strengthening separate collection of waste from discharge sources. In 2017, a total 340,118 tons of waste was generated, of which 85% was recycled. In particular, we operated dedicated treatment facilities for low-concentration Isopropyl Alcohol (IPA) generated from the manufacturing process and recycled the waste. We sold recycled IPA to reduce treatment costs and to generate profits from the sale. In addition, we are reducing the generation of liquid waste through waste TF activities.

### Waste Management System



<sup>1)</sup> Serious environmental accident; situation in which no short-term improvement can be made; or the violation of the Environmental Act

## Water Resource

### Water Resource Risk Management

SK hynix has identified areas facing water shortage with internal standards, which have been developed by using research results of Intergovernmental Panel on Climate Change (IPCC), and its Korean and Chinese worksites are not found in areas with water shortage issues. However, due to industry characteristics, the semiconductor industry uses large quantities of water, and increasing product demand is resulting in a steady rise in production volume. For this reason, there is greater emphasis on the importance of water and wastewater management.

We apply the real time database (RTDB), which allows real-time identification of water supply and relevant information, to check daily water withdrawal, purification, and metropolitan waterworks supply information and analyze the estimated volume. Based on the results, we establish efficient water resource management plans, and manage water withdrawal, purification, and metropolitan water supply as well as relevant facilities.

Our major strategy in relation to using water resources is to minimize water consumption and wastewater discharge. We have been curtailing water usage at the source by radically reducing the quantity used. In addition, users of water are recycling and reusing wastewater to resupply water that is of the same quality as industrial water. We have been operating a TF to reduce water usage and wastewater discharge since 2016. Our plan for 2018 is to expand our TF activities to include production departments to maximize reduction.

### Establishing a Stable Water Supply Infrastructure

In 2017, we increased water intake station capacity from 96,000 tons/day to 116,000 tons/day to respond to the increase in water use due to the expansion of production facilities (M14 Phase II) at the Icheon Campus. We also added one M14 industrial water supply pump and thus made an additional room. We also signed an MOU with the Korea Water Resources Corporation and established a way to support stable supply by doubling water supply from present levels starting in 2020. In order to diversify water supply lines, which is currently single-sourced, we are preparing for phase II metropolitan water supply construction and to improve old water pipe networks in 2018.

### Wastewater Management

SK hynix manages wastewater generated at our worksites in accordance with internal standards, which require us to maintain the level below 60% of the legal standards. We set up a real-time monitoring system (Tele Monitoring System, TMS) on the outlets of all worksites in Korea and China, and are using the system to ascertain the concentration level of pollutants in effluent. In addition, we send real-time information on wastewater discharge to the Korea Environment Corporation and the relevant team in China, and thus disclose wastewater treatment information in a transparent manner.

### Activities to Reduce Water Usage and Wastewater Discharge

The amount of water usage and wastewater discharge has been increasing at our worksites due to the increasing semiconductor production. We have set the recycling volume and recycling rate as performance indicators, and invest in expanding reuse or recycling facilities, and thus reduce the use of water and discharge of wastewater. In 2017, we built a wastewater recycling system that has a treatment capacity of 10,000 tons/day at the M14 Phase 1 facility. Recycled water will be used for scrubbers. In addition, we have completed the capacity expansion project to increase the reuse of water used in packaging from 340 ton/day to 1,000 tons. We plan to build an additional recycling facility with 10,000 tons/day capacity in 2018.

### Preserving Marine Ecosystem

Since the Icheon Campus is located in a water quality preservation area, it needs to comply with strict wastewater discharge standards. We therefore use a dedicated wastewater treatment plant to treat hazardous substances to levels that are below safety levels. We also manage ecotoxicity<sup>1)</sup> as part of efforts to preserve the nearby aquatic ecosystem. Ecotoxicity evaluations are conducted on water fleas living in rivers – Jukdang Stream, Bokha Stream and Namhan River – where effluent water is discharged. There has been no impact found on the ecosystem of nearby rivers due to the effluent of SK hynix for two consecutive years since 2016.

<sup>1)</sup> This system manages discharge sources by measuring the degree of acute toxicity caused by industrial wastewater to life forms that are subject to the experiment such as water fleas. It identifies the biological impact of unknown pollutants that could not be revealed by the previous physicochemical analysis, and evaluates and preserves the health of the aquatic ecosystem.

### Ecotoxicity Management



(Unit: Toxic Unit)



## Chemical Substances

### Chemical Substance Management at Worksite

SK hynix has been implementing chemical substance management policies for safe and adequate handling of chemical substances. We conduct a preliminary review of SHE matters as well as Material Safety Data Sheet (MSDS) credibility verification during the initial R&D phase and introduction of a new chemical substance. By doing so, we are eliminating legal risks, and applying safety and health measures on the field. Based on the MSDS, we have warning signs and informational materials on management techniques for each work process in place, and set them up onsite or post them. Also, MSDS training is provided at least once a year on target chemical substances. MSDS training consists of the names, physical danger and health hazards of the target chemical substances, precautions that need to be taken when handling the substances, emergency measures, and countermeasures in the event of an accident.

### Efforts to Reduce Use of Hazardous Substances

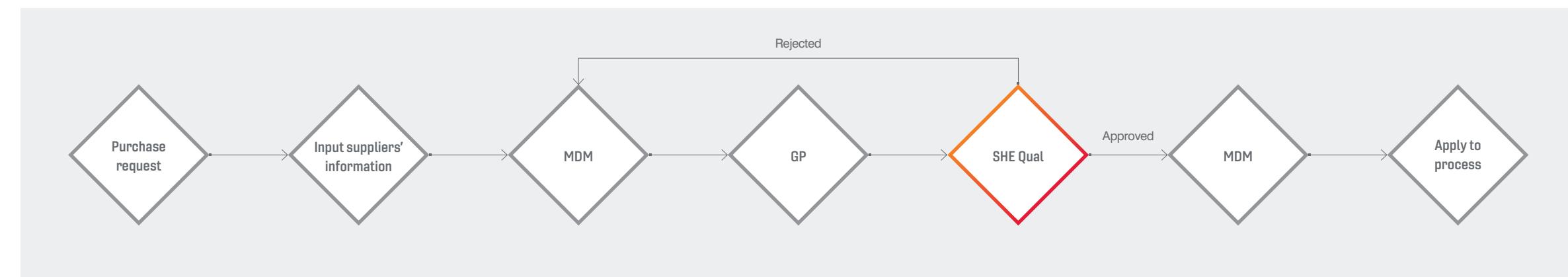
SK hynix operates the SHE qualification system to prohibit the use of hazardous substances before purchasing new materials and applying them to our processes. We made it mandatory to conduct hazard level reviews before purchasing materials and to examine and approve their use. Also, MSDS was registered on our IT system to enable easy access to information on properties. We conduct an average of more than 100 preliminary reviews every month.

In 2017, we chose internally regulated substances through a two-phased chemical substance management research project, and focused on reducing highly hazardous chemical substances. In addition, we requested our suppliers to disclose chemical substance information on materials, which contain more than 30% of trade secret ingredients and are kept confidential, as part of our efforts to transparently manage chemical substance information. If suppliers find it difficult to disclose relevant information, we restricted the use of those materials. We also strive to reduce the intensity of chemical substance usage by improving processes and to reduce pollutant emissions through continued monitoring and improvement activities.

### Communication with Local Communities

SK hynix gathers the opinions of local residents on the environmental impact of hazardous chemical substances and relevant matters. Since 2016, we have been operating the 'Chemical Substance Committee', participated by Gyeonggi Province and Icheon City, chemical experts and local representatives, and are carrying out discussions through regular communication. Discussed themes include the information on hazardous chemical substances and risk of a chemical accident, scope of impacts on air quality, water quality, underground water, soil and natural environment in the event of a chemical accident, ways for early alert communication, resident evaluation, and other actions that should be taken. Also, through the Chemical Substance Council, we transparently disclose our environmental safety facilities and safety management status to local residents by worksite. In 2017, we held the Gyeonggi Province Chemical Substance Council on two occasions and had four Small-Medium-Large Companies Council on Chemical Safety meetings.

### Chemical Substance Pre-evaluation System



**Issue 06**

## Supporting Supply Chain Sustainability

In overseeing the Corporate Social Responsibilities (CSR) of their supply chains, global companies go beyond expenses, reputation and risk management aspects and define them as competitive advantages and accordingly support the supply chains' CSR capability. Because cases of tangible and intangible losses have been on the rise owing to an inadequate supervision of the supply chains, companies are required to take a proactive remedial action. In particular, global electronic companies urge their supply chains to fulfill their social responsibilities through the Responsible Business Alliance (formerly EICC), the industry coalition set up to coordinate and conduct joint CSR activities. In Korea, joint growth is promoted as one of the government's top priorities, with an emphasis on win-win relations between large corporations and SMEs. As the emergence of the Fourth Industrial Revolution presents the semiconductor industry with a new opportunity, win-win collaboration is expected to play a crucial role in the domestic semiconductor industry's endeavor to make another leap forward.

## Management System and Approach

### Win-win Cooperation System

SK hynix understands that the happiness of its suppliers is crucial to the realization of its management vision – pursuit of happiness for stakeholders. Accordingly, we endeavor to help strengthen our suppliers' technological completeness as well as our own, and solve social issues by practicing fair trade and safety, security, and ethical management. The Win-win Collaboration Team has been reassigned from Purchasing Group where it functioned as an independent unit to Purchasing Strategy Group as an integral unit, so that it could carry out its key functions, such as facilitating mutual growth and communicating with suppliers, and providing technological, financial and management support, to them, as part of an overall purchasing strategy. Also, fair trade compliance is conducted by Global Compliance Team and the management of suppliers' social and environmental footprints is carried out by Sustainable Management Planning Team, both in a combined effort to facilitate mutual growth.

### Directions for Win-win Cooperation

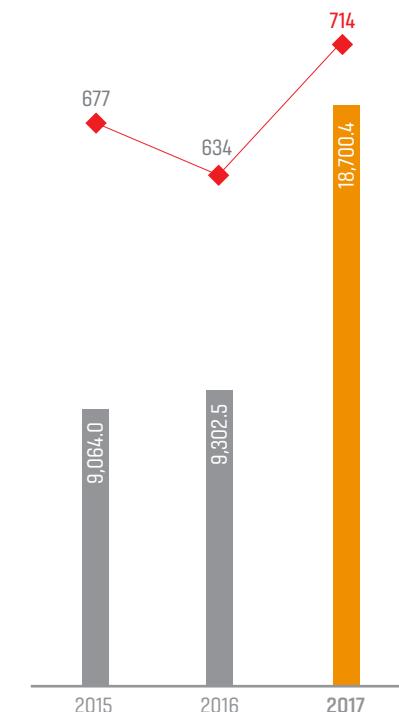


### Supplier Risk Management

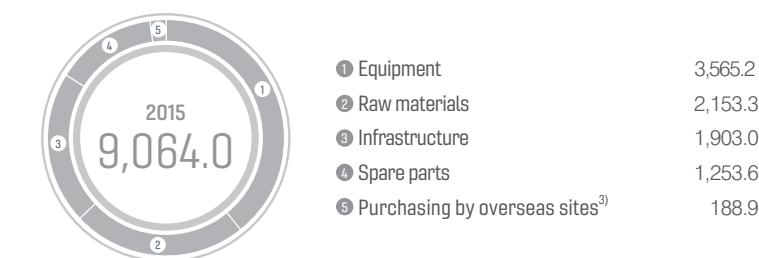
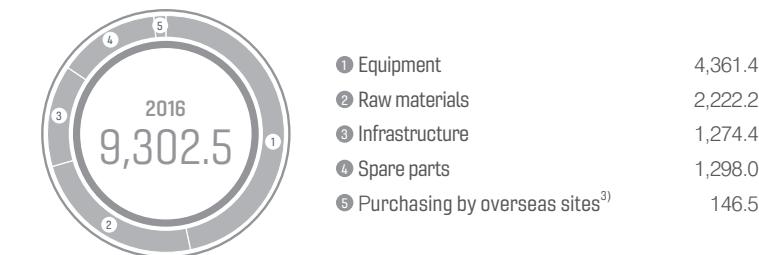
To better manage suppliers risk, SK hynix selects 'strategic partners' based on their sales, business scale, amity, replacement difficulty, technological contribution and price competitiveness, followed by close supervision. Before becoming a SK hynix supplier, the aspiring company must pass screening processes evaluating its credit, technology, safety, hygiene, environmental footprints and use of harmful chemicals. Once a year, risks that the suppliers pose are analyzed in terms of their credit ratings, technology, quality, pricing, delivery and cooperation records, and the findings are reflected in the management of the suppliers. To manage suppliers' social and environment risks, a suppliers' code of conduct has been adopted and included in the contract that suppliers sign at the beginning of their partnership with SK hynix. The code contains SK hynix's internal regulations and systems regarding labor and human rights, safety, environment, ethical management, conflict minerals and management systems, which are disclosed on the company's website and the Win-win Portal. To facilitate suppliers' understanding of the code, code guidelines have been developed and released; and as a way to encourage them to conduct their social and environmental responsibilities, suppliers are required to renew their commitment to the code of conduct every year.

### Transactions with Suppliers

- ◆ Number of suppliers<sup>1)</sup> (Unit: Company)
- Total purchasing<sup>2)</sup> (Unit: KRW billion)



### Total purchasing



<sup>1)</sup> Transactions of more than KRW 500 million

<sup>2)</sup> Excluding contracts for IT, outsourcing, and guard

<sup>3)</sup> Based on Wuxi Campus and Chongqing P&T

<sup>4)</sup> Facility, sub modules, packaging materials, services, environmental safety, part, etc.

## Establishing a Foundation for Shared Growth

### Shared Growth Policy

SK hynix has established internal standards for fair, transparent trade with suppliers, and discloses them through its win-win portal<sup>1)</sup> on the company website. In trading with our suppliers, we use standard contracts that apply standard contract articles presented by the Fair Trade Commission. We also formulate fair subcontracting policies and continually examine and improve them as part of our efforts to build a healthy shared growth ecosystem.

### Support Programs for 2nd-tier and Higher Tier Suppliers

In addition to its primary suppliers, SK hynix extends its support for mutual growth to 2nd-tier and 3rd-tier suppliers with no contract history. To facilitate the growth not only of its primary suppliers but of the overall supply chain ecosystem, SK hynix has launched and operates a KRW 100 billion mutual growth fund for 1st- and 2nd-tier suppliers, and operates a KRW 60 billion fund for 2nd- and 3rd-tier suppliers. The medical service of its company hospital is also extended to suppliers. In addition to financial support, SK hynix participates in an industry innovation campaign organized by the Ministry of Trade, Industry and Energy and the Korea Chamber of Commerce to help its 2nd- and 3rd-tier suppliers sharpen their competitive edge. SK hynix selected 24 of 2nd-tier suppliers based on recommendations of 1st-tier suppliers and plans to provide them with supports in the forms of business consulting, safety, hygiene and environmental management, and employee training for relevant certificate acquisition.

### Win-win Cooperation Performance in 2017 (Korea)

| Classification                                       | Unit        | 2015  | 2016  | 2017  |
|--|-------------|-------|-------|-------|
| Fund spent on supporting shared growth <sup>1)</sup> | KRW billion | 1,414 | 1,281 | 1,593 |
| No. of suppliers agreed upon shared growth           | Company     | 60    | 63    | 67    |
| No. of suppliers joined the Shared Growth Council    | Company     | 50    | 60    | 61    |

<sup>1)</sup> Equipment localization costs + pattern wafer support + contribution to the Industrial Revolution 3.0 + contribution to the Semiconductor Fund + loan supports through the Shared Growth Fund Network Loan and Shared Growth Insurance



### Programs to Support Shared Growth

**Technical Support** \_ Technical improvements of suppliers are directly connected to the performance of products that we supply to our customers. In addition to providing support for technology development, we proactively share our technologies with suppliers to identify and foster SMEs with growth potential and thus help them further strengthen their technological competitiveness.

#### Technical Support Programs

| Program                                      | Details   | Performance<br>(Accumulated figures since 2011 to 2017)    |
|--|---|--|
| Diversification                              | Reduce cost through joint technology development; technological innovation; and help suppliers increase sales   | Counter purchase worth KRW 103.8 billion                   |
| Free patent transfer                         | Transfer SK hynix's intellectual property (IP) to suppliers at no cost to support their technological competitiveness   | Completed the transfer of 111 IPs<br>22 suppliers          |
| Patent consulting                            | Improve suppliers' IP management capabilities through consultations provided by SK hynix patent experts and outside experts, such as patent attorneys                           | 19 cases <sup>1)</sup>                                     |
| Technology escrow                            | Protect suppliers' technology materials by having them stored at a third organization – Win-Win Growth Foundation   | 10 suppliers, 22 tasks, purchasesupport of KRW 5.2 billion |
| Performance sharing system                   | Share the outcome of joint innovation activities carried out by SK hynix and suppliers based upon pre-agreed measures   | 3,064 sheets   |
| Pattern wafer support                        | Provide suppliers with fine-patterned wafers, which are produced using SK hynix's process equipment, as development samples   | KRW 1 billion for 2 suppliers                              |
| Technological development fund               | Directly support through technological development fund at no interest for a next-generation technology development project which is expected to generate synergy with SK hynix | 3 suppliers  |
| Technology innovation partners <sup>2)</sup> | Choose SMEs with technological potential as 'technology innovation partners' and provide support  |  |

<sup>1)</sup> Corrected the error

<sup>2)</sup> Newly launched in 2017

**Financial Support** \_ SK hynix operates financial support programs for suppliers that are experiencing difficulties in fund management. Efficient fund management of suppliers serves as a basis for shared growth and can also reduce potential risks of SK hynix.

#### Financial Support Programs

| Program  | Details   | Performance<br>(Accumulated figures since 2011 to 2017)   |
|--|---|---|
| Shared Growth Fund (1st-tier)                            | Lend capital for management and facility to suppliers at low interest rates (1-1.5% compared to market interest rate)                   | <ul style="list-style-type: none"> <li>• Fund size: KRW 139.4 billion</li> <li>• Loans provided: KRW 98.7 billion</li> </ul>          |
| Shared Growth Fund (2nd-tier and 3rd-tier) <sup>1)</sup> | Lend capital for management and facility to suppliers at low interest rates (1.5-1.8% compared to market interest rate)                 | <ul style="list-style-type: none"> <li>• Fund size: KRW 60.2 billion</li> </ul>   |
| Shared Growth Insurance                                  | Financial support program for 2nd-tier suppliers through which collects bonds and provides loans when a 1st-tier supplier goes bankrupt | <ul style="list-style-type: none"> <li>• Fund size: KRW 9.6 billion</li> <li>• Loans provided: KRW 1.8 billion</li> </ul>             |
| Semiconductor Fund                                       | Equity investments in promising small and medium-sized semiconductor companies with fund size of KRW 200 billion                        | <ul style="list-style-type: none"> <li>• Size of investment: KRW 25 billion</li> <li>• Actual investment: KRW 17.5 billion</li> </ul> |
| Network Loan   | Determine the credit line based on the performances and provide loans without any material evidence                                     | <ul style="list-style-type: none"> <li>• Loans provided: KRW 4.8 billion</li> </ul>   |
| Payment Support Fund <sup>1)</sup>                       | Zero-interest loans provided to 1st-tier and 2nd-tier suppliers in order to improve payment conditions                                  | <ul style="list-style-type: none"> <li>• Fund size: KRW 100 billion</li> </ul>  |

<sup>1)</sup> Newly launched in 2017

**Management Support** \_ SK hynix has been contributing to increased competitiveness of suppliers by focusing on personnel management, such as providing training to SME employees who lacked such opportunities. In 2017, we developed an introductory training program on semiconductor technologies. We invited employees of suppliers, who have no more than six years of work experience and are of manager or lower level, and provided trainings that help deepen their understanding of semiconductor products, processes and equipment.

### Management Support Programs

| Program   | Details  | Performance<br>(Accumulated figures since 2011 to 2017)                               |
|---|--|---|
| Win-Win Academy   | Training programs aimed at helping supplier employees develop their competencies, including job training, leadership training and e-learning   | 6,673 suppliers   |
| Supplier CEO Seminar  | Special lectures, given by well-known people on various subjects, including business administration, economy, humanities and society, to CEOs of suppliers and executives in charge of SK Group affiliates | 187 persons for 1st-tier suppliers<br>29 persons for 2nd-tier suppliers <sup>1)</sup> |
| MBA for Mid-level Managers  | Competency enhancement trainings for mid-level managers at suppliers in such fields as strategy, accounting, finance, marketing, HR and organization   | 120 suppliers   |
| Industrial Revolution Movement                                    | Consultation to support innovation activities of 2nd-tier suppliers to improve their productivity (Plan to contribute an annual KRW 700 million from 2013 to 2017)   | KRW 3.5 billion   |
| Job Fair  | Jointly attend job fairs to help suppliers hire outstanding talent   | 5 persons   |
| SK Employment Foundation  | Public-private partnership program to offer job trainings and internships to youths, while providing suppliers with outstanding personnel  | 403 persons for 213 companies   |
| Win-Win Payment System  | Monitor the payment status of suppliers and encourage them to make improvements in an effort to improve payment conditions (cash) between 1st-tier and 2nd-tier suppliers                                  | Participated by 47 of 1st-tier suppliers<br>and 35 of 2nd-tier suppliers              |
| Introductory Training on Semiconductor Technologies <sup>1)</sup> | Provide semiconductor process and equipment training to entry-level employees at suppliers – job experience of no more than six years  | 197 persons from Class 1 through Class 5  |

<sup>1)</sup> Newly launched in 2017

### Identify and Support Technology Innovation Partners

SK hynix launched 'Technology Innovation Partners', a win-win cooperation program that supports the growth of suppliers with high technological potential. Suppliers that are chosen as technology innovation partners engage in collaboration with SK hynix for two years in diverse areas, including financial, technical, and management support. Also, we guarantee a minimum purchase quantity for developed products to minimize financial risks. We establish a dedicated team that supports the suppliers, and provide support so that developed products receive priority when they are evaluated on production lines. By fostering promising SMEs, we will contribute to solidifying the domestic semiconductor ecosystem.

### Win-Win Town

SK hynix launched Win-Win Town in December 2016 to collect opinions and ideas of suppliers, and jointly develop innovative technologies and enhance competitiveness. Programs offered through Win-Win Town include 'Imagination of Ideas' to realize suggested ideas on new technologies, new materials, and production and quality improvements; 'Imagine Together' to solve problems that SK hynix finds difficult to resolve, together with suppliers; and 'Win-Win Voice' to listen to complaints of suppliers and their suggestion to build a culture of cooperation. We plan to build partnerships that provide solutions based on open communication with suppliers.



### Communication with Suppliers

SK hynix carries out supplier communication activities to promote shared growth with suppliers and strengthen cooperation and partnership. Employees in charge of purchasing or win-win cooperation make visits to suppliers to hear VOCs and provide feedback on improvement measures. This activity was further expanded in 2017. The CEO of SK hynix or an executive in charge of purchasing visit 2nd-tier suppliers to increase technical exchange between 1st-tier and 2nd-tier suppliers, and discuss ways to solve their difficulties. The Shared Growth Council meeting is held every year with suppliers that have key competencies in different fields. Participating companies share information on the domestic and overseas business status and strengthen strategic partnerships. Also, we hold the Shared Growth Day to enhance a sense of pride as Council members and to promote communication. This helps to continually maintain partnerships. On the Shared Growth Day in 2017, CEOs of 61 suppliers attended a forum that was held on the theme of quality control and big data. Also, awards were conferred on 14 outstanding suppliers. The Environment, Safety and Health Committee meeting is also held every month to share opinions on issues in major areas of SHE with suppliers in industrial complexes.



- Governance and Integrity
- Creating a Safe Workplace
- Respecting Human Rights
- Addressing Climate Change
- Reducing our Environmental Impact

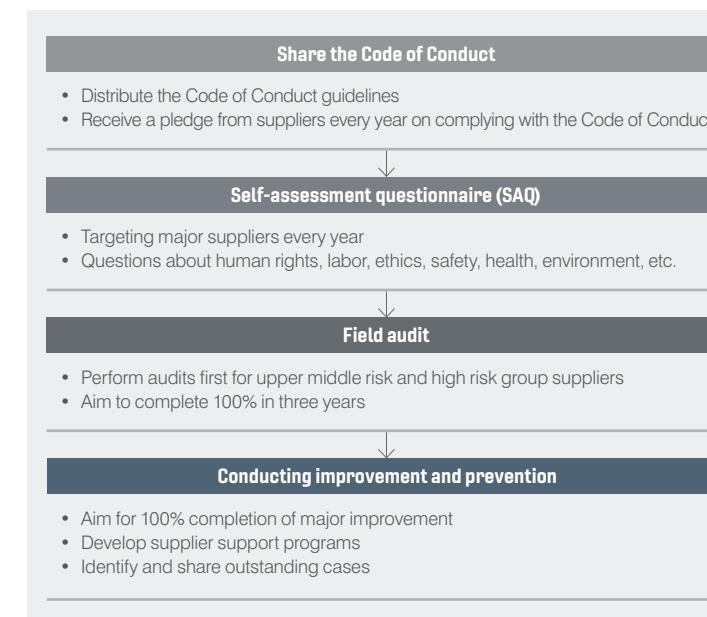
**Supporting Supply Chain Sustainability**

## Sustainable Supply Chain Management

### Social · Environmental Impact of Supply Chain

SK hynix has established the Code of Conduct for Suppliers and obligate suppliers to comply with standard contracts in order to manage social and environmental risk of suppliers. Content in the Code of Conduct for Suppliers covers labor and human rights, safety and health, the environment, ethics management, conflict minerals and management systems, based on the Code of Ethics of SK hynix. It is disclosed on SK hynix's website<sup>1)</sup> and Win-win portal<sup>2)</sup>. We have developed and distributed the Code of Conduct guidelines in order to help suppliers understand better, and we've also received a pledge from suppliers on complying with the Code of Conduct, and encourage them to fulfill social and environmental responsibilities. We also have a process in place where major suppliers fill out self-assessment questionnaires (SAQ) and review their answers through field audits. In this way, we are assessing the level of supplier compliance with the Code of Conduct. For violations that are identified through the field audits, we demand improvements within a deadline and to a certain level. In 2017, SAQ was conducted for 1,532 suppliers that pledged to comply with the Code of Conduct. We will expand field audits in 2018 and make improvements to high-risk factors with a goal of completing field audits of major suppliers by 2019.

#### Supplier Audit Process



#### Supplier Risk Management in 2017<sup>1)</sup>

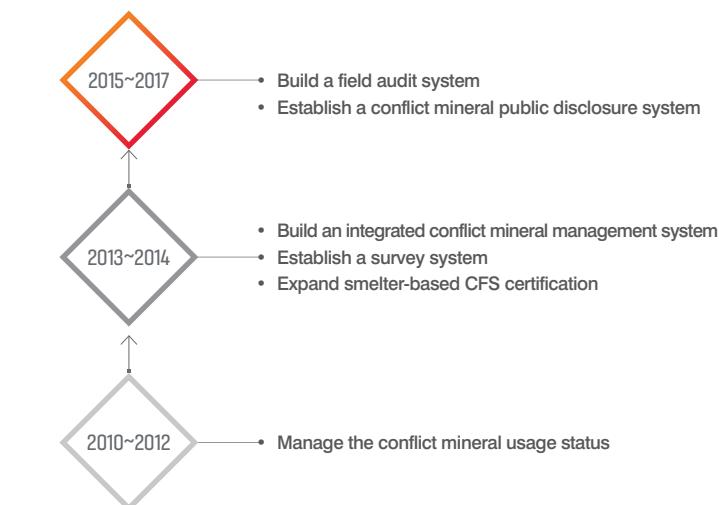
| Classification          | Low Risk Group    | Lower Middle Risk Group                 | Middle Risk Group                       | Upper Middle Risk Group                 | High Risk Group     |
|-------------------------|-------------------|---|---|---|---------------------|
| SAQ score range         | 95 points or more | 85 points or more – Less than 95 points | 70 points or more – Less than 85 points | 60 points or more – Less than 70 points | Less than 60 points |
| Percentage of suppliers | 4.6%              | 31.5%                                   | 46.7%                                   | 9.4%                                    | 7.8%                |

<sup>1)</sup> Number of suppliers which have answered a questionnaire: 460 companies

① [Code of Conduct for Suppliers on SK hynix Website](#)

② [Code of Conduct for Suppliers on the Win-win Portal](#)

#### Policy Change in Responding to Conflict Minerals



#### Conflict Minerals Audit Process



# PERFORMANCE

Under the mission, 'Company that creates happy memories with local communities through sharing', SK hynix is bringing about positive changes in local communities through its active social contributions. In addition, we work in unison with all of our stakeholders to achieve sustainable growth through SHE management, talent development and customer-centric management.



## INFLUENCE

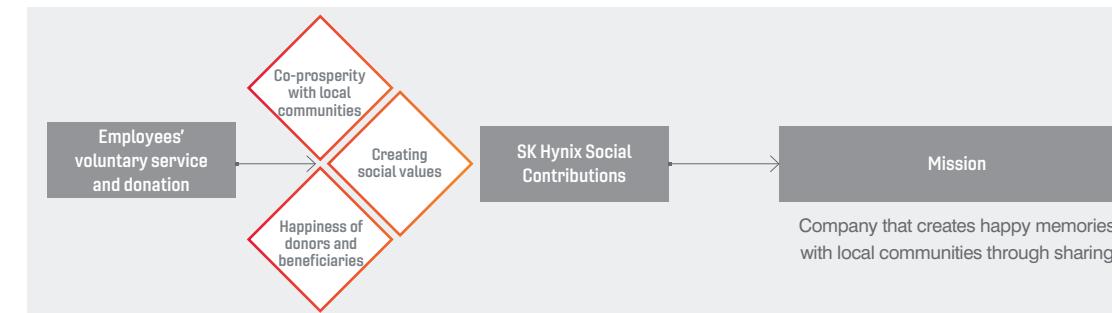
**Corporate Philanthropy**

- SHE Management
- Human Capital Management
- Customer Satisfaction

**CORPORATE PHILANTHROPY****Social Contribution System**

To achieve our mission, "Company that creates happy memories with local communities through sharing", we carry out social contribution activities that ensure win-win relations with local communities, bring happiness to both donators and beneficiaries, and create social value. In particular, SK hynix strives to maximize social value through social contribution by fully establishing social value as a key factor in SK's management principles, reflecting social value creation in the SK Management System (SKMS), the SK Group's management system, and business evaluations. In 2017, we generated social value of around KRW 80.4 billion in social outcome, and plan to continue activities for greater social value creation.

SK hynix conducts social contribution activities based on three pillars – Happiness Sharing Fund, Happiness Sharing Volunteer Group and social contributions in connection with SK Group. To support and encourage employee participation in social contribution, we use our Happiness Sharing website to share information on the implementation status and to support activities. In 2017, we published the SK hynix Happiness Sharing Story<sup>1)</sup>, which contains information on our social contribution activities.

**Social Contribution Implementation System****Social Contribution Activities**

| Classification                                 | Unit        | 2015  | 2016  | 2017  |
|--|-------------|-------|-------|-------|
| Social contribution expenditures <sup>1)</sup> | KRW billion | 56.30 | 52.28 | 76.51 |
| Total amount of donations                      | KRW billion | 54.68 | 50.61 | 75.15 |
| Cash donations <sup>2)</sup>                   | KRW billion | 47.79 | 47.70 | 72.86 |
| Volunteer service per employee <sup>3)</sup>   | Hour        | 1.01  | 1.02  | 1.01  |

<sup>1)</sup> Company donations (KRW 75.15 billion) + employee donations (KRW 1.25 billion) + social contribution budget (KRW 107 million)

<sup>2)</sup> Cash donations out of total donations

<sup>3)</sup> Total hours of volunteer services in 2017 (22,357 Hours) / Average number of employees for 2017 (22,232 persons); based on domestic worksites

 <sup>1)</sup> SK hynix Happiness Sharing Story

**Happiness Sharing Volunteer Group**

All employees of SK hynix participate in the 'Happiness Sharing Volunteer Group' and are taking part in volunteer activities, with an aim to communicate with local communities and share happiness. In addition to making visits to social welfare facilities for children, seniors, and the disabled, the 'Happiness Sharing Volunteer Group' conducts volunteer activities that are in line with the characteristics of different organizations, including educational talent donation, medical support, and environmental cleaning. In 2017, 5,920 employees from 146 organizations took part in volunteer activities for 22,357 hours. To enable volunteer activities even during working hours, we acknowledge volunteer hours as work hours, provide vehicles for convenient transportation, and cover activity fees.

**Employee Participation in Volunteer Activities<sup>1)</sup>**

| Classification   | Unit   | 2015   | 2016   | 2017   |
|--|--------|--------|--------|--------|
| Time spent on volunteer activities                             | Hour   | 21,114 | 22,298 | 22,357 |
| No. of employees who have participated in volunteer activities | Person | 5,218  | 5,596  | 5,920  |
| No. of times participated                                      | Time   | 794    | 794    | 673    |
| Participation rate <sup>2)</sup>                               | %      | 25     | 26     | 27     |

<sup>1)</sup> Based on domestic worksites

<sup>2)</sup> No. of employees who have participated in 2017 (5,920) / Average No. of employees for 2017 (22,232)

**Employee Volunteer Activities in 2017**

| Classification                         | Overview   | Key Programs  |
|--|--|---|
| Activities through No Sa Bul Ui Fund   | Small changes, KRW 1,000 or less, from employees' salaries are collected every month to support the underprivileged in local communities and employees undergoing difficulties | <ul style="list-style-type: none"> <li>• Sharing Briquettes of Love</li> <li>• Hope-Sharing School Uniform-Scholarship Program</li> <li>• Volunteer work at facilities for the disabled</li> <li>• Global social contribution activities</li> </ul>   |
| Local community volunteer work         | Employee volunteer activities for neighbors who need a helping hand in Icheon and Cheongju, where our worksites are located  | <ul style="list-style-type: none"> <li>• Volunteer work at the Junior Engineering Class</li> <li>• Volunteer work for the Happiness Plus Nutritious Meal</li> <li>• SK Hawks' 'Visiting Handball Class'</li> </ul>  |
| Global volunteer work                  | Systematic social contribution activities to promote the happiness of local communities in Wuxi and Chongqing, China   | <ul style="list-style-type: none"> <li>• 'Happy Bus' medical clinic for children (Wuxi)</li> <li>• Love For All People volunteer group (Wuxi)</li> <li>• SK Cataract Surgery for Light of Hope (Wuxi)</li> <li>• Educational sponsorship for 'the left-behind children in China' (Chongqing)</li> </ul> |
| Activities in connection with SK Group | Common programs based on SK Group's 'Happiness Management' philosophy  | <ul style="list-style-type: none"> <li>• Happiness Sharing Bazaar</li> <li>• Donation campaign to help undernourished children and senior citizens</li> <li>• SK Probono (talent donation)</li> </ul>   |

**SSK Group Happiness Sharing**

To take part in SK Group's business view of pursuing the happiness of stakeholders, SK hynix is conducting social contribution activities in connection with SK Group. SK hynix has been participating in diverse social contribution activities, including support for the Happiness Foundation – the Group-wide social contribution activities organized by the SK Social Contribution Committee – as well as the support for the Korea Foundation for Advanced Studies, and we also funded approximately KRW 50 billion for supporting activities.

## ABOUT US

## SK hynix's NEW GROWTH STRATEGY

## SUSTAINABILITY

## FOCUS AREA

## PERFORMANCE

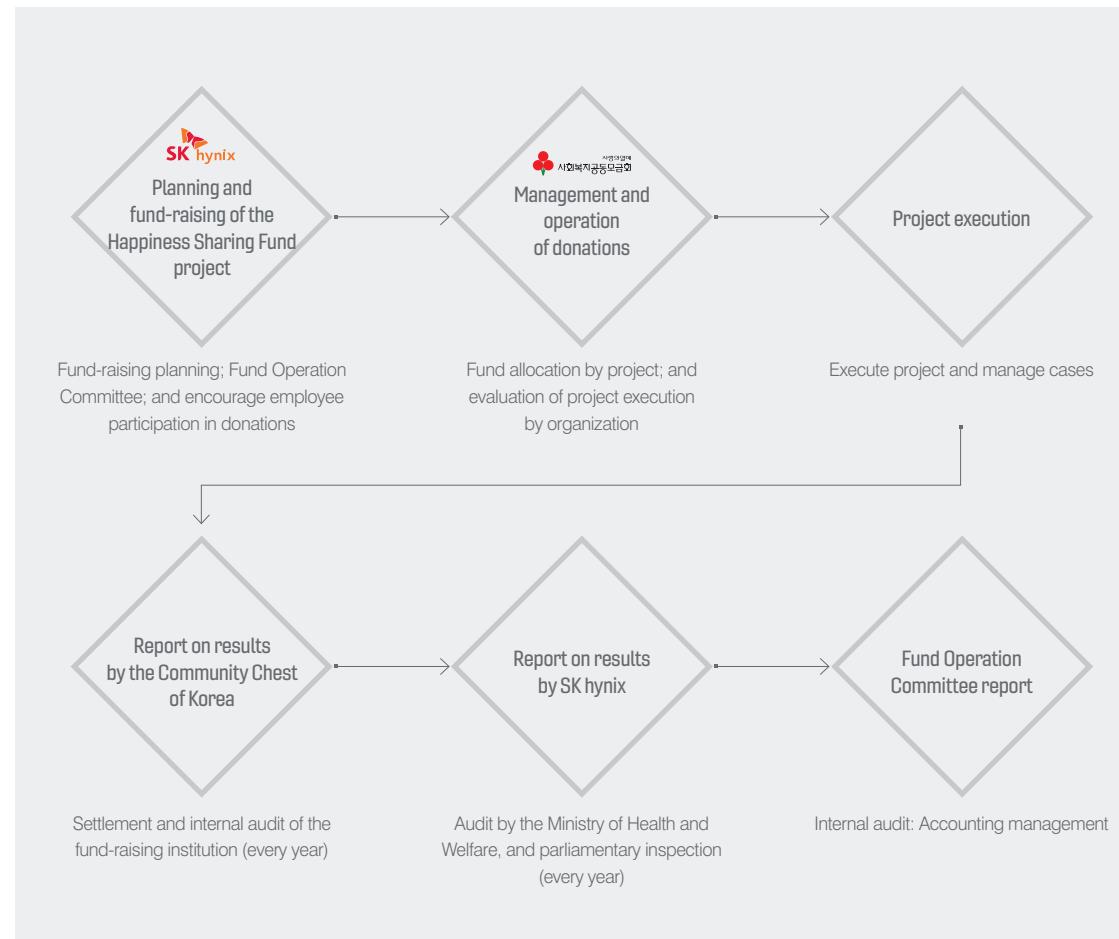
## Corporate Philanthropy

- SHE Management
- Human Capital Management
- Customer Satisfaction

## APPENDIX

## Happiness Sharing Fund Program

SK hynix raises the Happiness Sharing Fund through voluntary donations from employees and one-on-one matching grant by the company, and delivers dreams and hopes to the underprivileged in local communities. In 2017, we raised project funds of KRW 2.67 billion and created social value totaling KRW 5.56 billion. We will continue to support the underprivileged through diverse social contribution programs, and discover projects that can maximize social value creation.

**Fund-raising and Operation Process****Fund-raising Status of Happiness Sharing Fund**

|                | Unit        | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|----------------|-------------|------|------|------|------|------|------|------|
| Amount of fund | KRW billion | 0.9  | 2.0  | 2.4  | 2.7  | 3.0  | 3.0  | 2.7  |

**Major Programs of Happiness Sharing Fund**

| Activity                                  | Details  | Input (KRW million) | Outcome (No. of beneficiary) | Impact (Social value KRW billion) |
|---|--|---------------------|------------------------------|-----------------------------------|
| Happy Plus Nutritious Meal                | Provide side dishes with balanced nutrition to undernourished children through the SK Happy Meal Center in Icheon and Cheongju   | 900                 | 1,260                        | 1,920                             |
| Do Dream Scholarship                      | Provide scholarships to underprivileged children who have excellent school grades and teenagers who are skilled in a specific field  | 200                 | 202                          | 200                               |
| Hope Nest Study Room                      | Provide support for an eco-friendly IT learning environment at 82 welfare facility study rooms in Icheon and Cheongju  | 100                 | 250                          | 110                               |
| Didim Seed Account Sponsorship            | Provide financial support to cover expenses for school, job-searching and business start-up to children from low-income families, so that they become self-reliant at early stage  | 120                 | 400                          | 120                               |
| Memory Impairment Guardian Angel          | Provide GPS wearable detectors that connect to a smartphone application to prevent the disappearance of underprivileged seniors with dementia and the memory impaired  | 150                 | 6,000                        | 690                               |
| Blessing 100-year Longevity               | Provide medical devices, including electric wheelchairs, hearing aids, and glasses, to people of national merit in the low-income class  | 200                 | 200                          | 200                               |
| Hynstein                                  | Provide the Softwaring (software education) – Olympiad (contest) – Vision View (overseas science trip) course to develop the scientific capabilities of underprivileged children and teenagers   | 600                 | 900                          | 1,880                             |
| Happiness Sharing Orchestra with Dreams   | Operate an orchestra mainly consisting of community child centers in Icheon and Cheongju to develop artistic skills and help reach emotional stability   | 200                 | 100                          | 240                               |
| Silver Angel for Happiness School Uniform | Receive donations of middle school and high school uniforms through the Happiness School Uniform Center and repair the uniforms. Sell the repaired uniforms for 10% of the normal price and use the proceeds to make reinvestments for promotion of social value | 200                 | 1,500                        | 200                               |



## ABOUT US

SK hynix's NEW GROWTH STRATEGY

## SUSTAINABILITY

## FOCUS AREA

## PERFORMANCE

Corporate Philanthropy

**SHE Management**

Human Capital Management

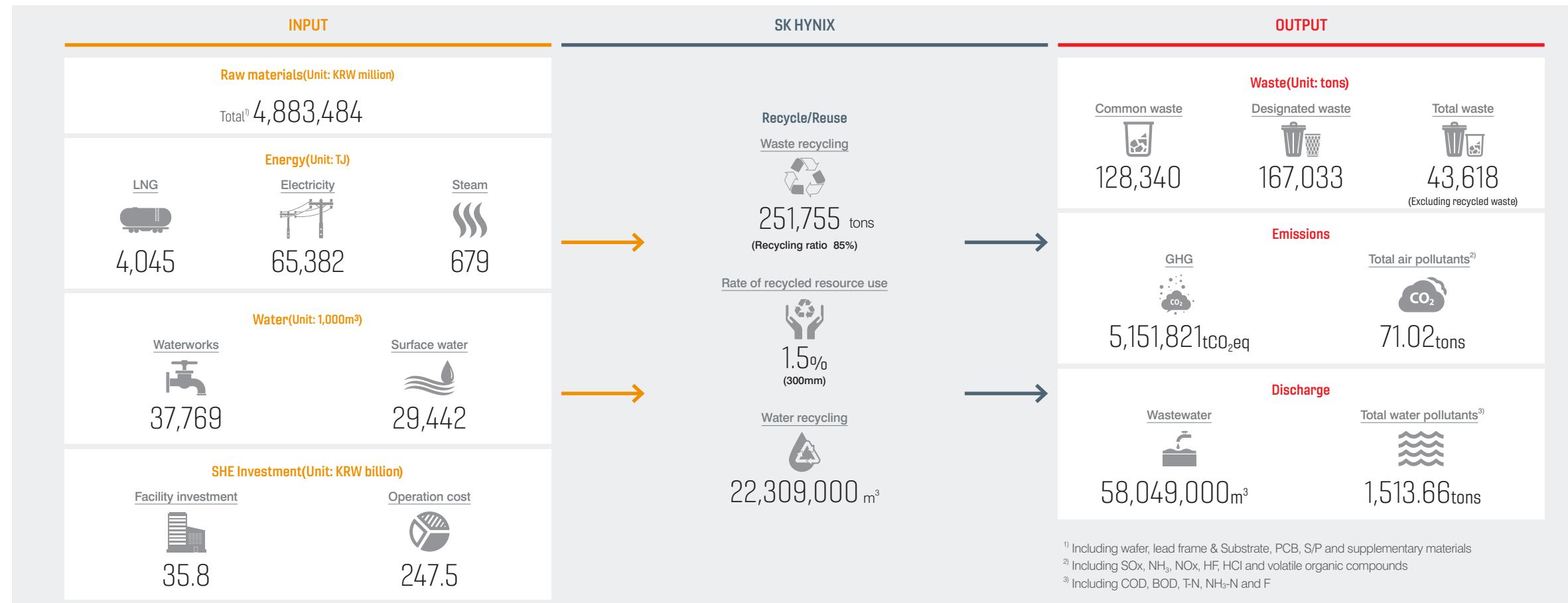
Customer Satisfaction

## APPENDIX

**SHE MANAGEMENT****Performance Summary**

To preserve environmental resources and grow in a sustainable manner, SK hynix minimizes input and discharge during the entire process of FAB operations and promotes recycling and reuse of resources. In 2017, despite of an increase in production, scope 1 greenhouse gas (GHG) emissions decreased from the figure in 2016 thanks to the adoption of high-efficiency scrubbers and technology improvements. Also, owing to regular-basis safety monitoring, improvement, and education efforts, worksite accidents remained on the downward slope. On the other hand, a huge increase in production and facility investments has resulted in a proportional increase in water and energy usage and scope 2 and 3 GHG emissions, while the addition of a 2nd phase to, and operation of, the M14 FAB of the Icheon Campus led to a

temporary increase in waste discharge. By setting annual targets in terms of reducing GHG emissions, energy and water uses, industrial waste and other environment-impacting byproducts, SK hynix is implementing measures to improve production efficiencies, including increasing investment in relevant facilities and technologies. In 2018, the growing demand for semiconductors and a resultant increase in production lines are expected to leave a bigger footprint on the environment and workplace safety. SK hynix however will do our utmost to minimize the impact of the forecasted burden by improving eco-efficiency through continued facility investment and management, and by building a safety-first workplace culture.

**Material Flow in 2017**

## ABOUT US

SK hynix's NEW GROWTH STRATEGY

## SUSTAINABILITY

## FOCUS AREA

## PERFORMANCE

Corporate Philanthropy

## SHE Management

Human Capital Management

Customer Satisfaction

## APPENDIX

## Energy &amp; Greenhouse Gas

Energy Use<sup>1)</sup>

| Classification                     | Details      | Unit                    | 2015              | 2016              | 2017                    |
|------------------------------------|--------------|-------------------------|-------------------|-------------------|-------------------------|
|                                    | LNG          | GJ                      | 1,244,497         | 1,194,025         | 4,044,811 <sup>2)</sup> |
| Use by energy source               | Electricity  | GJ                      | 53,034,173        | 60,257,649        | 65,381,724              |
|                                    | Steam        | GJ                      | 2,773,713         | 2,818,261         | 678,999 <sup>2)</sup>   |
|                                    | <b>Total</b> | <b>GJ</b>               | <b>57,052,383</b> | <b>64,269,935</b> | <b>70,105,534</b>       |
|                                    | LNG          | GJ/m <sup>2</sup>       | 2.8               | 2.5               | 7.8                     |
| Energy intensity use <sup>3)</sup> | Electricity  | GJ/m <sup>2</sup>       | 119.7             | 124.3             | 126.6                   |
|                                    | Steam        | GJ/m <sup>2</sup>       | 6.3               | 5.8               | 1.3                     |
|                                    | <b>Total</b> | <b>GJ/m<sup>2</sup></b> | <b>128.8</b>      | <b>132.6</b>      | <b>135.8</b>            |

<sup>1)</sup> Reported major energy consumption in Icheon, Cheongju, and Bundang Campus in Korea and Wuxi Campus in China<sup>2)</sup> Changed the entire use of steam at domestic worksites to LNG in 2017<sup>3)</sup> Energy consumption per wafer production areaGreenhouse Emissions<sup>4)</sup>

| Classification                            | Details                          | Unit                               | 2015             | 2016             | 2017             | 2017 Goal        |
|---|----------------------------------|------------------------------------|------------------|------------------|------------------|------------------|
|   | CO <sub>2</sub>                  | tCO <sub>2</sub> eq                | 66,777           | 60,002           | 208,941          |                  |
| Scope 1 <sup>2)</sup>                     | CH <sub>4</sub>                  | tCO <sub>2</sub> eq                | 247              | 197              | 238              |                  |
|   | N <sub>2</sub> O                 | tCO <sub>2</sub> eq                | 218,770          | 231,755          | 85,849           |                  |
|   | HFCs                             | tCO <sub>2</sub> eq                | 125,068          | 126,896          | 123,899          |                  |
|   | PFCs                             | tCO <sub>2</sub> eq                | 324,782          | 325,945          | 338,840          |                  |
|   | SF <sub>6</sub>                  | tCO <sub>2</sub> eq                | 181,484          | 169,153          | 154,000          |                  |
|   | NF <sub>3</sub>                  | tCO <sub>2</sub> eq                | 971,922          | 938,837          | 794,857          |                  |
|   | <b>Total</b>                     | <b>tCO<sub>2</sub>eq</b>           | <b>1,889,050</b> | <b>1,852,785</b> | <b>1,706,624</b> | <b>1,831,297</b> |
| Scope 2 <sup>2)</sup>                     | CO <sub>2</sub>                  | tCO <sub>2</sub> eq                | 2,839,872        | 3,051,290        | 3,328,195        |                  |
|   | CH <sub>4</sub>                  | tCO <sub>2</sub> eq                | 523              | 596              | 655              |                  |
|   | N <sub>2</sub> O                 | tCO <sub>2</sub> eq                | 3,888            | 4,337            | 5,013            |                  |
|   | <b>Total</b>                     | <b>tCO<sub>2</sub>eq</b>           | <b>2,844,283</b> | <b>3,056,223</b> | <b>3,333,863</b> | <b>3,820,428</b> |
| Scope 3 <sup>3)</sup>                     | Overseas transportation (Import) | tCO <sub>2</sub> eq                | 46,953           | 42,947           | 66,030           |                  |
|   | Overseas transportation (Export) | tCO <sub>2</sub> eq                | 17,528           | 15,910           | 19,314           |                  |
|   | Waste                            | tCO <sub>2</sub> eq                | 2,860            | 3,845            | 9,379            |                  |
|   | Overseas business trip           | tCO <sub>2</sub> eq                | 597,847          | 1,115            | 2,414            |                  |
|   | Employee's commute to work       | tCO <sub>2</sub> eq                | 9,113            | 9,938            | 14,197           |                  |
|   | <b>Total</b>                     | <b>tCO<sub>2</sub>eq</b>           | <b>674,301</b>   | <b>73,755</b>    | <b>111,334</b>   |                  |
| <b>Total</b>                              |                                  | tCO <sub>2</sub> eq                | 5,407,634        | 4,982,763        | 5,151,821        |                  |
| Scope 1 intensity emissions <sup>4)</sup> |                                  | tCO <sub>2</sub> eq/m <sup>2</sup> | 4.26             | 3.82             | 3.30             |                  |
| Scope 2 intensity emissions <sup>4)</sup> |                                  | tCO <sub>2</sub> eq/m <sup>2</sup> | 6.42             | 6.30             | 6.46             |                  |

<sup>1)</sup> Spin-off of a subsidiary (System IC) has changed the data collection scope; and figures in 2015 and 2016 were changed<sup>2)</sup> Including Icheon, Cheongju, and Bundang Campus in Korea and Wuxi Campus in China<sup>3)</sup> Including Icheon, Cheongju, and Bundang Campus in Korea<sup>4)</sup> GHG emissions per wafer production area

## Raw Materials and Wastes

### Raw Materials Use

| Classification              | Unit               | 2015             | 2016             | 2017             |
|-----------------------------|--------------------|------------------|------------------|------------------|
| Wafer                       | KRW million        | 409,078          | 487,651          | 551,942          |
| Lead Frame & Substrate      | KRW million        | 221,538          | 155,652          | 166,763          |
| PCB                         | KRW million        | 139,940          | 127,141          | 137,241          |
| Others                      | KRW million        | 1,635,075        | 1,607,518        | 1,866,459        |
| S/P supplementary materials | KRW million        | 1,547,934        | 1,431,917        | 2,161,079        |
| <b>Total</b>                | <b>KRW million</b> | <b>3,953,565</b> | <b>3,809,879</b> | <b>4,883,484</b> |

### Rate of Recycled Resource Use

| Classification | Unit | 2015 | 2016 | 2017 |
|----------------|------|------|------|------|
| 300mm          | %    | 2.8  | 1.4  | 1.5  |
| 200mm          | %    | 1.9  | 0.3  | 0.0  |

### Waste Recycling

| Classification | Details            | Unit       | 2015           | 2016           | 2017 <sup>1)</sup> |
|----------------|--------------------|------------|----------------|----------------|--------------------|
| Recycle waste  | Domestic worksites | Ton        | 134,162        | 139,331        | 218,825            |
|                | Overseas worksites | Ton        | 27,772         | 26,305         | 32,930             |
|                | <b>Total</b>       | <b>Ton</b> | <b>161,934</b> | <b>165,636</b> | <b>193,318</b>     |
| Recycling rate | Domestic worksites | %          | 94             | 96             | 91                 |
|                | Overseas worksites | %          | 59             | 56             | 60                 |
|                | <b>Total</b>       | <b>%</b>   | <b>86</b>      | <b>86</b>      | <b>85</b>          |

<sup>1)</sup> Spin-off of a subsidiary (System IC) has changed the data collection scope

### Waste

| Classification   | Details            | Unit       | 2015           | 2016           | 2017 <sup>1)</sup> |
|------------------|--------------------|------------|----------------|----------------|--------------------|
| Common waste     | Domestic worksites | Ton        | 75,490         | 79,807         | 110,927            |
|                  | Overseas worksites | Ton        | 18,812         | 16,776         | 17,413             |
|                  | <b>Total</b>       | <b>Ton</b> | <b>94,302</b>  | <b>96,583</b>  | <b>128,340</b>     |
| Designated waste | Domestic worksites | Ton        | 66,855         | 65,160         | 129,787            |
|                  | Overseas worksites | Ton        | 27,949         | 29,864         | 37,246             |
|                  | <b>Total</b>       | <b>Ton</b> | <b>94,804</b>  | <b>95,024</b>  | <b>167,033</b>     |
| Total            | Domestic worksites | Ton        | 142,345        | 144,967        | 240,714            |
|                  | Overseas worksites | Ton        | 46,761         | 46,640         | 54,659             |
|                  | <b>Total</b>       | <b>Ton</b> | <b>189,106</b> | <b>191,607</b> | <b>295,373</b>     |

<sup>1)</sup> Spin-off of a subsidiary (System IC) has changed the data collection scope

## ABOUT US

SK hynix's NEW GROWTH STRATEGY

## SUSTAINABILITY

## FOCUS AREA

## PERFORMANCE

Corporate Philanthropy

## SHE Management

Human Capital Management

Customer Satisfaction

## APPENDIX

## Water

## Water Supply

| Classification   | Details           | Unit                | 2015   | 2016   | 2017   |
|------------------|-------------------|---------------------|--------|--------|--------|
|                  | Waterworks        | 1,000m <sup>3</sup> | 40,109 | 36,089 | 37,769 |
| Water withdrawal | Surface water     | 1,000m <sup>3</sup> | 16,007 | 29,128 | 29,442 |
|                  | Underground water | 1,000m <sup>3</sup> | 0      | 0      | 0      |
|                  | Total             | 1,000m <sup>3</sup> | 56,116 | 65,217 | 67,211 |

Water Use<sup>①</sup>

| Classification       | Unit                | 2015   | 2016   | 2017  |
|----------------------|---------------------|--------|--------|-------|
| Total water consumed | 1,000m <sup>3</sup> | 11,076 | 13,639 | 9,162 |

<sup>①</sup> Water intake – Wastewater discharge. The reporting standard was changed to measure in discharge basis in 2017, and figures in 2015 and 2016 were changed

## Water Recycle

| Classification      | Details   | Unit                | 2015   | 2016                | 2017   |
|---------------------|-----------|---------------------|--------|---------------------|--------|
|                     | Icheon    | 1,000m <sup>3</sup> | 5,248  | 6,072               | 7,161  |
| Recycled water      | Cheongju  | 1,000m <sup>3</sup> | 6,047  | 7,096               | 7,410  |
|                     | Wuxi      | 1,000m <sup>3</sup> | 6,193  | 6,148               | 7,626  |
|                     | Chongqing | 1,000m <sup>3</sup> | –      | 94 <sup>①</sup>     | 112    |
|                     | Total     | 1,000m <sup>3</sup> | 17,488 | 19,410 <sup>①</sup> | 22,309 |
|                     | Icheon    | %                   | 21.6   | 19.5                | 19.1   |
| Water recycle ratio | Cheongju  | %                   | 26.2   | 29.0                | 30.1   |
|                     | Wuxi      | %                   | 42.9   | 42.4                | 44.7   |
|                     | Chongqing | %                   | –      | 10.2                | 9.4    |

<sup>①</sup> Corrected the error

<sup>②</sup> Recycled Water/(Recycled water + Discharged wastewater)

Wastewater Discharge<sup>①</sup>

| Classification                 | Details   | Unit                               | 2015   | 2016   | 2017   |
|--------------------------------|-----------|------------------------------------|--------|--------|--------|
|                                | Icheon    | 1,000m <sup>3</sup>                | 19,086 | 25,096 | 30,327 |
|                                | Cheongju  | 1,000m <sup>3</sup>                | 17,075 | 17,344 | 17,215 |
| Wastewater discharged          | Wuxi      | 1,000m <sup>3</sup>                | 8,236  | 8,338  | 9,429  |
|                                | Chongqing | 1,000m <sup>3</sup>                | 643    | 827    | 1,078  |
|                                | Total     | 1,000m <sup>3</sup>                | 45,040 | 51,578 | 58,049 |
|                                | Icheon    | m <sup>3</sup> /Piece <sup>②</sup> | 12.1   | 13.4   | 12.7   |
| Wastewater discharge intensity | Cheongju  | m <sup>3</sup> /Piece              | 5.01   | 4.8    | 5.4    |
|                                | Wuxi      | m <sup>3</sup> /Piece              | 7.2    | 7.3    | 7.9    |
|                                | Chongqing | m <sup>3</sup> /Die <sup>③</sup>   | 1.47   | 1.43   | 1.37   |

<sup>①</sup> The reporting standard was changed to measure in discharge basis in 2017, and figures in 2015 and 2016 were changed

<sup>②</sup> Wastewater discharge for producing one wafer

<sup>③</sup> Wastewater discharge for producing one chip

Water Quality Management<sup>①</sup>

| Classification | Details  | Unit | 2015   | 2016   | 2017   |
|----------------|--|------|--------|--------|--------|
| Icheon         | Chemical Oxygen Demand (COD)                         | Ton  | 69.94  | 92.50  | 100.27 |
|                | Biochemical Oxygen Demand (BOD)                      | Ton  | 100.07 | 58.85  | 66.50  |
|                | Total Nitrogen (T-N)                                 | Ton  | 368.00 | 438.20 | 556.25 |
|                | Fluorine (F)   | Ton  | 19.29  | 25.00  | 36.02  |
| Cheongju       | Chemical Oxygen Demand (COD)                         | Ton  | 111.05 | 118.57 | 103.53 |
|                | Biochemical Oxygen Demand (BOD)                      | Ton  | 106.06 | 95.17  | 99.88  |
|                | Total Nitrogen (T-N)                                 | Ton  | 328.37 | 342.49 | 388.22 |
|                | Fluorine (F)   | Ton  | 122.07 | 127.87 | 126.59 |
| Wuxi           | Chemical Oxygen Demand (COD)                         | Ton  | 11.00  | 12.10  | 17.39  |
|                | Ammoniacal Nitrogen(NH <sub>3</sub> -N) <sup>②</sup> | Ton  | 5.86   | 4.50   | 3.61   |
|                | Fluorine (F)   | Ton  | 4.30   | 3.50   | 3.76   |
| Chongqing      | Chemical Oxygen Demand (COD)                         | Ton  | 8.17   | 6.45   | 6.90   |
|                | Biochemical Oxygen Demand (BOD)                      | Ton  | 1.87   | 4.30   | 1.51   |
|                | Total Nitrogen (T-N)                                 | Ton  | 1.22   | 1.90   | 3.23   |

<sup>①</sup> In 2017, the reporting standard was changed to measure based on total emissions; and figures in 2015 and 2016 were changed

<sup>②</sup> Manage NH<sub>3</sub>-N in compliance with the law since 2016

## Air

Air Pollutants Emissions<sup>①</sup>

| Classification | Details         | Unit | 2015  | 2016  | 2017  |
|----------------|-----------------|------|-------|-------|-------|
| Icheon         | SOx             | Ton  | 18.78 | 17.77 | 12.62 |
|                | NH <sub>3</sub> | Ton  | 5.74  | 5.70  | 5.87  |
|                | NOx             | Ton  | 11.33 | 16.11 | 17.91 |
|                | HF              | Ton  | 5.17  | 5.71  | 1.92  |
|                | HCl             | Ton  | 2.02  | 1.01  | 0.95  |
|                | Total VOCs      | Ton  | 0.02  | 0.05  | 0.09  |
| Cheongju       | SOx             | Ton  | 0     | 0     | 3.11  |
|                | NH <sub>3</sub> | Ton  | 5.69  | 5.43  | 2.30  |
|                | HF              | Ton  | 4.28  | 4.34  | 2.77  |
|                | Total VOCs      | Ton  | 0.20  | 0.18  | 0.08  |
|                | SOx             | Ton  | 3.80  | 1.33  | 2.98  |
|                | NH <sub>3</sub> | Ton  | 4.08  | 6.32  | 6.45  |
| Wuxi           | NOx             | Ton  | 0.47  | 0.26  | 0.47  |
|                | HF              | Ton  | 2.40  | 1.75  | 0.86  |
|                | HCl             | Ton  | 8.36  | 5.22  | 7.28  |
|                | Total VOCs      | Ton  | -     | -     | 1.46  |
|                | SOx             | Ton  | -     | -     | 0.28  |
|                | NOx             | Ton  | 3.94  | 1.73  | 2.42  |
| Chongqing      | HF              | Ton  | -     | 0.04  | 0.06  |
|                | HCl             | Ton  | 3.81  | 0.74  | 0.26  |
|                | Total VOCs      | Ton  | -     | 0.12  | 0.88  |

<sup>①</sup> In 2017, the reporting standard was changed to measure based on total emissions; and figures in 2015 and 2016 were changed

## Safety &amp; Health

## Support for Employees' Health Checkup

| Classification                                   | Unit        | 2015 <sup>①</sup> | 2016 <sup>①</sup> | 2017   |
|--|-------------|-------------------|-------------------|--------|
| No. of employees who had health checkup          | Person      | 28,227            | 27,589            | 28,622 |
| Expenses supported for employees' health checkup | KRW billion | 5.2               | 4.6               | 5.0    |

<sup>①</sup> Changed the data for 2015 and 2016 for the scope of data collection has been expanded to include overseas worksites

## Rate of Industrial Accidents

| Classification | Unit | 2015 | 2016 | 2017 |
|----------------|------|------|------|------|
| Icheon         | %    | 0.02 | 0.02 | 0.04 |
| Cheongju       | %    | 0.04 | 0.03 | 0.13 |
| Wuxi           | %    | 0.02 | 0.18 | 0.14 |
| Chongqing      | %    | 0.30 | 0.15 | 0.00 |



## HUMAN CAPITAL MANAGEMENT

### Human Capital Status

Based on the belief that 'people' are the greatest corporate asset, SK hynix protects employee diversity, human rights and labor rights, while hiring and fostering outstanding global personnel who will become future growth drivers.

#### Employment Status

| Classification                                     | Unit   | 2015   | 2016   | 2017   |
|--|--------|--------|--------|--------|
| Number of employees                                | Person | 27,813 | 27,488 | 29,262 |
| Executives and technical office positions (male)   | Person | 9,907  | 9,936  | 10,969 |
| Executives and technical office positions (female) | Person | 2,422  | 2,372  | 2,478  |
| Production employees (male)                        | Person | 5,725  | 5,804  | 6,408  |
| Production employees (female)                      | Person | 9,648  | 9,303  | 9,297  |
| Contract employees (male)                          | Person | 22     | 42     | 72     |
| Contract employees (female)                        | Person | 89     | 31     | 38     |
| Rate of permanent workers                          | %      | 99.6   | 99.7   | 99.5   |
| Korea  | Person | 22,291 | 22,255 | 23,415 |
| U.S.   | Person | 432    | 393    | 394    |
| China  | Person | 4,818  | 4,574  | 5,169  |
| Asia <sup>1)</sup>                                 | Person | 47     | 51     | 52     |
| Europe   | Person | 225    | 215    | 232    |

<sup>1)</sup> Excluding Korea and China

#### Job Creation

| Classification                           | Unit   | 2015  | 2016  | 2017  |
|--|--------|-------|-------|-------|
| Job creation rate <sup>1)</sup>          | %      | 3.4   | (1.2) | 6.5   |
| Number dismissed employees <sup>2)</sup> | Person | 1     | 2     | 3     |
| Turnover rate <sup>2)</sup>              | %      | 2.1   | 3.4   | 2.2   |
| Average length of service <sup>3)</sup>  | Year   | 10.20 | 10.90 | 11.14 |
| Locally employed in Korea                | Person | 1,220 | 684   | 1,713 |
| Locally employed in the U.S.             | Person | 95    | 143   | 85    |
| Locally employed in China                | Person | 911   | 534   | 1,625 |
| Locally employed in Asia <sup>4)</sup>   | Person | 18    | 13    | 18    |
| Locally employed in Europe               | Person | 29    | 16    | 32    |

<sup>1)</sup> (No. of employees for the year – No. of employees for the previous year)/No. of employees for the previous year ×1004

<sup>2)</sup> Based on domestic worksites

<sup>3)</sup> Based on headquarters

<sup>4)</sup> Excluding Korea and China

## Human Resources Development

### System to Nurture Semiconductor Experts

SK hynix is striving to strengthen basic skills by area, including leadership, management, and globality, of all employees, ranging from general members to leaders, in consideration of the characteristics of the semiconductor business. We developed a talent development system by job category, including production employees, technical office staffs and office staffs, and support the strengthening of expertise and competencies by position in accordance with each employee's duties. In March 2017, we established SK hynix University (SKHU), an internal university with an eight-year course, with a goal of fostering the world's best semiconductor experts.

**SK hynix University** \_ To internally develop employees into engineers who specialize in semiconductors, we provide support to newly hired technical office workers so that they systematically receive work-related training for around eight years after joining the company. At SKHU, new employees strengthen basic knowledge that those working in the semiconductor industry should have, and develop professional knowledge to become semiconductor experts. There are ten colleges under SKHU, and each college consists of several departments and detailed majors. SKHU professors are internal SK hynix experts and retired semiconductor industry experts.

**Customized Learning Blog** \_ The previous My Page of the SKHU system was improved to take the form of a customized learning blog for each staff. When a staff sets frequently-visited menus as 'favorites' using the new My Page, he or she automatically receives recommendations on training courses depending on his or her area of interest and frequently receive informational emails on new courses.

**New One-Stop Mentoring System** \_ In February 2018, SK hynix improved the previous mentoring system, which was carried out on the e-HR system, to be adequate for the SKHU system. The biggest characteristic of the new system is that it allows one-stop handling of all activities, ranging from matching mentors with mentees to settling activity expenses. Using this system, leaders (team managers/PLs) designate mentors and mentees who will develop each other. Mentors can view images that show steady growth of mentees with their help. In addition, mentees can ask questions or ask for help through Heart-to-Heart Talk.

### Competency Improvement Programs for Knowledge Sharing

**Online Training Content, Cookie** \_ SK hynix provides online practical training content, 'Smart Cookie', to strengthen employees' competency at work in relation to the latest technologies in the rapidly-developing semiconductor industry. Employees who are recommended by colleagues in the relevant field can share a Smart Cookie in the form of a short five to 20-minute lecture. The company supports the development of training content by enabling employees to use work materials and systems of the company. The Smart Cookie is performing important roles as a 21st century-type knowledge transfer system that naturally transfers, among employees, the ability to solve issues in actual work.

**Mobile Campus** \_ SK hynix adopted 'Mobile Campus', a regular learning system aimed at improving basic equipment-related capabilities. Through basic theory and field training images, employees with experience share their accumulated know-how to help others improve job expertise.

**Learning Club moHim** \_ SK hynix has set in place moHim – a learning club system through which employees voluntarily share knowledge and experience. To resolve issues that employees could not address through individual practice or to strengthen their theoretical background, employees study research papers or patents together. moHim is also used to share knowledge in a relay seminar format.

### Employee Training

| Classification                  | Unit             | 2015    | 2016    | 2017    |
|---------------------------------|------------------|---------|---------|---------|
| Total trainees                  | Person           | 304,200 | 172,236 | 187,138 |
| Training hours per person       | Hour/Person      | 58      | 81      | 111     |
| Training expenditure per person | KRW 1,000/Person | 676     | 490     | 773     |

### A Culture of 'Wak Ja Ji Cul' Led by Employees

To rapidly respond to diverse environmental changes and issues while resolving technical difficulties that frequently arise, SK hynix has set its corporate culture direction as 'Wak Ja Ji Cul = Wak Ja 智 Wisdom Cul'. 'Wak Ja Ji Cul' means speaking loud and freely in Korean and the letter Ji also spells knowledge in the Chinese character – 智. Thus, Wak Ja Ji Cul culture can be interpreted as a corporate culture where employees speak up when they have ideas without hesitation, thereby gaining knowledge.

**1-on-1 Meeting** \_ We emphasize 1-on-1 meetings between leaders and employees as a key methodology for building the 'Wak Ja Ji Cul' culture. In particular, regular 1-on-1 meetings are held with 'millennial'<sup>1)</sup> employees, who have strong opinions and personalities, so that leaders attentively listen to the 'outrageous imagination' of young employees and help them make a connection to performance.

**Team Promotion Program** \_ We implement the 'team promotion program' to spread the 'Wak Ja Ji Cul' culture across the organization. Employees better understand each other and exchange ideas on pending issues to develop into a more effective high-performance organization.

<sup>1)</sup> Refers to the generation that was born between the early 1980s to early 2000s

**ABOUT US**

SK hynix's NEW GROWTH STRATEGY

SUSTAINABILITY

FOCUS AREA

**PERFORMANCE**

Corporate Philanthropy

SHE Management

**Human Capital Management**

Customer Satisfaction

**APPENDIX**

## Enhancing Work Engagement

### Fair Evaluation and Compensation

**Performance Management System** \_ SK hynix presents goals that are aligned with corporate strategies to employees, and accordingly provides fair evaluation and compensation. It especially uses regular coaching and a performance management system called e-HR, which strengthens the connection between organizational goals and individual goals, for performance management.

**Performance-oriented Evaluation** \_ SK hynix conducts a comprehensive evaluation of technical office workers once a year. The job achievements, capabilities, and ranking assessment among employees are comprehensively considered. For full-time employees and technical office workers with Level 5 or under, their capabilities are evaluated by using ten key performance index, including job knowledge, performance drive, and communication skills.

**Reasonable Compensation System** \_ SK hynix ensures that fair standards – individual capabilities and talent – are used for evaluation and compensation, without any discrimination based on gender, academic background, and religion. SK hynix provides compensation according to the evaluation grade, which is based on individual performance evaluation results, and provides bonus, such as Productivity Incentive and Profit Sharing incentives, as much as 50% of the annual salary depending on business performance.

### Employee Satisfaction Survey

SK hynix listens to the grievance of its employees and monitors the level of employee satisfaction toward work and the organizational culture through various means, including the Culture Survey, the human rights risk survey conducted by HR, anonymous bulletin board on the Intranet, and regular meetings. We are developing measures to build a flexible organizational culture so that employees, who are the most important asset and competitiveness of SK hynix, can develop a sense of trust in the company and can concentrate on their work with comfort. As part of these efforts, we will engage in pilot operation of the shared seating system or the horizontal way of addressing each other in 2018. By doing so, we will look into ways to improve our way of work.

### Positive Response Rate in the Culture Survey

| Item                                 | Unit | 2015 | 2016 | 2017 |
|--------------------------------------|------|------|------|------|
| Organization engagement              | %    | 92.2 | 83.9 | 85.6 |
| Significance of work and performance | %    | 90.4 | 83.1 | 84.4 |
| Anticipation towards future growth   | %    | 90.8 | 82.1 | 85.5 |
| Recognition and trust from society   | %    | 90.4 | 84.2 | 87.9 |

## Organization Culture

### Promoting Innovation and Collaboration

**Imagination Town** \_ Imagination Town, which is participated by at least 70% of field employees, is a good starting point for innovation at SK hynix. Adopted in 2014, Imagination Town is a system through which employees post job-related ideas on the Intranet, after which outstanding suggestions are adopted and used for work improvements. A total 340 thousand suggestions were made through 2017 of which 73%, or 240 thousand suggestions, was actually reflected in work. We expect to upgrade the entire system by redefining the way we do work and our culture through Imagination Town-based innovation.

**'HyThanks' System** \_ By opening the 'HyThanks' system, which supports the expression of appreciation for collaboration, we are building a corporate culture of collaboration by promoting collaboration among employees and enhancing work efficiency. SK hynix employees who receive 'Thanks', an expression of appreciation, from other employees through this system are provided with the I-Point, which can be converted into salary.

### Supporting Improvements to Organizational Culture

**SK hynix Culture Survey** \_ We have been improving the organizational culture by using the 'SK hynix Culture Survey' targeting all employees every year. The Culture Survey consists of 'achieving a corporate culture that is effective for performance generation' and 'practicing the SK Management System (SKMS)', and has separate questions for leaders and employees, enabling us to effectively diagnose the organizational culture and draw up improvement measures.

**Horizontal Communication Culture** \_ SK hynix has been establishing diverse measures to create an organizational culture where employees can freely express their opinions. Through 'Gonggam Talk Talk', the CEO and employees discuss and communicate about extensive themes, including management philosophy, corporate vision, and organizational culture improvements. We also constituted 'Junior Board' in eight regions and by organization. Field discussions take place every month on ways to enhance work efficiency and improve our way of work. Suggestions are then made to top management, and they are contributing to actual performance improvements. We also operate 'Hi-tong', an anonymous online communication channel, through which employees discover and discuss innovative items needed for work, make suggestions for the company, and engage in other types of free dialogue.



Imagination Town



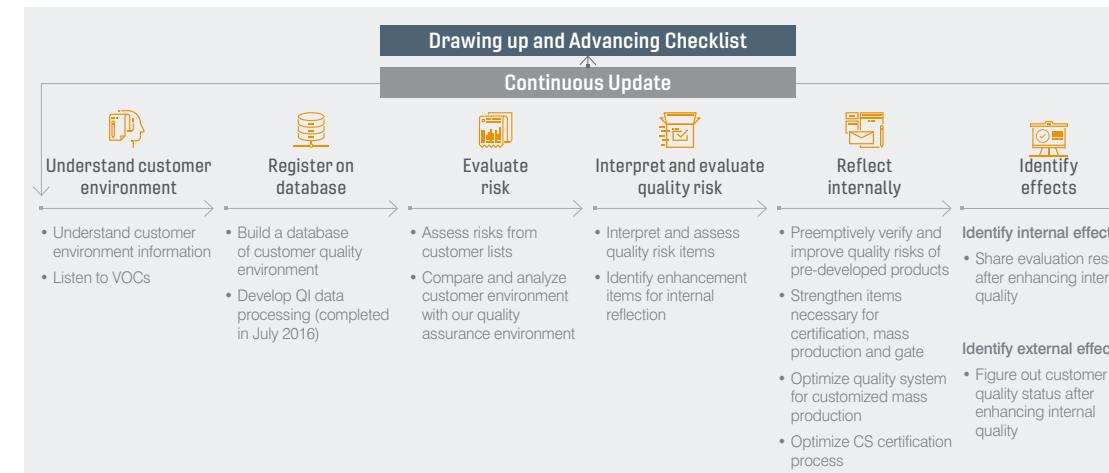
## CUSTOMER SATISFACTION

### Quality Management

#### Enhancing Quality from the Customer Perspective

SK hynix pursues customer satisfaction based on relentless technological innovation and quality innovation. We especially implement customer-oriented quality intelligence (QI) – quality management based on forecasting the level of quality that will satisfy customers and providing preemptive customer support. The purpose of QI activities is to increase compatibility of quality assurance conditions that are adequate for final consumers' environment and usage patterns, and to pursue preemptive quality improvements. In 2016, we adopted QI activities which consist of a corporate-wide council that includes development, manufacturing and quantitative risk assessment (QRA). By doing so, we are discovering improvement items together with customers and strengthening technological collaboration. To this end, we share information on new products and test conditions of our customers as well as our own product test conditions on a regular basis, and then put those data into our database. Accumulated information is used for product and technological development, and is leveraged to enhance the quality of new products. In 2017, our mobile customers and around 30 SK hynix working-level engineers held a two-day workshop and shared information to increase compatibility of our memory products in customer systems.

#### QI Work Flow



#### Managing Hazardous Substances in Products

To fulfill our corporate legal, social and environmental responsibilities, SK hynix runs a hazardous substance management program so that the use of hazardous substances is prevented in all steps of a product, ranging from manufacturing to storage and shipment. By doing so, we comply with regulations that restrict use of hazardous substances, including Restriction of Hazardous Substance (RoHS), Registration, Evaluation, Authorization & restriction of Chemicals (REACH) and Halogen Free. We disclose our response guarantee on our website. In addition, we strictly prohibit the use of restricted use substances starting from the product design phase, and operate the prior chemical substance evaluation (SHE Qualification)<sup>1)</sup> system, which is a verification process to prevent the entry of restricted-use hazardous substances beginning from the step of adopting new raw materials.

### Customer Satisfaction Survey

#### Improving Customer Satisfaction

SK hynix collects voice of customers (VOCs) on a regular basis, and thus assesses customer inconveniences and needs to offer services that are optimized for characteristics per customer based on customer-centered management. We surveyed 51 global customers in 2017, and our comprehensive customer satisfaction score is 4.44 points, reflecting a continued upward trend for the second consecutive year. Analysis results are shared with departments in charge and relevant departments through the corporate-wide quality portal, and are used for continued customer satisfaction improvements. By doing so, we are striving to achieve upward leveling of the customer support system and to operate a support system that is optimized for each product's and customer's characteristics.

#### Customer Survey Results

(Out of 5 points)

| Classification                | Unit  | 2015 | 2016 | 2017 |
|-------------------------------|-------|------|------|------|
| Customer survey results score | Point | 3.98 | 4.23 | 4.44 |

#### Customer Survey Results by Application

(Out of 5 points)

| Classification   | Unit  | 2015 | 2016 | 2017 |
|------------------|-------|------|------|------|
| Computing DRAM   | Point | 3.99 | 4.16 | 4.47 |
| Mobile DRAM      | Point | 3.95 | 4.29 | 4.37 |
| Mobile Solution  | Point | 3.95 | 4.17 | 4.50 |
| Storage Solution | Point | 4.04 | 4.37 | 4.51 |

#### Customer Survey Results by Subsidiary

(Out of 5 points)

| Classification        | Unit  | 2015 | 2016 | 2017 |
|-----------------------|-------|------|------|------|
| China subsidiary      | Point | 3.52 | 4.20 | 4.44 |
| US subsidiary         | Point | 4.02 | 4.10 | 4.39 |
| Japan subsidiary      | Point | 4.08 | 3.95 | 4.03 |
| Domestic subsidiaries | Point | 4.42 | 4.66 | 4.57 |

## Industrial Security & Information Security

### Industrial Security Policies

To protect all its assets, both tangible and intangible, SK hynix has in place various security systems and employs a wide range of measures aimed at preventing information leaks. Also, to heighten employees' security awareness and thus establish a voluntary participation-based security culture, we offer diverse contents and programs to foster a security culture. In 2017, we revised the industry security code in a bid to strengthen regulations on uses of cameras and recording devices at the worksites. Clauses were added to prohibit recording of technology-related information and similar activities and defining penalties for such activities, while a clause to prohibit recording was added to the security agreement for visitors.

In October 2017, SK hynix raised its industrial security level by obtaining ISO 27001 certification – an international standard on information protection. We then adopted 'i-security', a security management system that enables efficient management of proof documents by ISO item to conduct an internal audit once a year based on the certification results. We plan to receive ISO 27001 recertification every three years.

### Personal Information Protection

SK hynix protects personal information as well as rights and interests pursuant to the Personal Information Protection Act, and has a detailed processing policy so that grievances in relation to personal information can be processed smoothly. Our overseas subsidiaries also observe the information protection law and obligations of the respective country. In accordance with our privacy policy, we do not process personal information or outsource relevant work to a third party without the user's consent. If we do outsource relevant work for the purpose of service improvement and sign a consignment contract, we ensure thorough management and supervision so that personal information is processed safely pursuant to relevant laws. We also strive to ensure customer information security in accordance with guidelines on collection, use, and disclosure of customer information that is obtained through websites and services. In the second half of 2017, we conducted an examination of six systems that are used in collecting and processing such personal identification data as the national registration, passport and alien registration numbers, and reported the findings to the Korea Internet & Security Agency. Also, in the 4th quarter of 2017, a series of classes was conducted to educate employees of SK hystek and SK hyeng, two of our affiliates to which we had commissioned a personal data processing project, on such things to observe in order to prevent personal data leaks as terms of compliance in each stage of personal data processing, countermeasures to take against a hack and measures to take to ensure the integrity of personal data.

### Enhancing Capacity of Security Guards

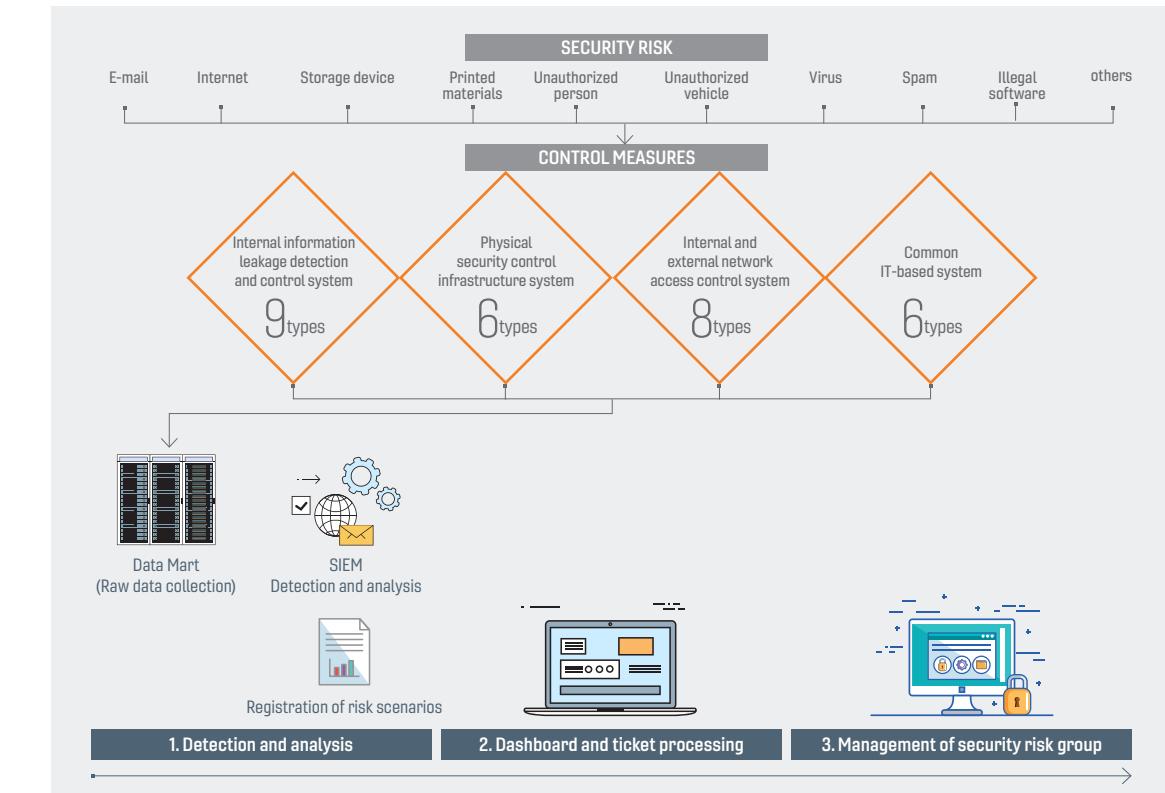
SK hynix adopted a security guard incentive system in 2017, and thus provided security guards with strong motivation towards their duties, thereby enhancing the level of information security. We have also strengthened trainings for security guards – these efforts include the increasing training hours offered to new security guards from the previous 0.5 day to three days; and the establishing of a training facility that has the same conditions as security check points so that new security guards can receive hands-on training once a month. Through these trainings and the incentive system, we have made improvements so that there are no gaps in the degree of security checks performed among security guards.

### IT Security System

SK hynix manages its industrial securities system based on the SK Group's internal securities frame work, and also applied the security framework to its overseas subsidiaries in 2017. We used the Group's inspection items when inspecting overseas subsidiaries in the area of production, technology, and sales, and assessed the security level of overseas subsidiaries. For any shortcomings, we provided support to raise the security level of overseas subsidiaries to a level similar to that of headquarters. Together with the SK Group's Cooperate Audit Team we carried out personnel inspections, assessed whether security regulations are observed for IT servers, and whether management regulations are observed for confidential documents in operational PCs, targeting employees at SK hynix, employees at SK C&C, who are in charge of operating our IT systems, and employees at SK infosec who provide security support.

In 2017, SK hynix adopted a new security system – Security Information & Event Management (SIEM). SIEM is an IT system aimed at advancing security monitoring for the purpose of protecting the company's key technologies and trade secrets. Through SIEM, we are analyzing behavioral patterns that are suspected of security regulation violation, and reinforcing preventive activities for high risk-group employees with accumulated cases of suspicious conduct by strengthening individual security checks and withdrawing exceptional authority.

### SIEM Process



# Appendix

[ABOUT US](#)[SK hynix's NEW GROWTH STRATEGY](#)[SUSTAINABILITY](#)[FOCUS AREA](#)[PERFORMANCE](#)[APPENDIX](#)[Global Network](#)

Financial Highlights & Independent Auditors' Report

Greenhouse Gas Verification Report

Third Party's Assurance Statement

GRI Index

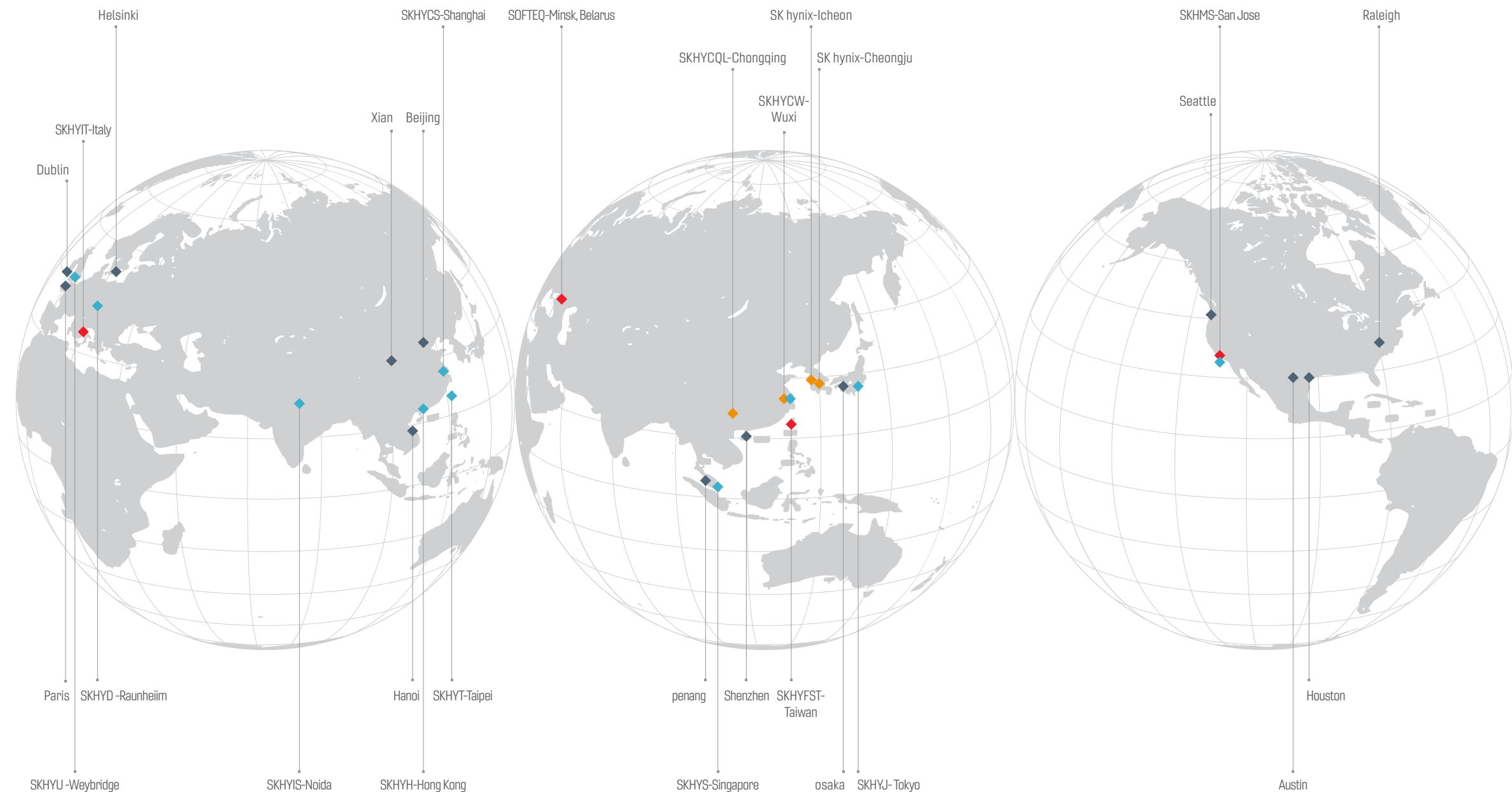
UN Global Compact

Awards, Recognition and Association Memberships

About This Report

# GLOBAL NETWORK

◆ Production site   ◆ R&D office   ◆ Sales subsidiary   ◆ Sales office



## ABOUT US

SK hynix's NEW GROWTH STRATEGY

SUSTAINABILITY

FOCUS AREA

PERFORMANCE

## APPENDIX

Global Network

**Financial Highlights & Independent Auditors' Report**

Greenhouse Gas Verification Report

Third Party's Assurance Statement

GRI Index

UN Global Compact

Awards, Recognition and Association Memberships

About This Report

# FINANCIAL HIGHLIGHTS & INDEPENDENT AUDITORS' REPORT

**Key Financial Performance**

|               | Item                        | 2015   | 2016   | 2017   | (Unit: KRW billion) |
|---------------|-----------------------------|--------|--------|--------|---------------------|
| Income Sheet  | Sales                       | 18,798 | 17,198 | 30,109 |                     |
|               | Gross profit                | 8,283  | 6,411  | 17,408 |                     |
|               | Operating profit            | 5,336  | 3,277  | 13,721 |                     |
|               | Profit before corporate tax | 5,269  | 3,216  | 13,440 |                     |
|               | Corporate tax               | 946    | 256    | 2,797  |                     |
|               | Net profit                  | 4,324  | 2,960  | 10,642 |                     |
| Balance Sheet | Total assets                | 29,678 | 32,216 | 45,418 |                     |
|               | Total borrowings            | 3,819  | 4,336  | 4,171  |                     |

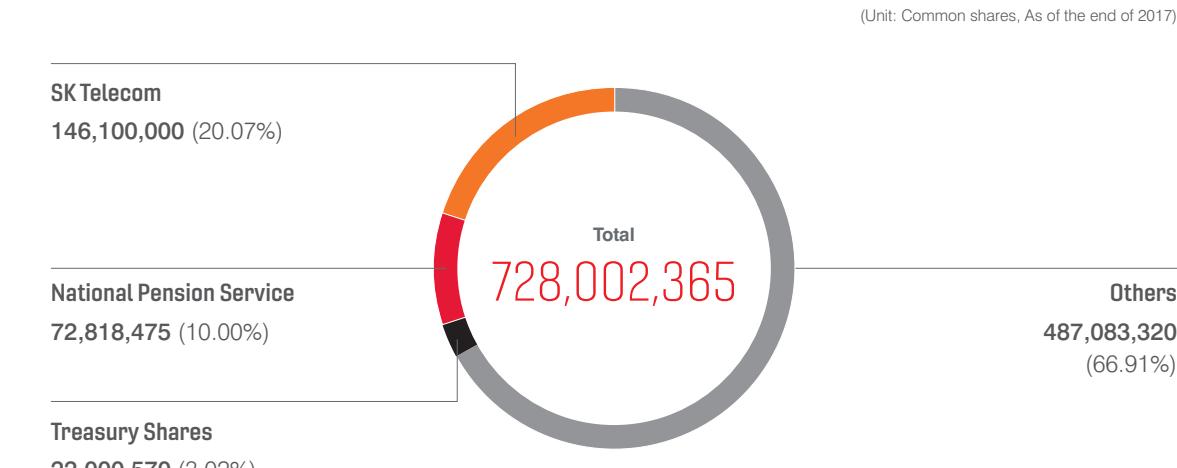
**Creating Economic Values**

|                            | Item                 | 2015      | 2016      | 2017      | (Unit: KRW million) |
|----------------------------|----------------------|-----------|-----------|-----------|---------------------|
| Employees                  | Wage                 | 2,188,297 | 1,987,825 | 2,824,241 |                     |
|                            | Retirement allowance | 150,932   | 210,774   | 172,782   |                     |
|                            | Welfare benefits     | 377,818   | 387,308   | 394,634   |                     |
| Local Communities          | Tax and dues         | 983,471   | 287,516   | 2,831,429 |                     |
|                            | Donations            | 55,131    | 51,629    | 76,195    |                     |
| Suppliers                  | Raw materials        | 2,471,643 | 2,457,772 | 706,002   |                     |
|                            | Consumables/repair   | 3,337,555 | 3,635,173 | 4,260,362 |                     |
|                            | Outsourcing          | 982,419   | 785,923   | 896,281   |                     |
| Company                    | Reserves value       | 3,970,593 | 2,536,880 | 9,936,216 |                     |
| Shareholders and investors | Interest costs       | 118,505   | 120,122   | 123,918   |                     |
|                            | Dividends            | 353,001   | 423,601   | 706,002   |                     |

**Financial Performance by Region**

|              | 지역 | Sales         | Operating Profit | (Unit: KRW billion) |
|--------------|----|---------------|------------------|---------------------|
| Korea        |    | 30,519        | 13,366           |                     |
| Asia         |    | 18,852        | 160              |                     |
| U.S.         |    | 11,222        | 53               |                     |
| Europe       |    | 1,582         | 5                |                     |
| <b>Total</b> |    | <b>62,175</b> | <b>13,585</b>    |                     |

|              | 지역 | Tax and Dues | (Unit: KRW billion) |
|--------------|----|--------------|---------------------|
| Korea        |    | 571          |                     |
| Asia         |    | 46           |                     |
| U.S.         |    | 1            |                     |
| Europe       |    | 1            |                     |
| <b>Total</b> |    | <b>619</b>   |                     |

**Shareholders**

# GREENHOUSE GAS VERIFICATION REPORT



## Verification Opinion



### SK HYNIX INC.

#### Domestic Operation Sites under greenhouse gas emission verification

— Icheon Campus, Cheongju Compus & Boondang Campus

#### Scope:

The annual GHG emission for the 2017 calendar year inclusive

The physical scope is limited within the boundary of Domestic Area for SK HYNIX INC.

GHG emissions for Scope 1(Direct-emissions), Scope 2(Indirect-energy related) and partially Scope 3(Indirect-emissions from logistic, waste dispatch & disposal, business trip and employee commuting) as defined in WBCSD/WRI GHG protocol Chapter 4 "Setting Operational Boundaries"

#### Data Verified:

GHG Emissions for the Scope 1 and Scope 2 for 2017 calendar year as follows.

|  | Icheon Campus    | Cheongju Compus  | Boondang Campus | Sub Total        |
|--|------------------|------------------|-----------------|------------------|
| Direct Emissions (Scope 1)                       | 340,444          | 99,526           | 310             | 440,280          |
| In-direct Emissions (Scope 2)                    | 1,657,058        | 978,027          | 1,941           | 2,637,026        |
| Optional Information (Used the NF <sub>3</sub> ) | 302,794          | 292,906          | -               | 595,700          |
| <b>Total (tCO<sub>2</sub>e/y)</b>                | <b>2,300,296</b> | <b>1,370,459</b> | <b>2,251</b>    | <b>3,673,006</b> |

※ The total Emissions can differ to a cut-off decimal point.

GHG Emissions of the scope 3 as from logistic, waste dispatch & disposal, business trip and employee commuting for 2017 calendar year.

| Category             | International transport(Export) | International transport(Import) | Waste disposal | Business trip | Employee commuting | Total (tCO <sub>2</sub> e/y) |
|----------------------|---------------------------------|---------------------------------|----------------|---------------|--------------------|------------------------------|
| tCO <sub>2</sub> e/y | 66,030                          | 19,314                          | 9,379          | 2,414         | 14,197             | 111,334                      |

#### GHG Criteria & Protocols used for Verification:

The verification was performed at the request of SK HYNIX INC. using the followings:

- GHG-Energy Target Management Operating Guideline (Act No. 2016-255) – Revised Oct 2016
- The Corporate Value Chain (Scope 3) Accounting & Reporting Standard (WRI & WBCSD, 2011)
- IPCC Guideline for National Greenhouse Gas Inventories - Revised 2006
- ISO14064 Part 1 & 3 - Issued 2006
- BSI GHGEV Manual (KM007, R8)

The standard confidentiality principle of BSI Group Korea is applied to the all verification activities

#### Verification Opinion:

As a result of the verification in accordance with the protocols and the best practice listed above, it is the opinion of BSI that:

- The verification was conducted to provide reasonable verification in accordance with GHG Energy Target Management Scheme
- No material misstatement in the GHG emission calculations was detected, related records were maintained appropriately
- The data quality was considered corresponding to the international key principles for GHG emissions verification

Managing Director Korea, JongHo Lee

# THIRD PARTY'S ASSURANCE STATEMENT

## To the management of SK hynix

Upon request of 'SK hynix (further "the Company")', we have reviewed the information presented in the 'SK hynix Sustainability Report 2018 (further "the Report")'. The management of the Company is responsible for preparing the Report. Our responsibility is to carry out a limited assurance engagement on the Report and to provide opinions on it based on our review.

## RESPECTIVE RESPONSIBILITIES

The Company's management is responsible for collection and presentation of the information within the Report. The Company's management is also responsible for the design, implementation and maintenance of internal controls relevant to the preparation of the Report, so that it is free from material misstatement, whether due to fraud or error.

Our responsibility, in accordance with our engagement terms with the Company's management, is to carry out a 'limited level' assurance engagement on the selected data (further "the Selected Data") of the Report.

The Selected Data:

- Page 29 – Ethics management and fair competition: Consultation and report on ethics management
- Page 39 – Human rights and labor practices: Use of maternity leave and childcare Leave
- Page 51 – Win-win cooperation: Win-win cooperation performance
- Page 53 – Win-win cooperation: Supplier risk management
- Page 55 – Social contributions: Employee participation in volunteer activities
- Page 56 – Social contributions: Happy plus nutritious meal (Input, Outcome, Impact)
- Page 58 – Climate change and energy: Energy use
- Page 59 – Management of hazardous substances and wastes: Waste (Common waste, Designated waste, Total)
- Page 60 – Water resource management: Water use
- Page 61 – Workplace safety and health: Support for employees' health checkup / Rate of industrial accidents
- Page 61 – Air quality management: Total VOCs

We do not accept or assume any responsibility for any other purpose or to any other person or organization, regarding the results on the limited level assurance engagement on the Selected Data. Any reliance any such third party may place on the Report is entirely at its own risk.

Our assurance engagement has been planned and performed in accordance with the ISAE 3000<sup>1)</sup> published by IAASB (International Auditing and Assurance Standards Board).

The Report has been reviewed against the following criteria:

## COMPLETENESS

- Whether the Selected Data have been collected from appropriate sources and that boundary have been appropriately defined and applied.

## CONSISTENCY

- Whether the reporting criteria of the Company have been consistently applied to the Selected Data when they are collected from each appropriate sources.

## ACCURACY

- Whether the Selected Data collected from each appropriate sources have been complied with the reporting criteria of the Company.
- Whether supporting information are maintained at a Global level when the Selected Data is collected from each appropriate sources.

## SUMMARY OF WORK PERFORMED

The procedures we performed were based on our professional judgment and included the steps outlined below:

- In order to form our conclusions we undertook the steps outlined below:
1. Interviews with staff responsible for the collection and maintaining accuracy of the Selected Data.
  2. A confirmation of whether methodologies, guidance documents and processes for reporting the Selected Data exists.
  3. Review of the Report for the appropriate presentation of the Selected Data, including the discussion of limitations and assumptions relating to the Selected Data presented.
  4. A confirmation of the Company's online collection tool for the Selected Data, including sample of collected data within the tool.
  5. Review of the underlying documentation for a sample of site level data points.

## LIMITATIONS OF OUR REVIEW

We conducted our work to express a limited assurance conclusion. The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the level of assurance that would have been obtained had we performed a reasonable assurance engagement and we do not therefore express a reasonable assurance opinion.

The scope of our engagement was limited to the reporting period, and therefore 2017 performance only.

Our review did not address the accuracy of information within the financial figures disclosed in the Report and we have not sought any supporting evidence for data that has been sourced from the Company's annual report and financial statements.

The responsibility for the prevention and detection of fraud, error and non-compliance with laws or regulations rests with the Company's management. Our work should not be relied upon to disclose all such material misstatements, frauds, errors or instances of non-compliance that may exist.

## CONCLUSION

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the Selected Data was not prepared in accordance with the criteria of completeness, consistency, and accuracy.

## OUR INDEPENDENCE

With the exception of this work, we have provided no other services relating to the Report. Also, we comply with the Ethical Standard issued by IFAC (International Federation of Accountants).

## OUR COMPETENCE

The assurance engagement was performed by the engagement team with a long history of experience and expertise in sustainability area.

Jin-Sug Suh  
Regional Managing Partner  
EY Han Young  
Seoul, Korea  
June 2018



# GRI INDEX

## General Disclosures

| Aspect                                     | Index | Description   | Page  | Note   |
|--|-------|---|---|--|
| Strategy and Analysis                      | G4-1  | Statement from the most senior decision-maker of the organization about the relevance of sustainability to the organization and the organization's strategy for addressing sustainability           | 3   |  |
|  | G4-3  | Name of the organization  | 4   |  |
|  | G4-4  | Primary brands, products, and services  | 6-9   |  |
|  | G4-5  | Location of the organization's headquarters   | 4   |  |
|  | G4-6  | Number of countries where the organization operates, and names of countries where either the organization has significant operations or that are specifically relevant to the sustainability topics | 4   |  |
|  | G4-7  | Nature of ownership and legal form  | 69  |  |
|  | G4-8  | Markets served, including geographic breakdown, sectors served, and types of customers and beneficiaries  | 68  |  |
|  | G4-9  | Scale of the organization, including number of employees, net sales, total capitalization, products and services  | 5, 62   |  |
|  | G4-10 | Number of employees by employment type, employment contract, gender and region  | 38, 62  |  |
|  | G4-11 | Percentage of total employees covered by collective bargaining agreements   | 40  |  |
|  | G4-12 | Organization's supply chain   | 50-52   |  |
|  | G4-13 | Significant changes during the reporting period regarding the organization's size, structure, ownership, or its supply chain  | 50, P. 22 and 340-341 in 2017 Business Report |  |
|  | G4-14 | Whether and how the precautionary approach or principle is addressed by the organization  | 42, 46  |  |
|  | G4-15 | Externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses  | 3, 77-78                                      |  |
| Organizational Profile                     | G4-16 | Memberships of associations   | 78  |  |
|  | G4-17 | All entities included in the organization's consolidated financial statements or equivalent documents   | P. 3-4 in 2017 Business Report                |  |
|  | G4-18 | Process for defining the report content and the Aspect Boundaries   | 22  |  |
|  | G4-19 | Material Aspects identified in the process for defining report content  | 22  |  |
|  | G4-20 | Aspect Boundary within the organization for each material Aspect  | 23  |  |
|  | G4-21 | Aspect Boundary outside the organization for each material Aspect   | 23  |  |
|  | G4-22 | Effect of any restatements of information provided in previous reports, and the reasons for such restatements   | 38, 51, 58-61                                 | Reported through footnotes for relevant data |
| Identified Material Aspects and Boundaries | G4-23 | Significant changes from previous reporting periods in the Scope and Aspect Boundaries  | P. 22 and 340-341 in 2017 Business Report     |  |
|  | G4-24 | List of stakeholder groups engaged by the organization  | 21  |  |
|  | G4-25 | Basis for identification and selection of stakeholders  | 21  |  |
|  | G4-26 | Organization's approach to stakeholder engagement   | 21  |  |
|  | G4-27 | Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to them  | 21  |  |
|  |       |   |   |  |
|  |       |   |   |  |
| Stakeholder Engagement                     |       |   |   |  |
|  |       |   |   |  |
|  |       |   |   |  |

**ABOUT US**

SK hynix's NEW GROWTH STRATEGY

**SUSTAINABILITY****FOCUS AREA****PERFORMANCE****APPENDIX**

Global Network

Financial Highlights & Independent  
Auditors' Report

Greenhouse Gas Verification Report

Third Party's Assurance Statement

**GRI Index**

UN Global Compact

Awards, Recognition and Association  
Memberships

About This Report

| Aspect               | Index | Description   | Page                                   | Note  |
|----------------------|-------|---|--|---|
| Report Profile       | G4-28 | Reporting period  | 79                                     |   |
|                      | G4-29 | Date of most recent previous report   | 79                                     |   |
|                      | G4-30 | Reporting cycle   | 79                                     |   |
|                      | G4-31 | Contact point for questions regarding the report or its contents  | 80                                     |   |
|                      | G4-32 | GRI Content Index for the chosen option ('in accordance' option) and the External Assurance Report  | 71-76                                  |   |
|                      | G4-33 | Organization's policy and current practice with regard to the External Assurance Report   | 71                                     |   |
|                      | G4-34 | Governance structure of the organization, including committees of the highest governance body and any committees responsible for decision-making on economic, environmental and social impacts  | 16, 19, 26                             |   |
|                      | G4-35 | Process for delegating authority for economic, environmental and social topics from the highest governance body to senior executives and other employees  | 19                                     |   |
|                      | G4-36 | Whether the organization has appointed an executive-level position or positions with responsibility for economic, environmental and social topics   | 19                                     |   |
|                      | G4-37 | Processes for consultation between stakeholders and the highest governance body on economic, environmental and social topics; and if consultation is delegated, describe to whom and any feedback processes to the highest governance body          | 19, 26-27                              |   |
| Governance           | G4-38 | Composition of the highest governance body and its committees   | 26-27                                  |   |
|                      | G4-39 | Whether the Chair of the highest governance body is also an executive officer   | 26-27                                  |   |
|                      | G4-40 | Nomination and selection processes for the highest governance body and its committees, and the criteria used  | 26-27                                  |   |
|                      | G4-41 | Processes for the highest governance body to ensure conflicts of interest are avoided and managed   | 26-27                                  |   |
|                      | G4-42 | Highest governance body's and senior executives' roles in the development, approval, and updating of the organization's purpose, value or mission statements, strategies, policies, and goals related to economic, environmental and social impacts | 19                                     |   |
|                      | G4-43 | Measures taken to develop and enhance the highest governance body's collective knowledge of economic, environmental and social topics   | 19, 26-27                              |   |
|                      | G4-44 | Actions taken in response to evaluation of the highest governance body's performance with respect to governance of economic, environmental and social topics  | 19, 26-27                              |   |
|                      | G4-45 | Highest governance body's role in the identification and management of economic, environmental and social impacts, risks, and opportunities   | 19, 26-27                              |   |
|                      | G4-46 | Highest governance body's role in reviewing the effectiveness of the organization's risk management processes for economic, environmental and social topics   | 19, 26-27                              |   |
|                      | G4-47 | Frequency of the highest governance body's review of economic, environmental and social impacts, risks, and opportunities   | 19, 26-27                              |   |
|                      | G4-48 | Highest committee or position that formally reviews and approves the organization's sustainability report and ensures that all material Aspects are covered   | 19, 26-27                              |   |
|                      | G4-49 | Process for communicating critical concerns to the highest governance body  | 27, P. 280-281 in 2017 Business Report |   |
|                      | G4-50 | Nature and total number of critical concerns that were communicated to the highest governance body and the mechanism used to address and resolve them   | 27, P. 281-282 in 2017 Business Report |   |
|                      | G4-51 | Remuneration policies for the highest governance body and senior executives   | 27, P. 307-308 in 2017 Business Report |   |
| Ethics and Integrity | G4-54 | Ratio of the annual total compensation for the organization's highest-paid individual in each country of significant operations to the median annual total compensation for all employees in the same country                                       | 27                                     |   |
|                      | G4-56 | Organization's codes of conduct and codes of ethics   | 29, Disclosed at the company website   | <a href="http://www.skhynix.com/kor/sustain/ethicsManage.jsp">http://www.skhynix.com/kor/sustain/ethicsManage.jsp</a> |
|                      | G4-57 | Internal and external mechanisms for seeking advice on ethical and lawful behavior, and matters related to organizational integrity, such as helplines or advice lines  | 29-31                                  |   |
|                      | G4-58 | Internal and external mechanisms for reporting concerns about unethical or unlawful behavior, and matters related to organizational integrity   | 29-31                                  |   |

**ABOUT US**

SK hynix's NEW GROWTH STRATEGY

SUSTAINABILITY

FOCUS AREA

PERFORMANCE

**APPENDIX**

Global Network

Financial Highlights &amp; Independent Auditors' Report

Greenhouse Gas Verification Report

Third Party's Assurance Statement

**GRI Index**

UN Global Compact

Awards, Recognition and Association Memberships

About This Report

**Specific Standard Disclosures**

| Aspect                    | Index   | Description   | Page                              | Note  |
|---------------------------|---------|---|-----------------------------------|---|
| <b>ECONOMIC</b>           |         |   |                                   |   |
|                           | G4-EC1  | Direct economic value generated and distributed   | 69                                |   |
| Economic Performance      | G4-EC2  | Financial implications and other risks and opportunities for the organization's activities due to climate change  | 42                                |   |
|                           | G4-EC3  | Coverage of the organization's defined benefit plan obligations   | P. 58, 82 in 2017 Business Report |   |
| Market Presence           | G4-EC5  | Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation  | 39                                |   |
| Indirect Economic Impacts | G4-EC7  | Development and impact of infrastructure investments and services supported   | 14-15, 55-56                      |   |
|                           | G4-EC8  | Significant indirect economic impacts, including the extent of impacts  | 14-15                             |   |
| Procurement Practices     | G4-EC9  | Proportion of spending on local suppliers at significant locations of operation   | 50                                |   |
| <b>ENVIRONMENTAL</b>      |         |   |                                   |   |
| Materials                 | G4-EN1  | Materials used by weight or volume  | 59                                |   |
|                           | G4-EN2  | Percentage of materials used that are recycled input materials  | 59                                |   |
|                           | G4-EN3  | Energy consumption within the organization  | 58                                |   |
|                           | G4-EN4  | Energy consumption outside of the organization  | 58                                |   |
| Energy                    | G4-EN5  | Energy intensity  | 58                                |   |
|                           | G4-EN6  | Reduction of energy consumption   | 43                                |   |
|                           | G4-EN7  | Reductions in energy requirements of products and services  | 44                                |   |
|                           | G4-EN8  | Total water withdrawal by source  | 60                                |   |
| Water                     | G4-EN9  | Water sources significantly affected by withdrawal of water   | 47                                |   |
|                           | G4-EN10 | Percentage and total volume of water recycled and reused  | 60                                |   |
|                           | G4-EN15 | Direct greenhouse gas (GHG) emissions (Scope 1)   | 58                                |   |
|                           | G4-EN16 | Indirect greenhouse gas (GHG) emissions (Scope 2)   | 58                                |   |
|                           | G4-EN17 | Other indirect greenhouse gas (GHG) emissions (Scope 3)   | 58                                |   |
| Emissions                 | G4-EN18 | Greenhouse gas (GHG) emissions intensity  | 58                                |   |
|                           | G4-EN19 | Reduction of greenhouse gas (GHG) emissions   | 43                                |   |
|                           | G4-EN21 | NOx, SOx and other significant air emissions  | 61                                |   |
|                           | G4-EN22 | Total water discharge by quality and destination  | 60                                |   |
|                           | G4-EN23 | Total weight of waste by type and disposal method   | 59                                |   |
|                           | G4-EN24 | Total number and volume of significant spills   | No significant spills occurred    |   |
| Effluents and Waste       | G4-EN25 | Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention2 Annex I, II, III, and VIII, and percentage of transported waste shipped internationally | -                                 | Comply with international standards with regards to international transportation and treatment of hazardous waste |
|                           | G4-EN26 | Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the organization's discharges of water and runoff                                     | 47                                |   |

**ABOUT US****SK hynix's NEW GROWTH STRATEGY****SUSTAINABILITY****FOCUS AREA****PERFORMANCE****APPENDIX**

Global Network

Financial Highlights & Independent  
Auditors' Report

Greenhouse Gas Verification Report

Third Party's Assurance Statement

**GRI Index**

UN Global Compact

Awards, Recognition and Association  
Memberships

About This Report

| <b>Aspect</b>                                    | <b>Index</b> | <b>Description</b>   | <b>Page</b>                        | <b>Note</b> |
|--|--------------|--|------------------------------------|-------------|
| Products and Services                            | G4-EN27      | Extent of impact mitigation of environmental impacts of products and services  | 20, 44                             |             |
| Compliance                                       | G4-EN29      | Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations  | P. 339-340 in 2017 Business Report |             |
| Overall  | G4-EN31      | Total environmental protection expenditures and investments by type  | 33                                 |             |
| Supplier   | G4-EN32      | Percentage of new suppliers that were screened using environmental criteria  | 35, 53                             |             |
| Environmental Assessment                         | G4-EN33      | Significant actual and potential negative environmental impacts in the supply chain and actions taken  | 35, 53                             |             |
| <b>SOCIAL</b>                                    |              |  |                                    |             |
| <b>Labor Practices and Decent Work</b>           |              |  |                                    |             |
|  | G4-LA1       | Total number and rates of new employee hires and employee turnover by age group, gender and region   | 62                                 |             |
| Employment                                       | G4-LA2       | Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation  | 39                                 |             |
|  | G4-LA3       | Return to work and retention rates after parental leave, by gender   | 39                                 |             |
|  | G4-LA5       | Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs                       | 40                                 |             |
| Occupational Health and Safety                   | G4-LA6       | Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender  | 61                                 |             |
|  | G4-LA9       | Average hours of training per year per employee by gender, and by employee category  | 63                                 |             |
| Training and Education                           | G4-LA11      | Percentage of employees receiving regular performance and career development reviews, by gender and by employee category   | 64                                 |             |
|  | G4-LA12      | Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity                         | 38                                 |             |
| Equal Remuneration for Women and Men             | G4-LA13      | Ratio of basic salary and remuneration of women to men   | 39, P. 306 in 2017 Business Report |             |
| Supplier Assessment for Labor Practices          | G4-LA14      | Percentage of new suppliers that were screened using labor practices criteria  | 39, 53                             |             |
|  | G4-LA15      | Significant actual and potential negative impacts for labor practices in the supply chain and actions taken  | 39, 53                             |             |
| Labor Practices Grievance Mechanisms             | G4-LA16      | Number of grievances about labor practices filed, addressed, and resolved through formal grievance mechanisms  | 29                                 |             |
| <b>Human Rights</b>                              |              |  |                                    |             |
| <b>Investment</b>                                |              |  |                                    |             |
| Investment                                       | G4-HR2       | Total hours of employee training on human rights policies or procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained              | 30, 40                             |             |
| Non-discrimination                               | G4-HR3       | Total number of incidents of discrimination and corrective actions taken   | 29                                 |             |
| Freedom of Association and Collective Bargaining | G4-HR4       | Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and measures taken to support these rights | 40                                 |             |
| Child Labor                                      | G4-HR5       | Operations and suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor                                | 39                                 |             |
| Forced or Compulsory Labor                       | G4-HR6       | Operations and suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of forced or compulsory labor   | 39                                 |             |
| Security Practices                               | G4-HR7       | Percentage of security personnel trained in the organization's human rights policies or procedures that are relevant to operations   | 40                                 |             |
| Assessment                                       | G4-HR9       | Total number and percentage of operations that have been subject to human rights reviews or impact assessments   | 39                                 |             |
| Supplier   | G4-HR10      | Percentage of new suppliers that were screened using human rights criteria   | 39, 53                             |             |
| Human Rights Assessment                          | G4-HR11      | Significant actual and potential negative human rights impacts in the supply chain and actions taken   | 53                                 |             |
| Human Rights Grievance Mechanisms                | G4-HR12      | Number of grievances about human rights impacts filed, addressed, and resolved through formal grievance mechanisms   | 29                                 |             |

**ABOUT US**

SK hynix's NEW GROWTH STRATEGY

SUSTAINABILITY

FOCUS AREA

PERFORMANCE

**APPENDIX**

Global Network

Financial Highlights &amp; Independent Auditors' Report

Greenhouse Gas Verification Report

Third Party's Assurance Statement

**GRI Index**

UN Global Compact

Awards, Recognition and Association Memberships

About This Report

| Aspect                                      | Index   | Description   | Page                               | Note                            |
|---|---------|---|------------------------------------|---------------------------------|
| <b>Local Communities</b>                    |         |   |                                    |                                 |
| Local Communities                           | G4-SO1  | Percentage of operations with implemented local community engagement, impact assessments, and development programs  | 55-56                              |                                 |
|   | G4-SO2  | Operations with significant actual and potential negative impacts on local communities  | 55-56                              |                                 |
| Anti-corruption                             | G4-SO4  | Communication and training on anti-corruption policies and procedures   | 31                                 |                                 |
|   | G4-SO5  | Confirmed incidents of corruption and actions taken   | 29                                 |                                 |
| Compliance                                  | G4-SO8  | Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations   | P. 339-340 in 2017 Business Report |                                 |
| Supplier Assessment for Impacts on Society  | G4-SO9  | Percentage of new suppliers that were screened using criteria for impacts on society  | 53                                 |                                 |
|   | G4-SO10 | Significant actual and potential negative impacts on society in the supply chain and actions taken  | 53                                 |                                 |
| Grievance Mechanisms for Impacts on Society | G4-SO11 | Number of grievances about impacts on society filed, addressed, and resolved through formal grievance mechanisms  | 29                                 |                                 |
| <b>Product Responsibility</b>               |         |   |                                    |                                 |
| Customer Health and Safety                  | G4-PR2  | Total number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their life cycle, by type of outcomes   | P. 339-340 in 2017 Business Report | None of non-compliance reported |
|   | G4-PR3  | Type of product and service information required by the organization's procedures for product and service information and labeling, and percentage of significant product and service categories subject to such information requirements | 44                                 |                                 |
| Product and Service Labeling                | G4-PR4  | Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes   | P. 339-340 in 2017 Business Report | None of non-compliance reported |
|   | G4-PR5  | Results of surveys measuring customer satisfaction  | 65                                 |                                 |
|   | G4-PR6  | Sale of banned or disputed products   | -                                  | None                            |
| Marketing Communications                    | G4-PR7  | Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by type of outcomes  | P. 339-340 in 2017 Business Report | None of non-compliance reported |
| Customer Privacy                            | G4-PR8  | Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data   | P. 339-340 in 2017 Business Report | None of non-compliance reported |

**ABOUT US**

SK hynix's NEW GROWTH STRATEGY

SUSTAINABILITY

FOCUS AREA

PERFORMANCE

**APPENDIX**

Global Network

Financial Highlights & Independent  
Auditors' Report

Greenhouse Gas Verification Report

Third Party's Assurance Statement

GRI Index

**UN Global Compact**

Awards, Recognition and Association

Memberships

About This Report

# UN GLOBAL COMPACT



SK hynix has been complying with the ten principles of the UN Global Compact in the areas of human rights, labor, the environment and anti-corruption since joining the initiative in 2009.

| Classification | Principle  | Reporting Contents  | Page      |
|----------------|--|---|-----------|
| Human Rights   | Principle 1. Businesses should support and respect the protection of internationally proclaimed human rights                         | <ul style="list-style-type: none"> <li>Respect for human rights and improvement to work environment:<br/>Human rights and labor policy</li> </ul>   | 38        |
|                | Principle 2. Businesses should ensure they are not complicit in human rights abuses  | <ul style="list-style-type: none"> <li>Respect for human rights and improvement to work environment:<br/>Management of impacts on human rights and labor at worksites</li> <li>Respect for human rights and improvement to work environment:<br/>Human rights education and reporting channel</li> <li>Win-win cooperation: Management of sustainable supply chain</li> </ul> | 39-40, 53 |
|                | Principle 3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining | <ul style="list-style-type: none"> <li>Respect for human rights and improvement to work environment:<br/>Labor-management communication</li> </ul>  | 40        |
|                | Principle 4. Businesses should uphold the elimination of all forms of forced and compulsory labor                                    | <ul style="list-style-type: none"> <li>Respect for human rights and improvement to work environment:<br/>Human rights and labor policy</li> <li>Win-win cooperation: Management of sustainable supply chain</li> </ul>  | 38, 53    |
|                | Principle 5. Businesses should uphold the effective abolition of child labor   | <ul style="list-style-type: none"> <li>Respect for human rights and improvement to work environment:<br/>Human rights and labor policy</li> <li>Win-win cooperation: Management of sustainable supply chain</li> </ul>  | 38, 53    |
|                | Principle 6. Businesses should uphold the elimination of discrimination in respect of employment and occupation                      | <ul style="list-style-type: none"> <li>Respect for human rights and improvement to work environment:<br/>Human rights and labor policy</li> <li>Respect for human rights and improvement to work environment:<br/>Respect for diversity, reasonable work environment</li> </ul>   | 38-39     |
|                | Principle 7. Businesses should support a precautionary approach to environmental challenges  | <ul style="list-style-type: none"> <li>Climate change response strategy</li> <li>Minimization of environmental impacts</li> </ul>   | 41-48     |
|                | Principle 8. Businesses should undertake initiatives to promote greater environmental responsibility                                 | <ul style="list-style-type: none"> <li>Climate change response strategy</li> <li>Minimization of environmental impacts</li> </ul>   | 41-48     |
|                | Principle 9. Businesses should encourage the development and diffusion of environmentally friendly technologies                      | <ul style="list-style-type: none"> <li>Climate change response strategy: Product responsibility</li> </ul>  | 44        |
|                | Principle 10. Businesses should work against corruption in all its forms, including extortion and bribery                            | <ul style="list-style-type: none"> <li>Transparent management: Ethical management, Compliance management</li> </ul>   | 29-31     |

## ABOUT US

SK hynix's NEW GROWTH STRATEGY

SUSTAINABILITY

FOCUS AREA

PERFORMANCE

## APPENDIX

Global Network

Financial Highlights &amp; Independent Auditors' Report

Greenhouse Gas Verification Report

Third Party's Assurance Statement

GRI Index

UN Global Compact

## Awards, Recognition and Association Memberships

About This Report

## AWARDS, RECOGNITION AND ASSOCIATION MEMBERSHIPS

## Awards in 2017

| Awards   | Organization                                 | Awardee & Title               | Date  |
|--|--|-------------------------------|---|
| Korea's Engineer Award   | Ministry of Science, ICT and Future Planning | Director, Ju Jae-wook         | Minister Award May 2018                         |
| Merit for Trade Day  | Ministry of Trade, Industry and Energy       | Vice President, Kim Jung-ho   | Order of Merit Dec. 5, 2017                     |
| Merit for Trade Day  | Ministry of Trade, Industry and Energy       | Engineer, Lee Gwang-moon      | Minister Award Dec. 5, 2017                     |
| National Quality Award   | Ministry of Trade, Industry and Energy       | Vice President, Park Chul-gyu | Presidential Citation Nov. 8, 2017              |
| National Quality Award   | Ministry of Trade, Industry and Energy       | Director, Kim Sung-ho         | Minister Award Nov. 8, 2017                     |
| National Quality Award   | Ministry of Trade, Industry and Energy       | Engineer, Lim Jin-su          | Prime Minister Award Nov. 8, 2017               |
| Semiconductor Industry Award   | Ministry of Trade, Industry and Energy       | President, Lee Seok-hee       | Industrial Order of Merit Oct. 26, 2017         |
| Semiconductor Industry Award   | Ministry of Trade, Industry and Energy       | Director, Han Gyu-seok        | Minister Award Oct. 26, 2017                    |
| Semiconductor Industry Award   | Ministry of Trade, Industry and Energy       | Director, Park Chan-ha        | Minister Award Oct. 26, 2017                    |
| Merit for Invention Promotion on the Invention Day                   | Korean Intellectual Property Office          | Director, Lee Ki-hong         | Presidential Citation Jun. 14, 2017             |
| Merit for Science Technology Promotion on the Science Day            | Ministry of Science, ICT and Future Planning | Director, Lee Geun-il         | Minister Award Apr. 27, 2017                    |
| Merit for Science Technology Promotion on the Science Day            | Ministry of Science, ICT and Future Planning | Director, Kim Deok-ju         | Minister Award Apr. 27, 2017                    |
| Government Award for Science Technology Promotion on the Science Day | Ministry of Science, ICT and Future Planning | Vice President, Dong-gyu Lim  | Science Technology Order of Merit Apr. 21, 2017 |
| Tax Tower on the Taxpayers' Day                                      | Ministry of Strategy and Finance             | Group                         | Mar. 3, 2017                                    |

## Association Memberships

SK hynix has joined hands with various industry associations and non-profit groups to fulfill corporate social responsibilities and enhance social value. In 2017, the company spent KRW 1.56 billion on associations and non-profit groups.

| Classification | Association   |
|----------------|---|
| Marketing      | SEMI (Semiconductor Equipment and Materials Institute, Inc)   |
| Production     | The National Quality Award Winners Council, Korea Standards Association (Icheon and Cheongju), Korea Occupational Hygiene Association, Korea Chemicals Management Association, Chungbuk Association of Environmental and Engineering, Chungbuk Branch of Environment Preservation Association   |
| Research       | Korea Invention Promotion Association, Korea Intellectual Property Association, The Institute of Semiconductor Test of Korea, JEDEC (Joint Electron Device Engineering Council), UFSA (Universal Flash Storage Association), SATA-IO (Serial ATA International Organization), TCG (Trusted Computing Group), PCI-SIG (Peripheral Component interconnect Special interest group), SNIA (The Storage Networking Industry Association), T13, NVMe, T10, UNH-IOL, KMEPS (The Korean Microelectronics and Packaging Society), Korea Industrial Technology Association, MIPI (Mobile industry processor interface), Consortium of Semiconductor Advanced Research, Institute of Electronics and Information Engineers, Si2 (Silicon Integration Initiative), SiWEDS (Silicon Wafer Engineering and Defect Science), VCCI (Voluntary Control Council for Interference), National Academy of Engineering of Korea, Gen-Z Consortium, ADEPT, Open CAPI, GCC (Green Computing Consortium), CCIX (Cache Coherent Interconnect For Accelerators), Open Power Foundation                         |
| Support        | Icheon Chamber of Commerce and Industry, Korea Electric Engineers Association (Icheon and Cheongju), Korea Fire Safety Association (Icheon), Korea Industrial Safety Association (Seongnam Branch), Cheongju Chamber of Commerce and Industry, Korea Fire Safety Association (Cheongju), Korea Industrial Safety Association (Chungbuk Branch), Korean Association Occupational Health Nurses, Korea Economic Research Institute, Korea Semiconductor Industry Association  |
| Support        | Korea AEO (Authorized Economic Operator) Association, Korean Customs Logistics Association, KILA (Korea Integrated Logistics Association), Korea Forum of Chief Information Officers, Korea International Trade Association, Korean Association for Industrial Technology Security, Korea Employers Federation, Emergency Planning Team of MOTIE, Korea Fair Competition Federation, WSTS (World Semiconductor Trade Statistics), Institute for Industrial Policy Studies Yoon-Kyung SM Forum, RBA, UNGC (UN Global Compact) Korea Network, Korea Listed Companies Association, Korea IR Service, Chungbuk Employers Federation, Chungcheong Green Business Council, GSA (Global Semiconductor Alliance), Gyeonggi Employers Federation, UN SDGs Association, Institute of Internal Auditors, Korea Quality Master Association, BISD (Business Institute for Sustainable Development), Chungcheong Council of Chemical Safety Community, Korea Society for Engineering Education, Korean Society For Quality Management, Korea Business Council for Sustainable Development (KBCSD) |

**ABOUT US**

SK hynix's NEW GROWTH STRATEGY

SUSTAINABILITY

FOCUS AREA

PERFORMANCE

**APPENDIX**

Global Network

Financial Highlights & Independent  
Auditors' Report

Greenhouse Gas Verification Report

Third Party's Assurance Statement

GRI Index

UN Global Compact

Awards, Recognition and Association  
Memberships**About This Report**

# ABOUT THIS REPORT

**Overview**

SK hynix has been publishing its sustainability reports annually since 2008 to share its vision, performances and activities, in relation to creating financial value as well as social value, with its stakeholders. Marking 11th sustainability report of SK Hynix, the 2018 Sustainability Report was created together with relevant departments across the company, the Sustainability Management Group performing a central role. The Sustainability Management Committee under the company's BOD gave final approval for the issuance of this report in June 2018.

Based on the outcome of a materiality test, SK hynix created this report to consist of the Focus Area section, which covers core issues with high priority, and the Performance section, which specifies quantitative and qualitative performance in relation to other issues. This structure enables stakeholders to more clearly ascertain required information.

**Reporting Principle**

This report was prepared in accordance with the Core Option of the Global Reporting Initiative (GRI) G4 guideline as well as the Communication on Progress (COP) of the UN Global Compact (UNG). Financial performance information was drawn up in accordance with the Korean International Financial Reporting Standards (K-IFRS) by consolidating the performance of SK hynix and its subsidiaries.

**Reporting Period**

This report covers SK hynix's social value creation activities and performances from January 1 through December 31, 2017. For some important qualitative results, the report includes recent data. To enable an understanding of development in our quantitative results, time-series data for the last three fiscal years, from 2015 to 2017, is provided.

This report is available to be downloaded on SK hynix's website at [www.skhynix.com](http://www.skhynix.com) in June 2018. The next sustainability report is planned to be provided in the first half of 2019.

**Reporting Scope**

The reporting scope includes all production sites in Korea – Icheon Campus, Cheongju Campus, Seongnam Office, etc. – as well as all overseas production sites – Wuxi Campus and Chongqing P&T in China. Information with a different scope is specified separately in the report.

**International Initiatives and Partnership**

SK hynix takes part in the United Nations Global Compact (UNG), UN Sustainable Development Goals (UN SDGs), Carbon Disclosure Project (CDP), CDP Water, and Responsible Business Alliance (RBA), with an aim to contribute to enhancing social values.



## Those who assisted in the production of the report

---

Kim Nam-ho, Kim Min-young, Kim Sang-il, Kim Sun-min, Kim Young-ki, Kim Jong-hyuk, Park Sun-rye, Park Jae-heon, Suh Yeon-su, Son Young-ae, Song Hang-yeon, Uh Jeong-wook, Um Yu-mi, Lee Kun-woong, Lee Sung-je, Lee In-ji, Lee Cheong-a, Jang Seon-jae, Jeon Jong-min, Jeong Deok-hwa, Jeong Yo-ri, Cha ju-hyeon, Choi Rac-shin, Choi Dae-kyeong, Choi Seong-ho, Choi Jin, Tae Ha-neul, Huh Hyeon-jeong, Hwang In-tae, Qi Hui Jun, Pan Li Hong, Cai Hai Yan