



SK Holdings Co., Ltd.

Interim condensed separate financial statements
for the nine months ended September 30, 2019 and 2018
with the independent auditor's review report

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Report on review of interim condensed separate financial statements

The Shareholders and Board of Directors SK Holdings Co., Ltd.

We have reviewed the accompanying interim condensed separate financial statements of SK Holdings Co., Ltd. (the "Company"), which comprise the interim condensed separate statement of financial position as of September 30, 2019, and the interim condensed separate statements of comprehensive income for the three months and nine months ended September 30, 2019 and 2018, interim condensed separate statements of changes in equity and interim condensed separate statements of cash flows for the nine months then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the interim condensed separate financial statements

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

Auditors' responsibility

Our responsibility is to express a conclusion on these interim condensed separate financial statements based on our review.

We conducted our review in accordance with the review standard for interim financial statements in the Republic of Korea. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Korean Auditing Standards (KGAAS). Consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed separate financial statements presented in Korean won are not presented fairly, in all material respects, in accordance with KIFRS 1034 *Interim Financial Reporting*.

Other matter

We have audited the separate statement of financial position of the Company as of December 31, 2018, and the related separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended in accordance with KGAAS (not presented herein), and our report dated March 12, 2019 expressed an unqualified opinion thereon. The accompanying separate statement of financial position as of December 31, 2018, presented for comparative purposes is not different, in all material respects, from the above audited separate statement of financial position.

Ernst & Young Han Young

November 14, 2019

This review report is effective as of November 14, 2019, the independent auditor's review report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the date of the independent auditor's review report to the time this review report is used. Such events and circumstances could significantly affect the accompanying interim condensed separate financial statements and may result in modifications to this review report.

SK Holdings Co., Ltd.

Interim condensed separate financial statements
for the nine months ended September 30, 2019 and 2018

“The accompanying interim condensed separate financial statements, including all footnote disclosures,
have been prepared by, and are the responsibility of the Company.”

Tae-Won Chey and Dong-Hyun Jang
Chief Executive Officers
SK Holdings Co., Ltd.

SK Holdings Co., Ltd.
Interim condensed separate statements of financial position
as of September 30, 2019 and December 31, 2018

(Korean won in millions and U.S. dollar in thousands)

	Notes	Korean won		Translation into U.S. dollar (Note 2)	
		September 30, 2019 (Unaudited)	December 31, 2018	September 30, 2019 (Unaudited)	December 31, 2018
Assets					
Current assets:					
Cash and cash equivalents	4,31	₩ 104,090	₩ 123,858	\$ 86,648	\$ 103,103
Short-term financial instruments	4,30	226,516	128,491	188,559	106,960
Trade receivables	4,5,20,26,30	473,468	492,226	394,130	409,744
Other receivables	4,26,30,31	3,649	1,858	3,038	1,547
Inventories	6	233	172	194	143
Other current assets	4,17,18,30	83,490	20,612	69,500	17,158
Total current assets		<u>891,446</u>	<u>767,217</u>	<u>742,069</u>	<u>638,655</u>
Non-current assets:					
Long-term investment securities	4,7,30,31	499,604	395,085	415,886	328,881
Investments in subsidiaries	8,31	17,293,084	16,605,095	14,395,308	13,822,605
Investments in associates and joint ventures	9	814,176	802,807	677,746	668,282
Property, plant and equipment	10	494,524	494,803	411,657	411,890
Right-of-use assets	11	46,901	-	39,042	-
Investment property	12	8,033	8,353	6,687	6,953
Intangible assets	13	2,118,663	2,105,698	1,763,642	1,752,849
Other non-current assets	4,17,18,26,29,30	210,504	197,610	175,230	164,497
Total non-current assets		<u>21,485,489</u>	<u>20,609,451</u>	<u>17,885,198</u>	<u>17,155,957</u>
Total assets		<u>₩ 22,376,935</u>	<u>₩ 21,376,668</u>	<u>\$ 18,627,267</u>	<u>\$ 17,794,612</u>
Liabilities and equity					
Liabilities					
Current liabilities:					
Short-term borrowings	4,14,30	₩ 760,000	₩ 910,000	\$ 632,648	\$ 757,513
Trade payables	4,26,30	121,661	116,507	101,274	96,984
Other payables	4,26,30	88,705	98,969	73,841	82,385
Accrued expenses	4,30	59,608	67,400	49,620	56,106
Provisions	15	4,054	3,204	3,375	2,667
Current portion of long-term debt	4,14,30	1,091,881	1,083,112	908,916	901,617
Other current liabilities	4,11,17,18,20,30	249,435	225,141	207,638	187,414
Total current liabilities		<u>2,375,344</u>	<u>2,504,333</u>	<u>1,977,312</u>	<u>2,084,686</u>
Non-current liabilities:					
Bonds payable	4,14,30	5,245,633	5,134,589	4,366,630	4,274,194
Defined benefit liabilities	16	99,928	44,403	83,183	36,962
Provisions	15	1,882	-	1,567	-
Deferred income tax liabilities	24	265,491	268,728	221,003	223,698
Other non-current liabilities	4,11,17,18,29,30	289,465	256,479	240,960	213,500
Total non-current liabilities		<u>5,902,399</u>	<u>5,704,199</u>	<u>4,913,343</u>	<u>4,748,354</u>
Total liabilities		<u>8,277,743</u>	<u>8,208,532</u>	<u>6,890,655</u>	<u>6,833,040</u>
Equity:					
Issued capital	1,19	15,385	15,385	12,807	12,807
Other paid-in capital	19,31	4,412,031	4,411,253	3,672,714	3,672,066
Retained earnings	19	9,673,805	8,743,527	8,052,780	7,278,388
Other components of equity	19	(2,029)	(2,029)	(1,689)	(1,689)
Total equity		<u>14,099,192</u>	<u>13,168,136</u>	<u>11,736,612</u>	<u>10,961,572</u>
Total liabilities and equity		<u>₩ 22,376,935</u>	<u>₩ 21,376,668</u>	<u>\$ 18,627,267</u>	<u>\$ 17,794,612</u>

The accompanying notes are an integral part of the interim condensed separate financial statements.

SK Holdings Co., Ltd.

Interim condensed separate statements of comprehensive income
for the three months and nine months ended September 30, 2019 and 2018

(Korean won in millions and U.S. dollar in thousands, except earnings per share)

	Notes	Korean won			
		September 30, 2019 (Unaudited)		September 30, 2018 (Unaudited)	
		Three months	Nine months	Three months	Nine months
Operating revenue	20, 26	₩ 571,451	₩ 2,679,054	₩ 545,154	₩ 2,152,007
Operating expenses	21, 22, 26	428,685	1,238,087	413,560	1,136,756
Operating income		142,766	1,440,967	131,594	1,015,251
Finance income	23	3,071	11,290	22,893	30,691
Finance costs	23	44,697	140,107	43,168	136,070
Other non-operating income	23	476	2,113	416	200,663
Other non-operating expenses	23	3,375	15,831	3,964	23,844
Profit before income tax expense		98,241	1,298,432	107,771	1,086,691
Income tax expense from continuing operations	24	(33,618)	70,832	22,208	137,154
Profit for the period from continuing operations		131,859	1,227,600	85,563	949,537
Profit from discontinued operation	27	-	-	72	30,937
Profit for the period		<u>₩ 131,859</u>	<u>₩ 1,227,600</u>	<u>₩ 85,635</u>	<u>₩ 980,474</u>
Other comprehensive income:					
Items that will not be reclassified to profit or loss in subsequent periods:					
Remeasurement loss on defined benefit plans	16	(1,040)	(20,596)	(2,487)	(7,813)
Loss on financial assets at FVOCI	7	-	-	(1)	(1)
		<u>(1,040)</u>	<u>(20,596)</u>	<u>(2,488)</u>	<u>(7,814)</u>
Total comprehensive income		<u>₩ 130,819</u>	<u>₩ 1,207,004</u>	<u>₩ 83,147</u>	<u>₩ 972,660</u>
Earnings per share (Korean won and U.S. dollar):	25				
Basic earnings per share		₩ 2,352	₩ 21,950	₩ 1,524	₩ 17,523
Basic earnings per share from continuing operations		2,352	21,950	1,522	16,969

The accompanying notes are an integral part of the interim condensed separate financial statements.

SK Holdings Co., Ltd.

Interim condensed separate statements of comprehensive income
for the three months and nine months ended September 30, 2019 and 2018 (cont'd)

(Korean won in millions and U.S. dollar in thousands, except earnings per share)

	Notes	Translation into U.S. dollar (Note 2)			
		September 30, 2019 (Unaudited)		September 30, 2018 (Unaudited)	
		Three months	Nine months	Three months	Nine months
Operating revenue	20, 26	\$ 475,694	\$ 2,230,129	\$ 453,803	\$ 1,791,398
Operating expenses	21, 22, 26	356,851	1,030,623	344,260	946,272
Operating income		118,843	1,199,506	109,543	845,126
Finance income	23	2,556	9,398	19,057	25,548
Finance costs	23	37,207	116,629	35,934	113,269
Other non-operating income	23	396	1,759	346	167,038
Other non-operating expenses	23	2,809	13,178	3,300	19,848
Profit before income tax expense		81,779	1,080,856	89,712	904,595
Income tax expense from continuing operations	24	(27,985)	58,963	18,487	114,171
Profit for the period from continuing operations		109,764	1,021,893	71,225	790,424
Profit from discontinued operation	27	-	-	60	25,753
Profit for the period		\$ 109,764	\$ 1,021,893	\$ 71,285	\$ 816,177
Other comprehensive income:					
Items that will not be reclassified to profit or loss in subsequent periods:					
Remeasurement loss on defined benefit plans	16	(866)	(17,145)	(2,070)	(6,503)
Loss on financial assets at FVOCI	7	-	-	(1)	(1)
		<u>(866)</u>	<u>(17,145)</u>	<u>(2,071)</u>	<u>(6,504)</u>
Total comprehensive income		\$ 108,898	\$ 1,004,748	\$ 69,214	\$ 809,673
Earnings per share (U.S. dollar)	25				
Basic earnings per share		\$ 1.96	\$ 18.27	\$ 1.27	\$ 14.59
Basic earnings per share from continuing operations		1.96	18.27	1.27	14.13

The accompanying notes are an integral part of the interim condensed separate financial statements.

SK Holdings Co., Ltd.
Interim condensed separate statements of changes in equity
for the nine months ended September 30, 2019 and 2018
(Korean won in millions)

	Issued capital	Other paid-in capital	Retained earnings	Other components of equity	Total equity
As of January 1, 2018	₩ 15,385	₩ 4,720,271	₩ 7,585,590	₩ 11,455	₩ 12,332,701
Effect of changes in accounting policies	-	-	1,156	(13,696)	(12,540)
Beginning balance after amendment	₩ 15,385	₩ 4,720,271	₩ 7,586,746	₩ (2,241)	₩ 12,320,161
Total comprehensive income:					
Profit for the period	-	-	980,474	-	980,474
Remeasurement loss on defined benefits plans	-	-	(7,813)	-	(7,813)
Loss on financial assets at FVOCI	-	-	-	(1)	(1)
Dividends	-	-	(281,971)	-	(281,971)
Business combination	-	(310,603)	-	-	(310,603)
Stock option	-	1,190	-	-	1,190
Acquisition of treasury shares	-	(1)	-	-	(1)
As of September 30, 2018 (Unaudited)	₩ 15,385	₩ 4,410,857	₩ 8,277,436	₩ (2,242)	₩ 12,701,436
As of January 1, 2019	₩ 15,385	₩ 4,411,253	₩ 8,743,527	₩ (2,029)	₩ 13,168,136
Effect of changes in accounting policies	-	-	5,246	-	5,246
Beginning balance after amendment	₩ 15,385	₩ 4,411,253	₩ 8,748,773	₩ (2,029)	₩ 13,173,382
Total comprehensive income:					
Profit for the period	-	-	1,227,600	-	1,227,600
Remeasurement loss on defined benefits plans	-	-	(20,596)	-	(20,596)
Dividends	-	-	(281,972)	-	(281,972)
Stock option	-	778	-	-	778
As of September 30, 2019 (Unaudited)	₩ 15,385	₩ 4,412,031	₩ 9,673,805	₩ (2,029)	₩ 14,099,192

(Continued)

SK Holdings Co., Ltd.
Interim condensed separate statements of changes in equity
for the nine months ended September 30, 2019 and 2018 (cont'd)
(U.S. dollar in thousands)

	Issued capital	Other paid-in capital	Retained earnings	Other components of equity	Total equity
As of January 1, 2018	\$ 12,807	\$ 3,929,302	\$ 6,314,484	\$ 9,536	\$ 10,266,129
Effect of changes in accounting policies	-	-	962	(11,401)	(10,439)
Beginning balance after amendment	<u>12,807</u>	<u>3,929,302</u>	<u>6,315,446</u>	<u>(1,865)</u>	<u>10,255,690</u>
Total comprehensive income:					
Profit for the period	-	-	816,177	-	816,177
Remeasurement loss on defined benefits plans	-	-	(6,504)	-	(6,504)
Dividends	-	-	(234,722)	-	(234,722)
Business combination	-	(258,556)	-	-	(258,556)
Stock option	-	991	-	-	991
Acquisition of treasury shares	-	(1)	-	-	(1)
As of September 30, 2018 (Unaudited)	<u>\$ 12,807</u>	<u>\$ 3,671,736</u>	<u>\$ 6,890,397</u>	<u>\$ (1,865)</u>	<u>\$ 10,573,075</u>
As of January 1, 2019	\$ 12,807	\$ 3,672,066	\$ 7,278,388	\$ (1,689)	\$ 10,961,572
Effect of changes in accounting policies	-	-	4,367	-	4,367
Beginning balance after amendment	<u>12,807</u>	<u>3,672,066</u>	<u>7,282,755</u>	<u>(1,689)</u>	<u>10,965,939</u>
Total comprehensive income:					
Profit for the period	-	-	1,021,893	-	1,021,893
Remeasurement loss on defined benefits plans	-	-	(17,145)	-	(17,145)
Dividends	-	-	(234,723)	-	(234,723)
Stock option	-	648	-	-	648
As of September 30, 2019 (Unaudited)	<u>\$ 12,807</u>	<u>\$ 3,672,714</u>	<u>\$ 8,052,780</u>	<u>\$ (1,689)</u>	<u>\$ 11,736,612</u>

The accompanying notes are an integral part of the interim condensed separate financial statements.

SK Holdings Co., Ltd.
Interim condensed separate statements of cash flows
for the nine months ended September 30, 2019 and 2018

(Korean won in millions and U.S. dollar in thousands)

	For the nine months ended September 30			
	Korean won		Translation into U.S. dollar (Note 2)	
	2019	2018	2019	2018
Notes	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Cash flows from operating activities:				
Profit for the period	₩ 1,227,600	₩ 980,474	\$ 1,021,893	\$ 816,177
Non-cash adjustments	28 (947,396)	(768,772)	(788,642)	(639,950)
Working capital adjustments	28 64,230	(33,234)	53,467	(27,665)
Interest received	4,391	4,660	3,655	3,879
Interest paid	(146,321)	(139,058)	(121,802)	(115,756)
Dividends received	1,247,460	829,215	1,038,425	690,265
Income taxes paid	(158,992)	(33,305)	(132,350)	(27,724)
Net cash flows provided by operating activities	1,290,972	839,980	1,074,646	699,226
Cash flows from investing activities:				
Net decrease (increase) in short-term and long-term financial instruments	(98,312)	11,296	(81,838)	9,403
Proceeds from disposal of long-term investment securities	2,371	45,957	1,974	38,256
Proceeds from disposal of investments in subsidiaries	-	223,726	-	186,237
Proceeds from disposal of investments in associates	-	7,069	-	5,884
Proceeds from disposal of property, plant and equipment	217	100	181	83
Proceeds from disposal of intangible assets	180	5,609	150	4,669
Acquisition of long-term investment securities	(105,814)	(91,302)	(88,083)	(76,003)
Acquisition of investments in subsidiaries	(687,989)	(1,050,961)	(572,704)	(874,853)
Acquisition of investments in associates	(11,427)	(126,813)	(9,512)	(105,563)
Acquisition of property, plant and equipment	(33,146)	(41,961)	(27,592)	(34,930)
Acquisition of intangible assets	(28,530)	(32,617)	(23,749)	(27,151)
Net decrease (increase) in guarantee deposits	152	(753)	127	(627)
Cash inflows from business combinations	-	187,970	-	156,472
Others	-	36	-	30
Net cash flows used in investing activities	(962,298)	(862,644)	(801,046)	(718,093)
Cash flows from financing activities:				
Net increase (decrease) in short-term borrowings	(150,000)	300,000	(124,865)	249,729
Issuance of bonds payable	956,111	966,074	795,897	804,190
Payment of dividends	(281,974)	(281,971)	(234,724)	(234,722)
Repayment of current portion of long-term debt	(830,000)	(710,000)	(690,918)	(591,026)
Decrease in lease liabilities	(42,996)	-	(35,791)	-
Net cash flows provided by (used in) financing activities	(348,859)	274,103	(290,401)	228,171
Net increase (decrease) in cash and cash equivalents	(20,185)	251,439	(16,801)	209,304
Net foreign exchange effects	417	(32)	346	(27)
Cash and cash equivalents at the beginning of the period	123,858	84,482	103,103	70,325
Cash and cash equivalents at the end of the period	₩ 104,090	₩ 335,889	\$ 86,648	\$ 279,602

The accompanying notes are an integral part of the interim condensed separate financial statements.

1. Corporate information

SK Holdings Co., Ltd. (the "Company") was established on April 13, 1991, and is engaged in providing systems integration, software design and development, information processing and consulting services, and is headquartered at 26, Jong-ro, Jongno-gu, Seoul. The Company's ordinary shares have been listed on the Korea Exchange since November 11, 2009.

Resulting from the acquisition of SK Holdings Co., Ltd. by SK C&C Co., Ltd. effective August 1, 2015, the Company added the investment business to its existing operations for the purpose of holding the securities of its subsidiaries. Furthermore, the Company changed its name to its current form as of the acquisition date.

As of September 30, 2019, the issued capital of the Company amounts to ₩15,385 million (including ₩113 million of preferred shares), and the major shareholders are Tae-won Chey, National Pension Service and Ki-won Choi, holding equity ownership of 18.44%, 8.28% and 6.85%, respectively.

2. Basis of preparation and summary of significant accounting policies

2.1 Basis of preparation

The Company prepares statutory interim condensed separate financial statements in the Korean language in accordance with KIFRS 1034 *Interim Financial Reporting* enacted by the *Act on External Audit of Stock Companies*. The accompanying interim condensed separate financial statements have been translated into English from the Korean language financial statements. In the event of any differences in interpreting the financial statements or the independent auditor's review report thereon, the Korean version, which used for regulatory reporting purposes, shall prevail.

The interim condensed separate financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual financial statements as of December 31, 2018.

The accompanying interim condensed separate financial statements are stated in Korean won, the currency of the country in which the Company is incorporated and operates. The translation of Korean won amounts into U.S. dollar amounts is included solely for the convenience of readers of the interim condensed separate financial statements and has been made at the rate of ₩1,201.30 to USD 1.00, the basic exchange rate in the Seoul Money Brokerage Service for cable transfers in Korean won on the last business day of the year ended September 30, 2019. Such translations into U.S. dollar should not be construed as representations that the Korean won amounts could be converted into U.S. dollar at that or any other rate.

Pursuant to KIFRS 1027, the interim condensed separate financial statements are accounted for, by parent, investor in an associate or a joint venture on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees.

2.2 Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed separate financial statements are consistent with those followed in the preparation of the Company's annual separate financial statements for the year ended December 31, 2018, except for the adoption of new standards and interpretations effective as of January 1, 2019.

2.2.1 New and revised KIFRSs adopted in the current period

The Company has applied amendments to KIFRS issued that are mandatorily effective for accounting periods beginning on or after January 1, 2019.

KIFRS 1019 - *Employee Benefits*

The amendments to KIFRS 1019 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income. The application of KIFRS 1019 has not had a significant impact on the Company's financial position or management performance.

KIFRS 1028 - *Investments in Associates and Joint Ventures*

The amendments clarify that an entity applies KIFRS 1109 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in KIFRS 1109 applies to such long-term interests. The amendments also clarified that, in applying KIFRS 1109, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying KIFRS 1028 Investments in Associates and Joint Ventures. The application of KIFRS 1028 has not had a significant impact on the Company's financial position or management performance.

KIFRS 1109 - *Financial Instruments*

Some pre-payable financial assets that involve negative (-) rewards have been amended to allow them to be measured at amortized cost and the effect of the modification should be recognized in FVPTL, if terms of the financial liability measured at amortized cost has been changed but not removed. The application of KIFRS 1109 has not had a significant impact on the Company's financial position or management performance.

2.2.1 New and revised KIFRSs adopted in the current period (cont'd)

KIFRS 1116 – Leases

KIFRS 1116 *Leases* replaces KIFRS 1017 *Leases*, KIFRS 2104 *Determining whether an Arrangement contains a Lease*, KIFRS 2015 *Operating Leases-Incentives* and KIFRS 2027 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under KIFRS 1116 is substantially unchanged from KIFRS 1017. Lessors will continue to classify leases as either operating or finance leases using similar principles as in KIFRS 1017. Therefore, KIFRS 1116 did not have an impact for leases where the Company is the lessor.

In relation to sale and leaseback transactions, a seller-lessee shall apply the requirements for determining when a performance obligation is satisfied in KIFRS 1115 to determine whether the transfer of an asset is accounted for as a sale of that asset. However, the Company shall not reassess sale and leaseback transactions entered into before the date of initial application.

The Company has applied KIFRS 1116 initially on January 1, 2019 by using the modified retrospective approach. Therefore, the cumulative effect of adopting KIFRS 1116 has recognized as an adjustment to the opening balance of retained earnings as of January 1, 2019 with no restatement of comparative information.

The Company elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying KIFRS 1017 and KIFRS 2104 at the date of initial application. The Company also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets')

The impacts on the separate financial statements from the initial adoption of KIFRS 1116 as of January 1, 2019 are as follows (Korean won in millions):

	<u>Adjustment</u>
Assets:	
Lease receivables	₩ 31,211
Right-of-use assets	67,785
Investment property	666
Long-term lease receivables	<u>39,914</u>
	<u>₩ 139,576</u>
Liabilities:	
Lease liabilities	₩ 58,645
Provisions	1,882
Long-term lease liabilities	<u>73,803</u>
	<u>₩ 134,330</u>
Equity:	
Retained Earnings	₩ 5,246

2.2.1 New and revised KIFRSs adopted in the current period (cont'd)

① Effects of initial application of IFRS 1116

The Company has lease contracts for various items of land and buildings, office, vehicles and so forth.

Before the adoption of KIFRS 1116, the Company classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Company; otherwise it was classified as an operating lease.

Finance leases were capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between finance costs and reduction of the lease liability.

In an operating lease, the leased property was not capitalized and the lease payments were recognized as an expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognized under advanced payments and other payables, respectively. Upon adoption of KIFRS 1116, the Company applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Company.

a. Leases previously classified as finance leases

The Company did not change the initial carrying amounts of recognized assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognized under KIFRS 1017). The requirements of KIFRS 1116 was applied to these leases from January 1, 2019.

b. Leases previously accounted for as operating leases

The Company recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognized based on the amount equal to the lease liabilities. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Company applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease

Meanwhile, as of January 1, 2019, the lease liability of ₩132,448 million is discounted amount of ₩136,086 million excluding short-term and small asset leases, as of December 31, 2018 by incremental borrowing rate. There are no further identified lease agreements and financial lease liabilities recognized at the prior period.

2.2.1 New and revised KIFRSs adopted in the current period (cont'd)

② Summary of new accounting policies

Set out below are the new accounting policies of the Company upon adoption of KIFRS 1116, which have been applied from the date of initial application:

a. Right-of-use assets

The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

b. Lease liabilities

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

c. Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases of buildings, vehicles, and so forth (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below \$5,000). Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

d. Significant judgment in determining the lease term of contracts with renewal options

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Company applies judgment in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

2.2.1 New and revised KIFRSs adopted in the current period (cont'd)

KIFRS 2123 - *Uncertainty over Income Tax Treatment*

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of KIFRS 1012 and does not apply to taxes or levies outside the scope of KIFRS 1012, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The Company has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The amendment has not had a significant impact on the Company's financial position or management performance.

2.2.2 New and revised KIFRSs issued, but not yet effective

The Company has no new and revised KIFRSs that have been issued, but are not yet effective for this accounting periods.

3. Significant accounting judgements, estimates and assumptions

When preparing the interim condensed separate financial statements, management is required to make judgments, estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses. Actual results may be different from those estimates.

Those accounting judgments made by management in the preparation of the interim condensed separate financial statements for the nine months ended September 30, 2019, are consistent with those followed in the preparation of the separate financial statements for the year ended December 31, 2018.

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4. Financial instruments

4.1 Financial assets

Details of financial assets as of September 30, 2019 and December 31, 2018 are as follows (Korean won in millions):

	September 30, 2019			
	Financial assets at FVTPL	Financial assets at FVOCI	Financial assets at amortized cost	Total
Current assets:				
Cash and cash equivalents	₩ 70,461	₩ -	₩ 33,629	₩ 104,090
Short-term financial instruments	176,616	-	49,900	226,516
Trade receivables (*1)	-	-	294,317	294,317
Other receivables	-	-	3,649	3,649
Accrued income	-	-	106	106
Guarantee deposits	-	-	3,526	3,526
Lease receivable	-	-	32,028	32,028
Derivative financial assets	106	-	-	106
	<u>247,183</u>	<u>-</u>	<u>417,155</u>	<u>664,338</u>
Non-current assets:				
Long-term financial instruments	-	-	306	306
Long-term investment securities	266,964	232,216	424	499,604
Long-term loans	-	-	397	397
Guarantee deposits	-	-	17,508	17,508
Long-term lease receivables	-	-	16,171	16,171
Derivative financial assets	175,993	-	-	175,993
	<u>442,957</u>	<u>232,216</u>	<u>34,806</u>	<u>709,979</u>
	<u>₩ 690,140</u>	<u>₩ 232,216</u>	<u>₩ 451,961</u>	<u>₩ 1,374,317</u>

(*1) Contract assets (unbilled receivables) amounting to ₩179,151 million as of September 30, 2019 are not included in the financial instruments.

	December 31, 2018			
	Financial assets at FVTPL	Financial assets at FVOCI	Financial assets at amortized cost	Total
Current assets:				
Cash and cash equivalents	₩ 73,491	₩ -	₩ 50,367	₩ 123,858
Short-term financial instruments	96,271	-	32,220	128,491
Trade receivables (*1)	-	-	354,128	354,128
Other receivables	-	-	1,858	1,858
Accrued income	-	-	118	118
Guarantee deposits	-	-	112	112
Derivative financial assets	34	-	-	34
	<u>169,796</u>	<u>-</u>	<u>438,803</u>	<u>608,599</u>
Non-current assets:				
Long-term financial instruments	-	-	19	19
Long-term investment securities	162,475	232,216	394	395,085
Long-term loans	-	-	397	397
Long-term guarantee deposits	-	-	21,074	21,074
Derivative financial assets	175,993	-	-	175,993
	<u>338,468</u>	<u>232,216</u>	<u>21,884</u>	<u>592,568</u>
	<u>₩ 508,264</u>	<u>₩ 232,216</u>	<u>₩ 460,687</u>	<u>₩ 1,201,167</u>

(*1) Contract assets (unbilled receivables) amounting to ₩138,098 million as of December 31, 2018 are not included in the financial instruments.

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4.2 Financial liabilities (cont'd)

Details of financial liabilities as of September 30, 2019 and December 31, 2018 are as follows (Korean won in millions):

	September 30, 2019		
	Financial liabilities at FVTPL	Other financial liabilities	Total
Current liabilities:			
Short-term borrowings	₩ -	₩ 760,000	₩ 760,000
Trade payables	-	121,661	121,661
Other payables	-	88,705	88,705
Accrued expenses	-	59,608	59,608
Current portion of long-term debt	-	1,091,881	1,091,881
Lease liabilities	-	56,801	56,801
Derivative financial liabilities	229	-	229
	<u>229</u>	<u>2,178,656</u>	<u>2,178,885</u>
Non-current liabilities:			
Bonds payable	-	5,245,633	5,245,633
Leasehold deposits received	-	5,578	5,578
Long-term lease liabilities	-	33,542	33,542
Derivative financial liabilities	240,198	-	240,198
	<u>240,198</u>	<u>5,284,753</u>	<u>5,524,951</u>
	<u>₩ 240,427</u>	<u>₩ 7,463,409</u>	<u>₩ 7,703,836</u>
December 31, 2018			
	Financial liabilities at FVTPL	Other financial liabilities	Total
Current liabilities:			
Short-term borrowings	₩ -	₩ 910,000	₩ 910,000
Trade payables	-	116,507	116,507
Other payables	-	98,969	98,969
Accrued expenses	-	67,400	67,400
Current portion of long-term debt	-	1,083,112	1,083,112
Derivative financial liabilities	146	-	146
	<u>146</u>	<u>2,275,988</u>	<u>2,276,134</u>
Non-current liabilities:			
Bonds payable	-	5,134,589	5,134,589
Leasehold deposits received	-	6,210	6,210
Derivative financial liabilities	240,169	-	240,169
	<u>240,169</u>	<u>5,140,799</u>	<u>5,380,968</u>
	<u>₩ 240,315</u>	<u>₩ 7,416,787</u>	<u>₩ 7,657,102</u>

4.3 Fair values of financial instruments by hierarchy level

The Company categorized financial instruments measured at fair value based on the inputs to measure the fair value. The level of hierarchy of fair value is as follows:

- Level 1: inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2: inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs are unobservable inputs for the asset or liability.

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4.3 Fair values of financial instruments by hierarchy level (cont'd)

Details of fair value of financial instruments by hierarchy level as of September 30, 2019 and December 31, 2018 are as follows (Korean won in millions):

	September 30, 2019			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets at FVTPL	₩ 247,077	₩ -	₩ 266,964	₩ 514,041
Financial assets at FVOCI	-	-	232,216	232,216
Derivative financial assets	-	106	175,993	176,099
	<u>₩ 247,077</u>	<u>₩ 106</u>	<u>₩ 675,173</u>	<u>₩ 922,356</u>
Financial liabilities:				
Derivative financial liabilities	₩ -	₩ 259	₩ 240,168	₩ 240,427
	December 31, 2018			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets at FVTPL	₩ 169,762	₩ -	₩ 162,475	₩ 332,237
Financial assets at FVOCI	-	-	232,216	232,216
Derivative financial assets	-	34	175,993	176,027
	<u>₩ 169,762</u>	<u>₩ 34</u>	<u>₩ 570,684</u>	<u>₩ 740,480</u>
Financial liabilities:				
Derivative financial liabilities	₩ -	₩ 146	₩ 240,169	₩ 240,315

Changes in Level 3 financial assets for the nine months ended September 30, 2019 and 2018 are as follows (Korean won in millions):

	For the nine months ended September 30, 2019					Ending balance
	Beginning balance	Acquisition	Disposal	Valuation		
Financial assets at FVTPL	₩ 162,475	₩ 105,814	₩ (2,466)	₩ 1,141	₩	₩ 266,964
Financial assets at FVOCI	232,216	-	-	-		232,216
Derivative financial assets	175,993	-	-	-		175,993
	<u>₩ 570,684</u>	<u>₩ 105,814</u>	<u>₩ (2,466)</u>	<u>₩ 1,141</u>	<u>₩</u>	<u>₩ 675,173</u>
	For the nine months ended September 30, 2018					Ending balance
	Beginning balance	Change of accounting policies	Acquisition	Disposal	Valuation	
Financial assets at FVTPL	₩ -	₩ 63,094	₩ 83,003	₩ (500)	₩ 840	₩ 146,437
Financial assets at FVOCI	-	2,374	8,335	-	(1)	10,708
Financial assets recognized at FVTPL Available-for-sale financial assets	3,015	(3,015)	-	-	-	-
	15,072	(15,072)	-	-	-	-
	<u>₩ 18,087</u>	<u>₩ 47,381</u>	<u>₩ 91,338</u>	<u>₩ (500)</u>	<u>₩ 839</u>	<u>₩ 157,145</u>

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5. Trade receivables

Details of trade receivables as of September 30, 2019 and December 31, 2018 are as follows (Korean won in millions):

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Trade receivables:		
Trade receivables	₩ 294,687	₩ 354,652
Contract assets (unbilled receivable)	<u>179,151</u>	<u>138,098</u>
	473,838	492,750
Allowance for doubtful accounts:		
Trade receivables	<u>(370)</u>	<u>(524)</u>
	<u>₩ 473,468</u>	<u>₩ 492,226</u>

6. Inventories

Details of inventories as of September 30, 2019 and December 31, 2018 are as follows (Korean won in millions):

	<u>September 30, 2019</u>			<u>December 31, 2018</u>		
	<u>Cost</u>	<u>Valuation allowance</u>	<u>Book value</u>	<u>Cost</u>	<u>Valuation allowance</u>	<u>Book value</u>
Raw material	₩ 233	₩ -	₩ 233	₩ 172	₩ -	₩ 172

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7. Long-term investment securities

(1) Details of long-term investment securities as of September 30, 2019 and December 31, 2018 are as follows (Korean won in millions):

	September 30, 2019		December 31, 2018	
	Cost	Book value	Cost	Book value
Financial assets at FVTPL:				
Equity instruments	₩ 90,790	₩ -	₩ 91,439	₩ -
Debt securities (*1)	200,711	215,280	96,360	109,831
Money invested and others	54,244	51,684	57,883	52,644
Financial assets at FVOCI:				
Equity instruments (*2)	234,892	232,216	234,892	232,216
Financial assets at amortized cost:				
Debt securities	394	424	394	394
	<u>₩ 581,031</u>	<u>₩ 499,604</u>	<u>₩ 480,968</u>	<u>₩ 395,085</u>

(*1) Represents convertible redeemable preference shares of GRAB Holdings Inc., convertible bonds of Socar, Inc. and Kinestral Technologies Inc..

(*2) The Company applied the irrevocable option to designate the equity instruments held for strategic investment, not for held-for-trading purpose, as items measured at FVOCI.

(2) Details of Long-term investment securities as of September 30, 2019 and December 31, 2018 are as follows (Korean won in millions):

	September 30, 2019		December 31, 2018	
	Acquisition cost	Book value	Acquisition cost	Book value
Non-marketable equity instruments	₩ 325,682	₩ 232,216	₩ 326,331	₩ 232,216
Debt securities	201,105	215,704	96,754	110,225
Money invested and others	54,244	51,684	57,883	52,644
	<u>₩ 581,031</u>	<u>₩ 499,604</u>	<u>₩ 480,968</u>	<u>₩ 395,085</u>

(3) Changes in long-term investment securities and available-for-sale financial assets for the nine months ended September 30, 2019 and 2018 are as follows (Korean won in millions):

	For the nine months ended	
	September 30, 2019	September 30, 2018
Beginning balance	₩ 395,085	₩ 78,984
Effect of changes in the accounting policies	-	(13,993)
Acquisitions	105,814	91,722
Gain on valuation and interest income	1,171	839
Disposal	(2,466)	(500)
Ending balance	<u>₩ 499,604</u>	<u>₩ 157,052</u>

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8. Investments in subsidiaries

(1) Details of investments in subsidiaries as of September 30, 2019 and December 31, 2018 are as follows (Korean won in millions):

	Domicile	Principal Business activity	Equity ownership (%) (*1)	September 30, 2019		December 31, 2018
				Acquisition cost	Book value	Book value
SK Innovation Co., Ltd. (*2)	Korea	Resource development	33.40	₩ 3,072,937	₩ 3,072,937	₩ 3,072,937
SK Telecom Co., Ltd. (*2)	Korea	Mobile	26.78	5,416,019	5,416,019	5,416,019
		Tele-communication				
SK Networks Co., Ltd. (*2)	Korea	Trading and distribution	39.14	706,229	706,229	706,229
SKC Co., Ltd. (*2)	Korea	Petrochemicals	41.00	548,654	548,654	548,654
SK E&S Co., Ltd.	Korea	City gas business	90.00	2,600,000	2,600,000	2,600,000
SK Engineering & Construction Co., Ltd. (*2)	Korea	Construction	44.47	545,300	545,300	545,300
SK Siltron Co., Ltd.	Korea	Manufacturing and sales of silicon thin sheet	51.00	622,606	622,606	622,606
SK Biopharmaceuticals Co., Ltd.	Korea	Life science	100.00	478,702	478,702	478,702
SK Materials Co., Ltd. (*2)	Korea	Special-gas manufacturing and sales	49.10	473,335	473,335	473,335
SK Biotek Co., Ltd. (*3)	Korea	Life science	100.00	-	-	336,318
SK Forest Co., Ltd.	Korea	Landscape construction	100.00	61,387	61,387	61,387
Hweechan Co., Ltd. (*4)	Korea	Resort business	100.00	28,073	28,073	-
Alchemy Acquisition Corp. (*3)	USA	Investment	100.00	862,949	862,949	526,631
Plutus Capital NY, Inc. (*5)	USA	Investment	100.00	587,542	587,542	388,527
SK China Company, Ltd. (*6)	Hong Kong	Consulting and investment	27.42	557,117	557,117	557,117
Golden Pearl EV Solutions Limited (*5)	Hong Kong	Investment	100.00	281,360	281,360	657
SK South East Asia Investment Pte. Ltd. (*5,6)	Singapore	Investment	20.00	224,350	224,350	110,880
Plutus Fashion NY, Inc.	USA	Fashion	100.00	74,113	74,113	74,113
Saturn Agriculture Investment Co., Ltd. (*5).	Hong Kong	Investment	81.00	66,733	66,733	5
SK S.E.Asia Pte. Ltd.	Singapore	Investment	100.00	25,847	25,847	25,847
SK C&C Beijing Co., Ltd.	China	Computer system	100.00	25,481	25,481	25,481
SK GI Management	Cayman Islands	Investment	100.00	9,523	9,523	9,523
SK Investment Management Co., Ltd.	Hong Kong	Investment	80.76	9,201	9,201	9,201
Gemini Partners Pte. Ltd. (*6)	Singapore	Consulting	20.00	6,018	2,601	2,601
SK MENA Investment B.V. (*6)	Netherlands	Investment	11.54	5,178	5,178	5,178
SK Latin Americas Investment S.A. (*6)	Spain	Investment	11.54	5,135	5,135	5,135
SK C&C India Pvt. Ltd.	India	Computer system	100.00	3,442	382	382
SK Technology Innovation Company (*6)	Cayman Islands	Research and development	2.12	1,876	1,876	1,876
SK Computer and Communication LLC (*7)	UAE	Computer system	49.00	380	380	380
S&G Technology	Saudi Arabia	Computer system	51.00	74	74	74
				<u>₩ 17,299,561</u>	<u>₩ 17,293,084</u>	<u>₩ 16,605,095</u>

(*1) Equity ownership is based on ordinary shares.

(*2) SK Innovation Co., Ltd. and 5 others were classified as investments in subsidiaries as the Company is able to exercise de facto control. The remaining voting rights of SK Innovation Co., Ltd. and five other companies are widely dispersed, and the Company's voting rights are sufficient to give it power.

(*3) During the current period, the Company made contribution in kind of all shares of its subsidiary, SK Biotech Co., Ltd. to another subsidiary, Alchemy Acquisition Corp.

(*4) During the current period, the Company newly acquired the investee.

(*5) During the current period, the Company invested additional ₩280,703, ₩199,015, ₩113,470 and ₩66,728 million in Golden Pearl EV Solutions Limited, Plutus Capital NY, Inc., SK South East Asia Investment Pte. Ltd. and Saturn Agriculture Investment Co., Ltd. respectively. Saturn Agriculture Investment Co., Ltd.'s equity ownership was changed.

(*6) Classified as investments in subsidiaries as control can be exercised using indirect equity ownership through the Company's subsidiaries.

(*7) As the Company acquired voting rights of shares (51%), it classified SK Computer and Communication LLC as the Company's subsidiaries.

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8. Investments in subsidiaries (cont'd)

(2) Fair value of marketable investments in subsidiaries as of September 30, 2019 is as follows (Korean won in millions):

	<u>September 30, 2019</u>	
SK Innovation Co., Ltd.	₩	5,126,709
SK Telecom Co., Ltd.		5,222,225
SK Networks Co., Ltd.		540,114
SKC Co., Ltd.		612,522
SK Materials Co., Ltd.		862,226

9. Investments in associates and joint ventures

Details of investments in associates and joint ventures as of September 30, 2019 and December 31, 2018 are as follows (Korean won in millions):

	Domicile	Principal business activity	Equity ownership (%)	<u>September 30, 2019</u>			<u>December 31, 2018</u>
				Acquisition cost	Book value	Book value	
Investments in associates:							
Socar. Inc. (*1)	Korea	Rental of cars	22.21	₩ 91,800	₩ 91,800	₩ 91,800	
SMCore Inc.	Korea	Manufacturing and sales of automated logistics system	26.60	39,419	39,419	39,419	
Begas Co., Ltd. (*1, 2)	Korea	Management consulting	17.86	5,000	5,000	5,000	
THiRA-UTECH Co., Ltd. (*2)	Korea	Service manufacturing	17.54	4,200	4,200	4,200	
ACRYL Inc. (*1, 2)	Korea	Information service	17.14	2,500	2,500	2,500	
Daehan Kanggun BcN Co., Ltd. (*3, 4)	Korea	Wired communication	0.67	58	-	58	
ESR Cayman Limited (*2)	Cayman Island	Investment	12.52	493,627	493,627	493,627	
Turo Inc. (*1, 2)	USA	Rental of cars	5.16	39,728	39,728	39,728	
9352-7281 Quebec Inc.	Canada	Investment	40.09	31,558	31,558	31,558	
SES Holdings Pte. Ltd. (*2, 5, 6)	Singapore	Investment	12.80	28,791	28,791	-	
Solid Energy Systems Corp. (*5)	USA	New material related to battery	-	-	-	28,791	
FSK Holdings Co., Ltd.	Hong Kong	IT service	30.00	11,937	11,937	11,937	
Kinestral Technologies Inc. (*2, 6)	USA	Manufacturing discolored glass	4.66	8,498	8,498	-	
Mozido Corfire, Inc. (*2)	USA	System consulting	19.94	6,767	-	-	
Visible Patient S.A.S. (*2, 6)	France	Manufacturing related to medicine	13.51	2,929	2,929	-	
				<u>766,812</u>	<u>759,987</u>	<u>748,618</u>	
Investments in joint ventures:							
Hana Land Chip PEF 33 (*3)	Korea	Real estate	13.51	₩ 40,000	₩ 40,000	₩ 40,000	
Socar Mobility Malaysia, SDN. BHD.	Malaysia	Rental of cars	60.00	14,189	14,189	14,189	
				<u>54,189</u>	<u>54,189</u>	<u>54,189</u>	
				<u>₩ 821,001</u>	<u>₩ 814,176</u>	<u>₩ 802,807</u>	

(*1) It is the equity share that takes preferred stock with voting rights into consideration.

(*2) As the Company is able to exercise significant influence over the entity although its ownership interest is less than 20%, the investment in the entity was classified as investments in associates.

(*3) The investment in the entity was classified as investments in associates and joint ventures based on the indirect ownership interest of the Company's subsidiary.

(*4) The impairment loss was recognized for all book value during the current period.

(*5) The Company acquired shares of SES Holdings Pte. Ltd. through a comprehensive share exchange with shares of Solid Energy Systems Corp. (a subsidiary of SES Holdings Pte. Ltd.).

(*6) During the current period, the Company newly acquired the investee.

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10. Property, plant and equipment

(1) Details of property, plant and equipment as of September 30, 2019 and December 31, 2018 are as follows (Korean won in millions):

	September 30, 2019			December 31, 2018		
	Acquisition cost	Accumulated depreciation	Book value	Acquisition cost	Accumulated depreciation	Book value
Land	₩ 84,251	₩ -	₩ 84,251	₩ 84,251	₩ -	₩ 84,251
Buildings	330,367	(54,932)	275,435	323,400	(47,757)	275,643
Structures	9,348	(1,029)	8,319	8,780	(749)	8,031
Vehicles	7,519	(2,493)	5,026	7,504	(2,479)	5,025
Furniture and fixtures	327,160	(233,853)	93,307	325,244	(221,061)	104,183
Construction-in-progress	28,186	-	28,186	17,670	-	17,670
	<u>₩ 786,831</u>	<u>₩ (292,307)</u>	<u>₩ 494,524</u>	<u>₩ 766,849</u>	<u>₩ (272,046)</u>	<u>₩ 494,803</u>

(2) Details of changes in property, plant and equipment for the nine months ended September 30, 2019 and 2018 are as follows (Korean won in millions):

	For the nine months ended September 30, 2019					
	Beginning balance	Acquisition	Depreciation	Disposal	Transfer(*1)	Ending balance
Land	₩ 84,251	₩ -	₩ -	₩ -	₩ -	₩ 84,251
Buildings	275,643	-	-	(6,845)	6,637	275,435
Structures	8,031	-	-	(280)	568	8,319
Vehicles	5,025	255	-	(254)	-	5,026
Furniture and fixtures	104,183	14,172	(143)	(24,905)	-	93,307
Construction-in-progress	17,670	18,051	-	-	(7,535)	28,186
	<u>₩ 494,803</u>	<u>₩ 32,478</u>	<u>₩ (143)</u>	<u>₩ (32,284)</u>	<u>₩ (330)</u>	<u>₩ 494,524</u>

(*1) This includes replacements from construction-in-progress to the main property, plant and equipment account or investment property.

	For the nine months ended September 30, 2018					
	Beginning balance	Acquisition	Depreciation	Disposal	Transfer	Ending balance
Land	₩ 169,505	₩ -	₩ -	₩ -	₩ -	₩ 169,505
Buildings	368,741	-	(11,374)	-	-	357,367
Structures	7,357	-	(227)	-	-	7,130
Vehicles	5,384	-	(279)	-	-	5,105
Furniture and fixtures	107,884	17,838	(24,983)	(169)	29	100,599
Construction-in-progress	12,787	25,930	-	-	(29)	38,688
	<u>₩ 671,658</u>	<u>₩ 43,768</u>	<u>₩ (36,863)</u>	<u>₩ (169)</u>	<u>₩ -</u>	<u>₩ 678,394</u>

11. Right-of-use assets and lease liabilities

(1) Details of right-of-use assets as of September 30, 2019 are as follows (Korean won in millions):

	Acquisition cost	Accumulated depreciation	Book value
Land and buildings	₩ 55,839	₩ (12,743)	₩ 43,096
Vehicles	4,686	(1,282)	3,404
Machinery	183	(46)	137
Furniture and fixtures	335	(71)	264
	<u>₩ 61,043</u>	<u>₩ (14,142)</u>	<u>₩ 46,901</u>

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11. Right-of-use assets and lease liabilities (cont'd)

(2) Changes in right-of-use assets for the nine months ended September 30, 2019 are as follows (Korean won in millions):

	For the nine months ended September 30, 2019					
	Beginning balance	Change of accounting policy	Increase	Depreciation	Others (*1)	Ending balance
Land and buildings	₩ -	₩ 64,375	₩ 3,718	₩ (21,120)	₩ (3,877)	₩ 43,096
Vehicles	-	2,802	2,165	(1,320)	(243)	3,404
Machinery	-	183	-	(46)	-	137
Furniture and fixtures	-	425	51	(134)	(78)	264
	₩ -	₩ 67,785	₩ 5,934	₩ (22,620)	₩ (4,198)	₩ 46,901

(*1) The amounts include adjustments of the right-to-use assets according to the remeasurement of the lease liabilities.

(3) Changes in lease liabilities for the nine months ended September 30, 2019 are as follows (Korean won in millions):

	For the nine months ended September 30, 2019						
	Beginning Balance	Change of accounting policies	Increase	Interest expenses	Decrease (payment)	Others (*1)	Ending balance
Lease liabilities	₩ -	₩ 132,448	₩ 5,934	₩ 1,702	₩ (44,698)	₩ (5,043)	₩ 90,343

(*1) The amounts include the details of the re-measurement of the lease liabilities for lease changes in existing leases.

The Company recognized lease payments of ₩4,388 million in relation to short-term lease and ₩1,057 million in relation to small asset lease during this period.

12. Investment property

(1) Details of investment properties as of September 30, 2019 and December 31, 2018 are as follows (Korean won in millions):

	September 30, 2019			December 31, 2018		
	Acquisition cost	Accumulated depreciation	Book value	Acquisition cost	Accumulated depreciation	Book value
Buildings	₩ 9,810	₩ (1,777)	₩ 8,033	₩ 9,810	₩ (1,457)	₩ 8,353

(2) Changes in investment properties for the nine months ended September 30, 2019 and 2018 are as follows (Korean won in millions):

	For the nine months ended September 30, 2019				
	Beginning balance	Account policy changes (*1)	Depreciation	Transfer (*2)	Ending balance
Buildings	₩ 8,353	₩ 666	₩ (800)	₩ (186)	₩ 8,033

(*1) Consist of replacements from right-of-use asset that meets the definition of investment property according to the first application of KIFRS 1116.

(*2) This includes replacements from Property, plant and equipment to investment property.

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12. Investment property (cont'd)

	For the nine months ended September 30, 2018			
	Beginning balance	Acquisition / disposal	Depreciation	Ending balance
Land	₩ 31,395	₩ -	₩ -	₩ 31,395
Buildings	8,779	-	(319)	8,460
	<u>₩ 40,174</u>	<u>₩ -</u>	<u>₩ (319)</u>	<u>₩ 39,855</u>

13. Intangible assets

(1) Details of intangible assets as of September 30, 2019 and December 31, 2018 are as follows (Korean won in millions):

	September 30, 2019				December 31, 2018			
	Acquisition cost	Accumulated amortization	Accumulated impairment	Book value	Acquisition cost	Accumulated amortization	Accumulated impairment	Book value
Development costs	₩ 115,390	₩ (46,879)	₩ -	₩ 68,511	₩ 122,214	₩ (59,135)	₩ (5,086)	₩ 57,993
Memberships	56,639	-	(13,648)	42,991	54,191	-	(13,648)	40,543
Brand-related assets	1,975,000	-	-	1,975,000	1,975,000	-	-	1,975,000
Others	40,159	(7,998)	-	32,161	37,086	(4,924)	-	32,162
	<u>₩ 2,187,188</u>	<u>₩ (54,877)</u>	<u>₩ (13,648)</u>	<u>₩ 2,118,663</u>	<u>₩ 2,188,491</u>	<u>₩ (64,059)</u>	<u>₩ (18,734)</u>	<u>₩ 2,105,698</u>

(2) Changes in intangible assets for the nine months ended September 30, 2019 and 2018 are as follows (Korean won in millions):

	For the nine months ended September 30, 2019				
	Beginning balance	Acquisition	Disposal	Depreciation	Ending balance
Development costs	₩ 57,993	₩ 22,833	₩ (584)	₩ (11,731)	₩ 68,511
Memberships (*1)	40,543	2,632	(184)	-	42,991
Brand-related assets (*1)	1,975,000	-	-	-	1,975,000
Others	32,162	3,073	-	(3,074)	32,161
	<u>₩ 2,105,698</u>	<u>₩ 28,538</u>	<u>₩ (768)</u>	<u>₩ (14,805)</u>	<u>₩ 2,118,663</u>

	For the nine months ended September 30, 2018				
	Beginning balance	Acquisition	Disposal	Depreciation	Ending balance
Development costs	₩ 48,397	₩ 21,403	₩ (2,939)	₩ (9,143)	₩ 57,718
Memberships (*1)	38,790	4,215	(2,442)	-	40,563
Brand-related assets (*1)	1,975,000	-	-	-	1,975,000
Others	28,112	6,957	(194)	(2,391)	32,484
	<u>₩ 2,090,299</u>	<u>₩ 32,575</u>	<u>₩ (5,575)</u>	<u>₩ (11,534)</u>	<u>₩ 2,105,765</u>

(*1) Membership and brand-related assets are classified as intangible assets with infinite useful lives and are not amortized.

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14. Borrowings and bonds payable

(1) Short-term borrowings

Details of short-term borrowings as of September 30, 2019 and December 31, 2018 are as follows (Korean won in millions):

Description	Financial institution	Interest rate (%)	September 30, 2019	December 31, 2018
Working capital loan	Shinhan Bank	2.18, 2.19	₩ 250,000	₩ 200,000
	Woori Bank	2.65	10,000	150,000
	Industrial & Commercial Bank of China	-	-	60,000
Commercial paper	KB Securities	1.60	100,000	200,000
	NH Investment & Securities	1.73	100,000	100,000
	SK Securities	1.60	100,000	-
Commercial paper	Korea Investment & Securities	1.72, 1.74	200,000	200,000
			<u>₩ 760,000</u>	<u>₩ 910,000</u>

(2) Bonds payable

Details of bonds payable as of September 30, 2019 and December 31, 2018 are as follows (Korean won in millions):

Issuance number	Interest rate (%)	Maturity	Security	September 30, 2019	December 31, 2018
257-2nd	-	2019-08-27	Unsecured	₩ -	₩ 100,000
258-2nd	3.35	2019-10-19	Unsecured	100,000	100,000
259-2nd	3.34	2020-06-03	Unsecured	100,000	100,000
260-2nd	3.84	2020-09-06	Unsecured	100,000	100,000
261-2nd	3.97	2020-12-03	Unsecured	100,000	100,000
262-1st	-	2019-02-12	Unsecured	-	150,000
262-2nd	3.68	2021-02-12	Unsecured	100,000	100,000
263-1st	-	2019-05-30	Unsecured	-	150,000
263-2nd	3.36	2021-05-30	Unsecured	100,000	100,000
264-1st	-	2019-08-05	Unsecured	-	80,000
264-2nd	3.25	2021-08-05	Unsecured	170,000	170,000
265-2nd	2.45	2019-12-02	Unsecured	100,000	100,000
265-3rd	2.66	2021-12-02	Unsecured	100,000	100,000
266-1st	2.26	2020-02-06	Unsecured	150,000	150,000
266-2nd	2.39	2022-02-06	Unsecured	100,000	100,000
269-2nd	-	2019-06-14	Unsecured	-	150,000
270-2nd	3.39	2019-11-02	Unsecured	50,000	50,000
270-3rd	3.80	2022-11-02	Unsecured	50,000	50,000
271-2nd	3.34	2020-02-27	Unsecured	100,000	100,000
272-3rd	3.92	2020-08-30	Unsecured	60,000	60,000
273-1st	-	2019-03-25	Unsecured	-	100,000
273-2nd	3.79	2021-03-25	Unsecured	100,000	100,000
273-3rd	4.26	2024-03-25	Unsecured	100,000	100,000
274-2nd	2.17	2020-09-30	Unsecured	150,000	150,000
274-3rd	2.34	2022-09-30	Unsecured	80,000	80,000
275-2nd	2.52	2020-12-07	Unsecured	120,000	120,000
275-3rd	2.66	2022-12-07	Unsecured	60,000	60,000
276-2nd	2.02	2021-03-07	Unsecured	120,000	120,000
276-3rd	2.26	2023-03-07	Unsecured	150,000	150,000
277-2nd	1.93	2021-06-01	Unsecured	120,000	120,000
277-3rd	2.16	2023-06-01	Unsecured	120,000	120,000
277-4th	2.43	2026-06-01	Unsecured	60,000	60,000
278-2nd	1.65	2021-09-07	Unsecured	110,000	110,000
278-3rd	1.80	2023-09-07	Unsecured	110,000	110,000
279-1st	1.96	2020-03-06	Unsecured	90,000	90,000
279-2nd	2.34	2022-03-06	Unsecured	190,000	190,000
279-3rd	2.58	2024-03-06	Unsecured	120,000	120,000
280-1st	1.99	2020-06-01	Unsecured	90,000	90,000
280-2nd	2.39	2022-06-01	Unsecured	200,000	200,000

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14. Borrowings and bonds payable (cont'd)

Issuance number	Interest rate (%)	Maturity	Security	September 30, 2019	December 31, 2018
280-3rd	2.67	2024-06-01	Unsecured	₩ 110,000	₩ 110,000
281-1st	-	2019-08-04	Unsecured	-	100,000
281-2nd	2.40	2022-08-04	Unsecured	130,000	130,000
281-3rd	2.62	2024-08-04	Unsecured	70,000	70,000
282-1st	2.47	2020-10-25	Unsecured	70,000	70,000
282-2nd	2.79	2022-10-25	Unsecured	150,000	150,000
282-3rd	2.86	2024-10-25	Unsecured	80,000	80,000
283-1st	2.88	2023-02-27	Unsecured	150,000	150,000
283-2nd	2.99	2025-02-27	Unsecured	60,000	60,000
283-3rd	3.26	2028-02-27	Unsecured	100,000	100,000
284-1st	2.87	2023-06-08	Unsecured	170,000	170,000
284-2nd	3.01	2025-06-08	Unsecured	60,000	60,000
284-3rd	3.09	2028-06-08	Unsecured	100,000	100,000
285-1st	2.36	2023-09-06	Unsecured	150,000	150,000
285-2nd	2.47	2025-09-06	Unsecured	60,000	60,000
285-3rd	2.55	2028-09-06	Unsecured	120,000	120,000
286-1st	2.20	2021-11-29	Unsecured	130,000	130,000
286-2nd	2.37	2023-11-29	Unsecured	100,000	100,000
287-1st	2.17	2024-02-27	Unsecured	150,000	-
287-2nd	2.23	2026-02-27	Unsecured	70,000	-
287-3rd	2.35	2029-02-27	Unsecured	80,000	-
288-1st	1.81	2024-02-27	Unsecured	170,000	-
288-2nd	1.83	2026-02-27	Unsecured	60,000	-
288-3rd	1.87	2029-02-27	Unsecured	110,000	-
289-1st	1.62	2022-09-20	Unsecured	130,000	-
289-2nd	1.76	2024-09-20	Unsecured	120,000	-
289-3rd	1.84	2029-09-20	Unsecured	70,000	-
				6,340,000	6,210,000
				(2,486)	7,701
				(1,091,881)	(1,083,112)
				₩ 5,245,633	₩ 5,134,589

Addition (less): premium (discount) on bonds payable
Less: current portion

(3) The Company's bonds payable repayment schedule as of September 30, 2019 is as follows (Korean won in millions):

Year ending	Amount of repayment
October 1, 2019 ~ September 30, 2020	₩ 1,090,000
October 1, 2020 ~ September 30, 2021	1,110,000
October 1, 2021 ~ September 30, 2022	1,060,000
October 1, 2022 ~ September 30, 2023	1,100,000
October 1, 2023 and thereafter	1,970,000
	₩ 6,340,000

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15. Provisions

Changes in provisions for the nine months ended September 30, 2019 and 2018 are as follows (Korean won in millions):

		For the nine months ended September 30, 2019					
		Beginning balance	Change of accounting policy	Increase	Decrease	Ending balance	Non-current
Provision for service warranties	₩	3,038	₩ -	₩ 4,162	₩ (3,454)	₩ 3,746	₩ -
Other		166	1,882	358	(216)	2,190	1,882
	₩	3,204	₩ 1,882	₩ 4,520	₩ (3,670)	₩ 5,936	₩ 4,054

		For the nine months ended September 30, 2018					
		Beginning balance	Increase	Decrease	Ending balance	Current	Non-current
Provision for service warranties	₩	4,988	₩ 1,904	₩ (4,775)	₩ 2,117	₩ 2,117	₩ -
Buildings		2,961	226	(3,187)	-	-	-
	₩	7,949	₩ 2,130	₩ (7,962)	₩ 2,117	₩ 2,117	₩ -

The Company estimates a provision for service warranties for revenue from projects based on historical claim rates and past experiences. Meanwhile, other provisions consist of restructuring liabilities and provision for losses. If the underlying asset must be restored to its original value after the expiration of the contract period based on the lease contract, the restoration obligation is recognized as the present value of the estimated cost of removing, dismantling, and repairing the facility. In the event that future losses are expected to be incurred with respect to an ongoing project, the Company recognized the expected loss as provision for losses immediately.

16. Defined benefit liabilities

(1) Defined contribution plans

The Company partly operates a defined contribution plan for certain employees. The expenses related to the defined contributions plans recognized for the nine months ended September 30, 2019, were ₩42 million.

(2) Defined benefit plans

Those employees selecting the defined benefit plans shall be paid fixed amounts upon retirement, where certain conditions are met. In addition, the Company uses the projected unit credit method based on actuarial assumptions for the defined obligation and plan assets.

(3) Details of defined benefit liabilities as of September 30, 2019 and December 31, 2018 are as follows (Korean won in millions):

	September 30, 2019	December 31, 2018
Present value of defined benefit obligation	₩ 352,646	₩ 297,845
Fair value of plan assets	(252,718)	(253,442)
	₩ 99,928	₩ 44,403

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16. Defined benefit liabilities (cont'd)

(4) Changes in the defined benefit liabilities for the nine months ended September 30, 2019 and 2018 are as follows (Korean won in millions):

	<u>For the nine months ended September 30, 2019</u>		
	Present value	Fair value of	Total
	<u>of defined</u>	<u>plan assets</u>	
	<u>benefit obligation</u>	<u>plan assets</u>	<u>Total</u>
Beginning balance	₩ 297,845	₩ (253,442)	₩ 44,403
Provision for pension benefits:			
Current service cost	26,304	-	26,304
Net interest expense (income)	5,173	(4,644)	529
Remeasurement:			
Return on plan assets (excluding amounts included in net interest expense)	-	766	766
Actuarial changes arising from changes in financial assumptions	17,230	-	17,230
Experience adjustments	9,176	-	9,176
Contributions by employer directly to plan assets	-	(3,000)	(3,000)
Benefit paid	(6,893)	9,274	2,381
Others	3,811	(1,672)	2,139
Ending balance	<u>₩ 352,646</u>	<u>₩ (252,718)</u>	<u>₩ 99,928</u>
	<u>For the nine months ended September 30, 2018</u>		
	Present value	Fair value of	Total
	<u>of defined</u>	<u>plan assets</u>	
	<u>benefit obligation</u>	<u>plan assets</u>	<u>Total</u>
Beginning balance	₩ 254,398	₩ (215,599)	₩ 38,799
Provision for pension benefits:			
Current service cost	22,759	-	22,759
Net interest expense (income)	5,424	(4,892)	532
Remeasurement:			
Return on plan assets (excluding amounts included in net interest expense)	-	2,507	2,507
Actuarial changes arising from changes in financial assumptions	3,549	-	3,549
Experience adjustments	3,771	-	3,771
Contributions by employer directly to plan assets	-	(500)	(500)
Benefit paid	(11,066)	11,382	316
Others	5,135	(1,302)	3,833
Ending balance	<u>₩ 283,970</u>	<u>₩ (208,404)</u>	<u>₩ 75,566</u>

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17. Other assets and liabilities

(1) Details of other assets as of September 30, 2019 and December 31, 2018 are as follows (Korean won in millions):

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Current assets:		
Accrued income	₩ 106	₩ 118
Advanced payments	3,403	8,476
Prepaid expenses	44,081	11,793
Guarantee deposits	3,526	112
Lease receivables	32,028	-
Derivative financial assets	106	34
Others	240	79
	<u>₩ 83,490</u>	<u>₩ 20,612</u>
Non-current assets:		
Long-term financial instruments	₩ 306	₩ 19
Long-term loans	397	397
Long-term guarantee deposits	17,508	21,074
Long-term lease receivables	16,171	-
Derivative financial assets	175,993	175,993
Others	129	127
	<u>₩ 210,504</u>	<u>₩ 197,610</u>

(2) Details of other liabilities as of September 30, 2019 and December 31, 2018 are as follows (Korean won in millions):

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Current liabilities:		
Advances received	₩ 143,220	63,774
Withholdings	18,774	38,348
Income tax payable	30,411	122,873
Lease liabilities	56,801	-
Derivative financial liabilities	229	146
	<u>₩ 249,435</u>	<u>₩ 225,141</u>
Non-current liabilities:		
Leasehold deposits received	₩ 5,578	₩ 6,210
Long-term lease liabilities	33,542	-
Derivative financial liabilities	240,198	240,169
Long-term employee benefits	10,147	10,100
	<u>₩ 289,465</u>	<u>₩ 256,479</u>

18. Derivative financial assets and liabilities

The Company has entered into foreign currency forward contracts to manage fluctuations in currency exchange rates relating to its contracts denominated in foreign currencies and has entered total return swap contracts with certain of subsidiaries' common share investors and others. Details of assets and liabilities after valuation as of September 30, 2019 and December 31, 2018 are as follows (Korean won in millions):

	<u>September 30, 2019</u>		<u>December 31, 2018</u>	
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
Forward contract	₩ 106	₩ 259	₩ 34	₩ 146
Total return swap contract (see Note 29)	175,993	240,168	175,993	240,169
	<u>₩ 176,099</u>	<u>₩ 240,427</u>	<u>₩ 176,027</u>	<u>₩ 240,315</u>

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19. Equity

19.1 Issued capital

Details of issued capital as of September 30, 2019 and December 31, 2018 are as follows (Korean won in millions, except for number of shares):

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Number of shares authorized for issue	400,000,000	400,000,000
Per share (Korean won)	₩ 200	₩ 200
Number of shares issued:		
Ordinary shares	70,360,297	70,360,297
Preferred shares	566,135	566,135
Issued capital:		
Ordinary shares	₩ 15,272	₩ 15,272
Preferred shares	113	113
	<u>₩ 15,385</u>	<u>₩ 15,385</u>

The Company retired 6,000,000 shares of its treasury share (par value: ₩1,200 million) in 2015 by reducing retained earnings, which resulted in a difference between total par value of ordinary shares and issued capital.

19.2 Other paid-in capital

Details of other paid-in capital as of September 30, 2019 and December 31, 2018 are as follows (Korean won in millions):

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Paid-in surplus (*1)	₩ 5,605,831	₩ 5,605,831
Treasury shares (*2)	(904,493)	(904,493)
Stock option	3,585	2,807
Others	(292,892)	(292,892)
	<u>₩ 4,412,031</u>	<u>₩ 4,411,253</u>

(*1) During the year ended December 31, 2015, the Company repurchased treasury stocks of ₩3,369,310 million from merger with SK Holdings Co., Ltd. which was recognized as a contra-equity account on additional paid-in capital.

(*2) As of September 30, 2019, treasury stock consists of those acquired to increase the enterprise value and to stabilize share price (3,514,276 ordinary shares), and those acquired from repurchase of shares from dissenting shareholders on business combination and shares arising from odd lot shares (11,021,674 ordinary shares and 1,818 preferred shares) during the merger in 2015.

19.3 Retained earnings

Details of retained earnings as of September 30, 2019 and December 31, 2018 are as follows (Korean won in millions):

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Legal reserve (*1)	₩ 7,693	₩ 7,693
Voluntary reserve	62,896	65,230
Unappropriated retained earnings	9,603,216	8,670,604
	<u>₩ 9,673,805</u>	<u>₩ 8,743,527</u>

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19.3 Retained earnings (cont'd)

(*1) In accordance with the *Korean Commercial Code*, an amount equal to at least 10% of cash dividends is required to be appropriated as a legal reserve until the reserve equals 50% of issued capital. The legal reserve may not be utilized for cash dividends but may only be used to offset a deficit, if any, or be transferred to issued capital through approval at the general meeting of the shareholders.

19.4 Other components of equity

Details of other components of equity as of September 30, 2019 and December 31, 2018 are as follows (Korean won in millions):

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Loss on financial assets at FVOCI	₩ (2,029)	₩ (2,029)

19.5 Stock option

Upon resolution by the shareholders' meeting and Board of Directors, the Company established a stock option program that entitles key management personnel an option to purchase ordinary shares. The terms and conditions related to the grants of the stock options granted under the share option program are as follows:

	<u>1-1</u>	<u>1-2</u>	<u>1-3</u>
Grant date	2017-03-24		
Types of shares to be issued	Ordinary shares		
Grant method	Reissue of treasury shares, but if the stock option's exercise price is lower than the stock's real price (evaluated based on exercise date), the Company may settle the difference in cash or with treasury stock equivalent to the difference amount.		
Number of shares (shares)	41,429	41,430	41,431
Exercise price (Korean won)	₩ 226,290	₩ 244,400	₩ 263,950
Contractual life of options	2019.03.25 ~2022.03.24	2020.03.25 ~2023.03.24	2021.03.25 ~2024.03.24
Vesting conditions	2 year service from the grant date	3 year service from the grant date	4 year service from the grant date

Share compensation expense recognized during the current reporting period is ₩778 million (accumulated share compensation expense: ₩3,585 million) and the remaining share compensation expense to be recognized in later periods are ₩702 million.

The Company used the binomial option pricing model, and the inputs used in the measurement of the fair values at the grant date of the share-based payment plans are as follows:

	<u>1-1</u>	<u>1-2</u>	<u>1-3</u>
Risk-free interest rate	1.86%	1.95%	2.07%
Option life	5 Years	6 Years	7 Years
Expected price (Closing price on the preceding day in Korean won)	₩ 236,000	₩ 236,000	₩ 236,000
Expected volatility	16.78%	16.78%	16.78%
Rate of returns	1.60%	1.60%	1.60%
Exercise price (Korean won)	₩ 226,290	₩ 244,400	₩ 263,950
Fair value per share (Korean won)	₩ 38,317	₩ 34,200	₩ 30,962

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20. Operating revenues

(1) Details of operating revenues for the three months and nine months ended September 30, 2019 and 2018 are as follows (Korean won in millions):

	September 30, 2019		September 30, 2018	
	Three months	Nine months	Three months	Nine months
Revenue from contracts with customers:				
IT service (*1)	₩ 429,779	₩ 1,223,649	₩ 402,896	₩ 1,109,224
Trademark usage income	68,565	205,991	58,954	176,324
Others	-	246	125	701
	<u>498,344</u>	<u>1,429,886</u>	<u>461,975</u>	<u>1,286,249</u>
Revenue from other sources:				
Dividend income	72,701	1,247,460	71,440	830,877
Rental income	406	1,708	11,739	34,881
	<u>73,107</u>	<u>1,249,168</u>	<u>83,179</u>	<u>865,758</u>
	<u>₩ 571,451</u>	<u>₩ 2,679,054</u>	<u>₩ 545,154</u>	<u>₩ 2,152,007</u>

(*1) Includes contract revenue of ₩769,340 and ₩628,481 million recognized from the cost-based input method for the nine months ended September 30, 2019 and 2018.

(2) Details of revenue from contracts with customers for the three months and nine months ended September 30, 2019 and 2018 are as follows (Korean won in millions):

	September 30, 2019		September 30, 2018	
	Three months	Nine months	Three months	Nine months
Revenue from contracts with customers:				
IT service	₩ 429,779	₩ 1,223,649	₩ 402,896	₩ 1,109,224
Trademark usage income	68,565	205,991	58,954	176,324
Others	-	246	125	701
	<u>₩ 498,344</u>	<u>₩ 1,429,886</u>	<u>₩ 461,975</u>	<u>₩ 1,286,249</u>
Geographical location:				
Korea	₩ 465,373	₩ 1,357,357	₩ 439,677	₩ 1,231,393
Asia	28,138	57,516	18,600	43,976
Europe	4,135	13,463	3,047	6,522
North America	698	1,550	651	4,358
	<u>₩ 498,344</u>	<u>₩ 1,429,886</u>	<u>₩ 461,975</u>	<u>₩ 1,286,249</u>
Timing of revenue recognition:				
Recognized at a point in time	₩ 30,213	₩ 76,068	₩ 31,342	₩ 82,357
Recognized over a period	468,131	1,353,818	430,633	1,203,892
	<u>₩ 498,344</u>	<u>₩ 1,429,886</u>	<u>₩ 461,975</u>	<u>₩ 1,286,249</u>

(3) Details of contract assets, contract liabilities related to revenue from contracts with customers as of September 30, 2019 and December 31, 2018 are as follows (Korean won in millions):

	September 30, 2019	December 31, 2018
Contract assets from IT service contract	₩ 179,151	₩ 138,098
Contract liabilities from IT service contract (*1)	75,605	63,753

(*1) The amount recognized as revenue in the current period in relation to the contract liabilities in the beginning of the current term is ₩57,518 million and there is no revenue recognized in the current period in relation to the performance obligation satisfied in the prior term.

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20. Operating revenues (cont'd)

(4) Details of profit variation by changes of accounting estimates related to the cost-based input method contracts as of September 30, 2019 are as follows (Korean won in millions):

	Change in estimated construction revenue	Change in estimated cost	Impact on current period profit (loss)	Impact on future period profit (loss)
IT Service contracts (*1)	₩ 8,894	₩ 8,961	₩ (70)	₩ 3

(*1) For the purpose of KIFRS 1108 *Operating Segments*, the Company has a single reportable segment and therefore need not separately disclose the business segment.

Impact on profit of current and future period has been calculated by the estimated costs based on the situations which occurred from the inception of IT service contract to current reporting period and the estimated revenue as of current reporting period. Estimated cost and revenue can be changed in the future period.

(5) Contracts applying the cost-based input method to measure the percentage-of-completion with total contract revenue exceeding prior year's operating income by more than 5% as of September 30, 2019 are as follows (Korean won in millions):

Business division	Construction	Contract date	Due date	Percentage of completion	Contract assets		Trade receivables	
					Total amount	Impairment	Total amount	Allowance for doubtful accounts
ICT business	The K project	2019. 01	2020. 10	26.77%	₩ 13,855	₩ -	₩ 773	₩ -

21. Operating expenses

Details of operating expenses for the three months and nine months ended September 30, 2019 and 2018 are as follows (Korean won in millions):

	September 30, 2019		September 30, 2018	
	Three months	Nine months	Three months	Nine months
Material costs	₩ 31,359	₩ 86,286	₩ 42,183	₩ 90,869
Outsourcing costs	205,089	577,844	182,537	506,015
Salaries	91,910	262,794	88,277	242,138
Provision for pension benefits	8,666	25,731	7,018	23,927
Depreciation	18,000	54,820	12,033	35,846
Rents	1,567	2,844	10,950	31,600
Communications	4,613	13,989	4,925	15,603
Employee welfare benefits	13,568	40,587	13,056	37,897
Commissions	10,434	41,465	8,720	23,692
Education and training	6,300	16,046	3,495	10,801
Research and development	9,376	31,638	5,709	20,446
Office management	8,276	26,432	11,526	33,269
Travel	3,468	10,162	3,949	11,544
Others	16,059	47,449	19,182	53,109
Total	₩ 428,685	₩ 1,238,087	₩ 413,560	₩ 1,136,756

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22. Expenses classified based on nature of expense

Details of classification based on nature of expenses for the three months and nine months ended September 30, 2019 and 2018 are as follows (Korean won in millions):

	September 30, 2019		September 30, 2018	
	Three months	Nine months	Three months	Nine months
Material costs	₩ 31,395	₩ 86,467	₩ 42,053	₩ 90,873
Outsourcing costs	205,533	578,727	182,757	506,615
Salaries	95,656	277,343	90,874	253,005
Provision for pension benefits	9,221	27,058	7,430	24,987
Depreciation and amortization	23,418	70,391	16,310	48,356
Rents	1,567	2,844	10,950	31,601
Communications	4,661	14,127	4,925	15,604
Employee welfare benefits	14,298	42,606	13,504	39,501
Commissions	11,365	45,970	8,781	23,755
Education and training	6,452	16,384	3,549	10,998
Office management	8,276	26,432	11,526	33,269
Travel	3,515	10,309	4,018	11,665
Others	13,328	39,429	16,883	46,527
	<u>₩ 428,685</u>	<u>₩ 1,238,087</u>	<u>₩ 413,560</u>	<u>₩ 1,136,756</u>

23. Finance income (costs) and other non-operating income (expenses)

23.1 Finance income and costs

Details of finance income and costs for the three months and nine months ended September 30, 2019 and 2018 are as follows (Korean won in millions):

	September 30, 2019		September 30, 2018	
	Three months	Nine months	Three months	Nine months
Financial income:				
Interest income	₩ 1,521	₩ 5,295	₩ 1,944	₩ 5,057
Gain on foreign currency transactions	1,216	3,476	5,789	7,673
Gain on foreign currency translation	71	732	(985)	214
Gain on valuation of FVTPL measured at fair value	383	1,141	15,074	15,632
Gain on valuation of derivative instruments	(300)	106	1,042	1,236
Gain on transactions of derivative instruments	180	540	29	879
	<u>₩ 3,071</u>	<u>₩ 11,290</u>	<u>₩ 22,893</u>	<u>₩ 30,691</u>
Financial costs:				
Interest expenses	₩ 43,797	₩ 135,805	₩ 43,910	₩ 128,252
Loss on foreign currency transactions	307	2,445	1,791	4,695
Loss on foreign currency translation	(346)	86	40	193
Loss on valuation of FVTPL measured at fair value	95	95	(3,142)	66
Loss on valuation of derivative instruments	(243)	258	-	1,970
Loss on transactions of derivative instruments	1,087	1,418	569	894
	<u>₩ 44,697</u>	<u>₩ 140,107</u>	<u>₩ 43,168</u>	<u>₩ 136,070</u>

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23.2 Other non-operating income and expenses

Details of other non-operating income and expenses for the three months and nine months ended September 30, 2019 and 2018 are as follows (Korean won in millions):

	September 30, 2019		September 30, 2018	
	Three months	Nine months	Three months	Nine months
Other non-operating income:				
Gain on disposal of investments in subsidiaries	₩ -	₩ -	₩ -	₩ 198,440
Gain on disposal of property, plant and equipment	87	95	7	11
Gain on disposal of intangible assets	-	-	-	518
Others	389	2,018	409	1,694
	<u>₩ 476</u>	<u>₩ 2,113</u>	<u>₩ 416</u>	<u>₩ 200,663</u>
Other non-operating expenses:				
Loss on disposal of investments in subsidiaries	₩ -	₩ -	₩ (2)	₩ 6,536
Loss on impairment of investments in associates and joint ventures	-	58	-	-
Loss on disposal of property, plant and equipment	17	21	12	133
Loss on disposal of intangible assets	3	4	-	101
Donations	3,003	13,668	3,286	15,570
Others	352	2,080	668	1,504
	<u>₩ 3,375</u>	<u>₩ 15,831</u>	<u>₩ 3,964</u>	<u>₩ 23,844</u>

24. Income taxes

The Company calculated corporate income tax expense by adding the current period adjustments to the accumulated interim tax expense, reflecting deferred tax expense (income) due to changes in temporary differences and considering adjustments not related to the interim profit or loss.

Effective tax rates for the nine months ended September 30, 2019 and 2018 were 5.46% and 12.62%, respectively.

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25. Earnings per share

(1) Basic earnings per share for the three months and nine months ended September 30, 2019 and 2018 are as follows (Korean won in millions, except for basic earnings per share and weighted-average number of ordinary shares outstanding):

	September 30, 2019		September 30, 2018	
	Three months	Nine months	Three months	Nine months
Profit for the period	₩ 131,859	₩ 1,227,600	₩ 85,635	₩ 980,474
Less: Preferred share dividends	571	2,278	571	2,278
Profit for the period attributable to ordinary share owners of the Company	₩ 131,288	₩ 1,225,322	₩ 85,064	₩ 978,196
Weighted-average number of issued shares outstanding (*1)	55,824,347	55,824,347	55,824,350	55,824,350
Basic earnings per share (In Korean Won)	₩ 2,352	₩ 21,950	₩ 1,524	₩ 17,523

(*1) Weighted-average number of issued shares represents the number of shares less treasury shares from the total number of issued shares of ordinary share.

The weighted-average number of issued shares outstanding for the three months and nine months ended September 30, 2019 and 2018 are as follows:

	September 30, 2019		September 30, 2018	
	Three months	Nine months	Three months	Nine months
Weighted-average number of shares outstanding	70,360,297	70,360,297	70,360,297	70,360,297
Weighted-average number of treasury shares	(14,535,950)	(14,535,950)	(14,535,947)	(14,535,947)
Weighted-average number of issued shares outstanding	55,824,347	55,824,347	55,824,350	55,824,350

(2) Basic earnings per share from continuing operations

Basic earnings per share from continuing operations for the three months and nine months ended September 30, 2019 and 2018 are as follows (Korean won in millions, except for basic earnings per share and weighted-average number of ordinary shares outstanding):

	September 30, 2019		September 30, 2018	
	Three months	Nine months	Three months	Nine months
Profit for the period attributable to ordinary shares	₩ 131,288	₩ 1,225,322	₩ 85,064	₩ 978,196
Less: gain from discontinued operations	-	-	72	30,937
Profit for the period from continuing operations attributable to ordinary shares	₩ 131,288	₩ 1,225,322	₩ 84,992	₩ 947,259
Weighted-average number of Issued shares outstanding	55,824,347	55,824,347	55,824,350	55,824,350
Basic earnings per share from continuing operations (In Korean Won)	₩ 2,352	₩ 21,950	₩ 1,522	₩ 16,969

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25. Earnings per share (cont'd)

(3) Basic earnings per share from discontinued operations

Basic earnings per share from discontinued operations for the three months and nine months ended September 30, 2019 and 2018 are as follows (Korean won in millions, except for basic earnings per share):

	September 30, 2019		September 30, 2018	
	Three months	Nine months	Three months	Nine months
Gain from discontinued operations	₩ -	₩ -	₩ 72	₩ 30,937
Weighted-average number of issued shares outstanding	55,824,347	55,824,347	55,824,350	55,824,350
Basic earnings per share from discontinued operations (In Korean won)	₩ -	₩ -	₩ 2	₩ 554

26. Transactions with related parties

Details of significant transactions with related parties for the nine months ended September 30, 2019 and 2018, and significant balances with related parties as of September 30, 2019 and December 31, 2018 are as follows (Korean won in millions):

(1) The subsidiaries of the Company as of September 30, 2019, are as follows:

	Subsidiary
Ultimate controlling party	Tae-won, Chey and related parties
Subsidiary (total 282)	SK Innovation Co., Ltd., SK Energy Co., Ltd., Netruck Co., Ltd., Jeju United FC Corporation, Happydidim Co., Ltd., SK Energy Road Investment Co., Ltd., SK Energy Hong Kong Co., Ltd., Shandong SK Hightech Oil Co., Ltd., SK Energy Road Investment (HK) Co., Ltd., Ningbo SK Baoying Asphalt Storage Co., Ltd., Hefei SK Baoying Asphalt Co., Ltd., Chongqing SK Asphalt Co., Ltd., SK Asphalt (Shanghai) Co., Ltd., SK Global Chemical Co., Ltd., SK Global Chemical (China) Holding Co., Ltd., SK Global Chemical International Trading (Shanghai) Co., Ltd., SK Global Chemical International Trading (Guangzhou) Co., Ltd., SK Global Chemical Americas, Inc., SK Primacor Americas LLC, SK Primacor Europe, S.L.U., SK Saran Americas LLC, SK Global Chemical China Co., Ltd., SK Global Chemical Japan Co., Ltd., SK Global Chemical Singapore Pte. Ltd., SK Global Chemical Investment Hong Kong Ltd., Ningbo SK Performance Rubber Co., Ltd., SK Incheon Petrochem Co., Ltd., SK Trading International Co., Ltd., SK Energy International Pte. Ltd., SK Energy Europe, Ltd., SK Energy Americas, Inc., SK Terminal B.V., SK Lubricants Co., Ltd., Yubase Manufacturing Asia Corporation, SK Energy Lubricants (Tianjin) Co., Ltd., PT. Patra SK, SK Lubricants Americas, Inc., SK Lubricants Europe B.V., SK Lubricants Japan Co., Ltd., SK Lubricants & Oils India Pte. Ltd., Iberian Lube Base Oils S.A., SK Lubricants Russia LLC, SK ie technology Co., Ltd., SK Mobile Energy Co., Ltd., SK Innovation Insurance (Bermuda), Ltd., SK USA, Inc., Blue Dragon Energy Co., Ltd., SK Battery Hungary Kft., SK Battery America, Inc., SK Battery Manufacturing Kft., SK Hi-Tech Battery Battery Materials (Jiang Su) Co., Ltd., SK Hi-tech Battery Materials Poland Sp. Zo.o., Jiangsu SK Battery Certification Center, Happykium Co., Ltd., SK E&P Company, SK E&P America, Inc., SK Plymouth, LLC, SK Permian, LLC, SK E&P Operations America, LLC, SK Nemaha, LLC, SK Telecom Co., Ltd., SK Telink Co., Ltd., SK Telink Vietnam Co., Ltd., SK Broadband Co., Ltd., Home&Service Co., Ltd., SK stoa Co., Ltd., PS&Marketing Corp., Serviceace Co., Ltd., Service Top Co., Ltd., Network O&S Co., Ltd., K-Net Culture & Contents Venture Fund, One store Co., Ltd., SK Communications Co., Ltd., SK Planet Co., Ltd., 11Street Co., Ltd., Life and Security Holdings Co., Ltd., SK telecom CS T1 Co., Ltd., Happyhanwool Co., Ltd., ADT Caps Co., Ltd., Capstek Co., Ltd., ADT Security Co., Ltd., Quantum Innovation Private Equity Joint Venture I, SK Infosec Co., Ltd., SK Infosec Information Technology(wuxi) Co., Ltd., Incross Co., Ltd., Infra Communications Co., Ltd., Mindknock Co., Ltd.,

26. Transactions with related parties (cont'd)

Subsidiary (total 282)	Subsidiary
	SK M & Service Co., Ltd., SK Planet Japan, K.K., SKP Global Holdings Pte. Ltd., SKP America, LLC, SK Telecom China Holdings Co., Ltd., SK Global Healthcare Business Group, Ltd., SKT Americas Inc., YTK Investment Ltd., Atlas Investment Ltd., SK Telecom Innovation Fund, L.P., SK Telecom China Fund I L.P., SK Telecom TMT Investment Corp., Dreamuscompany Co., Ltd. (formerly, Iriver Co., Ltd.), Iriver Enterprise Ltd., Iriver China Co., Ltd., Dongguan Iriver Electronics Co., Ltd., groovers Japan Co., Ltd., Life Design Company Japan Inc., SK telecom Japan Inc., id Quantique Ltd., id Quantique LLC, FSK L&S Co., Ltd., FSK L&S(Shanghai) Co., Ltd., SK Networks Co., Ltd., SK Networks Service Co., Ltd., SK Pinx Co., Ltd., SK Rent-A-car Service Co., Ltd., SK Magic Co., Ltd., SK Magic Service Co., Ltd., SK Magic Vietnam Company Limited, SK Networks Retails Malaysia Sdn. Bhd., Mokgam Service, AJ Rent-A-car Co., Ltd., SK Networks (China) Holdings Co., Ltd., Liaoning SK Networks Real Estate Development Co., Ltd., Shenyang SK Bus Terminal Co., Ltd., SK Networks (Liaoning) Logistics Co., Ltd., SK Networks (Dandong) Energy Co., Ltd., Shenyang SK Networks Energy Co., Ltd., SK (GZ FreeZone) Co., Ltd., SK Networks (Shanghai) Co., Ltd., POSK (Pinghu) Steel Processing Center Co., Ltd., SK Networks Hong Kong Ltd., SK (Guangzhou) Metal Co., Ltd., SK Networks (Xiamen) Steel Processing Center Co., Ltd., SK Networks Japan Co., Ltd., SK Networks Deutschland GmbH, Daiyang SK Networks SAN. VE TIC. Ltd. STI, SK Networks Resources Australia Pty. Ltd., SK Networks Middle East FZE, SK Brasil Ltda, SK Networks Trading Malaysia Sdn Bhd, SK Networks America Inc., SK Networks Brasil Intermediacao De Negocios Ltda., Networks Tejarat Pars, SKC Co., Ltd., Woori Fine Chem Co., Ltd., SK Telesys Co., Ltd., Techdream Co., Ltd., SKC Infra Service Co., Ltd., SKC Solmics Co., Ltd., Solmics Taiwan Co., Ltd., Solmics Shanghai Co., Ltd., SKC-Eco Solution Co., Ltd., SKC (Jiangsu) High tech Plastics Co., Ltd., SKC, Inc., SKC Europe GmbH, SK Bioland Co., Ltd., Bioland Biotec Co., Ltd., Bioland Haimen Co., Ltd., SKC Hi-Tech&Marketing Co., Ltd., SKC Hi-Tech&Marketing (Suzhou) Co., Ltd., SKC Hi-Tech&Marketing Taiwan Co., Ltd., SKC Hi-Tech&Marketing Polska SP.Z.O.O, SKC Hi-Tech&Marketing USA LLC, SKC PU Specialty Co., Ltd., SKC (Nantong) PU Specialty Co., Ltd., SKC-ENF Electronic Materials Ltd., SKC(Nantong) Semiconductor Materials Technology, Co., Ltd., SE (Jiangsu) Electronic Materials Co., Ltd., SK E&S Co., Ltd., Kangwon City Gas Co., Ltd., Yeongnam Energy Service Co., Ltd., Ko-one Energy Service Co., Ltd., Narae Energy Service Co., Ltd., Pusan City Gas Co., Ltd., Jeonbuk Energy Service Co., Ltd., Chonnam City Gas Co., Ltd., Chungcheong Energy Service Co., Ltd., Paju Energy Service Co., Ltd., Wirye Energy Service Co., Ltd., Yeosu Energy Service Co., Ltd., SK E&S Hong Kong Co., Ltd., SK E&S Australia Pty. Ltd., SK E&S Americas, Inc., SK E&S LNG, LLC, DewBlaine Energy, LLC, CAILIP Gas Marketing, LLC, Rnes Holdings, LLC, Storage Solution Holdings, LLC, Caes, LLC, Prism Energy International Pte. Ltd., Fajar Energy International Pte. Ltd., Prism Energy International Hong Kong Ltd., Prism Energy International Zhoushan Limited., PT SK E&S Nusantara, SK E&S Dominicana S.R.L., SK Engineering & Construction Co., Ltd., Seosuwon Development Company, SK TNS Co., Ltd., SKEC Nanjing Co., Ltd., SKEC (Thai), Ltd., Thai Woo Ree Engineering Co., Ltd., SKEC Anadolu, LLC, SK E&C Betek Corporation, Mesa Verde RE Ventures, LLC, SKEC Consultores Ecuador, S.A., Sunlake Co., Ltd., SK Holdco Pte. Ltd., SK Materials Co., Ltd., SK Materials Japan Co., Ltd., SK Materials Taiwan Co., Ltd., SK Materials (Jiangsu) Co., Ltd., SK Materials (Xian) Co., Ltd., SK Materials (Shanghai) Co., Ltd., Happycompanion Co., Ltd., SK Airgas Co., Ltd., SK Tri Chem Co., Ltd., SK Showa Denko Co., Ltd., SK Siltron Co., Ltd., SK Siltron America, Inc., SK Siltron Japan, Inc., SK Siltron Shanghai Co., Ltd., Happy Chaeum Co., Ltd., SK Biopharmaceuticals Co., Ltd., HWEECHAN Co., Ltd., SK Life Science, Inc., SK Biotek Co., Ltd., SK Biotek Ireland Limited, SK Biotek USA, Inc., SK S.E.Asia Pte. Ltd., Essencore Limited, Essencore (Shenzhen) Limited, SK China Company, Ltd., SKY Property Mgmt (Beijing) Co., Ltd., SK Bio Energy Hong Kong Co., Ltd., SK Property Investment Management Co., Ltd., SK Industrial Development China Co., Ltd., Shanghai SKY Real Estate Development Co., Ltd., SK China Investment Management Co., Ltd. , SK International Agro-Products Logistics Development Co., Ltd., SK Auto Service Hong Kong Co., Ltd., SK (Shenyang) auto rental Co., Ltd., SK (Beijing) auto rental Co., Ltd., SK Rent-A-Car (Qingdao) Co., Ltd., Skyline Auto Financial Leasing Co., Ltd., SK Financial Leasing Co., Ltd., SK China (Beijing) Co., Ltd., SKY Property Management Ltd., SKY Investment Co., Ltd., SK China Real Estate Co., Ltd., SK China Creative Industry Development Co., Ltd., SK C&C Beijing Co., Ltd., SK C&C Chengdu Co., Ltd., SK C&C India Pvt. Ltd., S&G Technology, Saturn Agriculture Investment Co., Ltd.,

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26. Transactions with related parties (cont'd)

Subsidiary (total 282)	Subsidiary
	SK Investment Management Co., Ltd., SK Semiconductor Investments Co., Ltd., SK Computer and Communication LLC, Gemini Partners Pte. Ltd., Solaris Partners Pte. Ltd., SK GI Management, SK MENA Investment B.V., SK Latin America Investment S.A., Plutus Capital NY, Inc., Hudson Energy NY, LLC, Hudson Energy NY II, LLC, Hudson Energy NY III, LLC, Plutus Fashion NY, Inc., Wonderland NY, LLC, Atlas NY LLC, SK Technology Innovation Company, SK South East Asia Investment Pte. Ltd., SK Investment Vina I Pte. Ltd., SK Investment Vina II Pte. Ltd., Alchemy Acquisition Corp., Abrasax Investment Inc., Fine Chemicals Holdings Corp., AMPAC Fine Chemicals, LLC, AMPAC Fine Chemicals Texas, LLC, AMPAC Fine Chemicals Virginia, LLC, Golden Pearl EV Solutions Limited, SK Forest Co., Ltd.

(2) Details of transactions with the related parties for the three months and nine months ended September 30, 2019 and 2018 are as follows (Korean won in millions):

Subsidiary	Company name	September 30, 2019			
		Sales (*1)		Purchase (*2)	
		Three months	Nine months	Three months	Nine months
	SK Innovation Co., Ltd.	₩ 73,952	₩ 323,064	₩ 1,636	₩ 2,557
	SK Energy Co., Ltd.	30,684	77,931	-	-
	SK Global Chemical Co., Ltd.	8,370	22,582	-	-
	SK Incheon Petrochem Co., Ltd.	6,430	18,082	-	-
	SK Lubricants Co., Ltd.	4,643	10,993	-	-
	SK Battery Hungary Kft.	3,190	9,499	-	-
	SK Engineering & Construction Co., Ltd.	6,842	30,312	-	1,739
	SKC Co., Ltd.	2,487	23,472	-	-
	SK E&S Co., Ltd.	3,962	616,853	-	-
	SK Biopharmaceuticals Co., Ltd.	3,210	6,767	-	-
	SK Infosec Co., Ltd.	965	2,982	2,767	9,448
	SK C&C Beijing Co., Ltd.	3,023	13,257	1,645	5,334
	SK S.E.ASIA Pte. Ltd.	-	113,920	-	-
	SK Networks Co., Ltd.	11,023	43,484	442	2,898
	SK Telecom Co., Ltd.	107,167	466,417	6,655	23,629
	SK Broadband Co., Ltd.	27,727	74,775	1,946	6,001
	SK Planet Co., Ltd.	3,978	13,364	-	286
	11Street Co., Ltd.	1,733	4,258	245	245
	SK Materials Co., Ltd.	1,747	23,919	-	-
	SK Siltron Co., Ltd.	4,787	12,874	-	-
	Others	18,885	51,217	2,431	8,315
Other related parties	Hana Land Chip PEF 33	1,662	3,328	9,696	26,883
	SK hynix Inc.	113,319	327,581	3,822	11,843
	SK hynix Semiconductor (China) Ltd.	4,589	16,073	-	-
	Happynarae Co., Ltd.	282	960	1,182	6,520
	THiRA-UTECH Co., Ltd.	-	-	1,907	3,860
	Others	2,113	7,058	651	6,045
Others (*3)	SK Gas Co., Ltd.	2,453	8,530	-	-
	Others	4,637	8,460	4	4
		<u>₩ 453,860</u>	<u>₩ 2,332,012</u>	<u>₩ 35,029</u>	<u>₩ 115,607</u>

SK Holdings Co., Ltd.
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26. Transactions with related parties (cont'd)

		September 30, 2018			
		Sales (*1)		Purchase (*2)	
	Company name	Three months	Nine months	Three months	Nine months
Subsidiary	SK Innovation Co., Ltd.	₩ 73,354	₩ 313,038	₩ 237	₩ 2,237
	SK Energy Co., Ltd.	24,584	74,250	-	7
	SK Global Chemical Co., Ltd.	8,024	22,875	-	-
	SK Incheon Petrochem Co., Ltd.	5,600	16,494	-	3
	SK Lubricants Co., Ltd.	3,564	10,163	-	-
	SK Engineering & Construction Co., Ltd.	7,124	20,539	1	2
	SKC Co., Ltd.	2,945	22,115	-	-
	SK E&S Co., Ltd.	4,084	248,572	-	-
	SK Biopharmaceuticals Co., Ltd.	554	1,572	-	-
	SK Infosec Co., Ltd.	1,055	19,082	5,225	13,245
	SK C&C Beijing Co., Ltd.	385	617	3,177	8,489
	SK S.E.ASIA Pte. Ltd.	-	78,979	-	-
	SK Networks Co., Ltd.	10,540	43,133	745	3,990
	SK Telecom Co., Ltd.	115,031	470,255	2,625	9,350
	SK Broadband Co., Ltd.	28,704	89,173	2,071	6,918
	SK Planet Co., Ltd.	9,527	16,931	3	338
	SK Matrics Co., Ltd.	1,678	22,054	-	-
	SK Siltron Co., Ltd.	3,987	8,480	-	-
	Others	9,536	46,778	2,277	6,137
Other related parties	Hana Land Chip PEF 33	1,662	3,322	9,514	26,701
	SK hynix Inc.	108,564	275,487	242	336
	SK hynix Semiconductor (China) Ltd.	15,003	31,564	1,078	1,106
	Happynarae Co., Ltd.	1,187	3,463	2,035	4,888
	THIRA-UTECH Co., Ltd.	-	-	333	333
	Others	1,108	1,960	225	1,660
Others (*3)	SK Gas Co., Ltd.	5,826	13,076	-	-
	Others	12,827	28,741	123	784
		<u>₩ 456,453</u>	<u>₩ 1,882,713</u>	<u>₩ 29,911</u>	<u>₩ 86,524</u>

(*1) Consists of dividends income received from subsidiaries and others, trademark usage income, rental income and others.

(*2) Consists of rental expenses, outsourcing costs and others.

(*3) Although, not designated as related parties as defined in paragraph 9 of KIFRS 1024, the entity is designated as related parties based on the resolution made by the Securities and Futures Commission that conglomerate affiliates designated by the FairTrade Commission are related parties based on the substance of relation as regulated by paragraph 10 of KIFRS 1024. On the other hand, SK Securities was excluded from related parties as the Company sold its entire stake in SK Securities to J. Double Ubia Easy Co., Ltd. on July 30, 2018.

SK Holdings Co., Ltd.
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26. Transactions with related parties (cont'd)

(3) Details of outstanding balances of receivables and payables with the related parties as of September 30, 2019 and December 31, 2018 are as follows (Korean won in millions):

		September 30, 2019					
		Receivables			Payables		
Company name		Trade receivables	Other receivables	Total	Trade payables	Other payables	Total
Subsidiary	SK Innovation Co., Ltd.	₩ 22,958	₩ 48,412	₩ 71,370	₩ -	₩ 11,874	₩ 11,874
	SK Energy Co., Ltd.	5,170	-	5,170	-	2,557	2,557
	SK Global Chemical Co., Ltd.	1,641	-	1,641	-	5,961	5,961
	SK Incheon Petrochem Co., Ltd.	-	-	-	-	1,483	1,483
	SK Lubricants Co., Ltd.	834	-	834	-	5,195	5,195
	SK Battery Hungary Kft.	6,926	-	6,926	-	2,708	2,708
	SK Engineering & Construction Co., Ltd.	3,332	-	3,332	-	-	-
	SKC Co., Ltd.	1,695	-	1,695	-	27	27
	SK E&S Co., Ltd.	2,023	-	2,023	-	18	18
	SK Biopharmaceuticals Co., Ltd.	1,939	-	1,939	-	37	37
	SK Infosec Co., Ltd.	1,094	-	1,094	1,073	1,337	2,410
	SK C&C Beijing Co., Ltd.	3,973	-	3,973	250	333	583
	SK Networks Co., Ltd.	5,987	20	6,007	1	3,316	3,317
	SK Telecom Co., Ltd.	43,585	357	43,942	661	6,323	6,984
	SK Broadband Co., Ltd.	34,862	-	34,862	418	433	851
	SK Planet Co., Ltd.	3,940	-	3,940	-	18	18
	11Street Co., Ltd.	2,150	-	2,150	-	142	142
	SK Materials Co., Ltd.	626	-	626	-	161	161
	SK Siltron Co., Ltd.	4,760	-	4,760	-	-	-
	Others	14,116	1,510	15,626	430	8,683	9,113
Other related parties	Hana Land Chip PEF 33	-	7,645	7,645	-	50,828	50,828
	SK hynix Inc.	162,285	8,154	170,439	-	41,870	41,870
	SK hynix Semiconductor (China) Ltd.	11,104	-	11,104	-	3,761	3,761
	SK hynix system ic (Wuxi) Co., Ltd.	5,123	-	5,123	-	2,512	2,512
	Happynarae Co., Ltd.	2,587	-	2,587	111	527	638
	THIRA-UTECH Co., Ltd.	-	-	-	715	-	715
	Others	3,320	149	3,469	1,056	2,282	3,338
Others (*1)	SK Gas Co., Ltd.	313	-	313	-	8	8
	Others	1,201	-	1,201	-	87	87
		<u>₩ 347,544</u>	<u>₩ 66,247</u>	<u>₩413,791</u>	<u>₩ 4,715</u>	<u>₩ 152,481</u>	<u>₩ 157,196</u>

(*1) Although, not designated as related parties as defined in paragraph 9 of KIFRS 1024, the entity is designated as related parties based on the resolution made by the Securities and Futures Commission that conglomerate affiliates designated by the Fair Trade Commission are related parties based on the substance of relation as regulated by paragraph 10 of KIFRS 1024.

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26. Transactions with related parties (cont'd)

		December 31, 2018					
		Receivables			Payables		
Company name		Trade	Other	Total	Trade	Other	Total
Subsidiary		receivables	receivables		payables	payables	
	SK Innovation Co., Ltd.	₩ 23,492	₩ 562	₩ 24,054	₩ -	₩ 11,293	₩ 11,293
	SK Energy Co., Ltd.	7,014	-	7,014	-	4,344	4,344
	SK Global Chemical Co., Ltd.	557	-	557	-	3,095	3,095
	SK Incheon Petrochem Co., Ltd.	1,079	-	1,079	-	1,747	1,747
	SK Lubricants Co., Ltd.	20	-	20	-	2,062	2,062
	SK Engineering & Construction Co., Ltd.	3,226	-	3,226	-	149	149
	SKC Co., Ltd.	1,652	-	1,652	-	40	40
	SK E&S Co., Ltd.	1,994	-	1,994	-	139	139
	SK Biopharmaceuticals Co., Ltd.	432	-	432	-	37	37
	SK Infosec Co., Ltd.	1,057	-	1,057	897	3,006	3,903
	SK C&C Beijing Co., Ltd.	7,407	-	7,407	456	2,473	2,929
	SK Networks Co., Ltd.	2,800	20	2,820	-	735	735
	SK Telecom Co., Ltd.	87,991	352	88,343	511	12,723	13,234
	SK Broadband Co., Ltd.	51,360	-	51,360	418	966	1,384
	SK Planet Co., Ltd.	7,326	-	7,326	-	199	199
	11Street Co., Ltd.	18	-	18	-	116	116
	SK Materials Co., Ltd.	796	458	1,254	-	176	176
	SK Siltron Co., Ltd.	4,073	-	4,073	-	39	39
	Others	13,579	320	13,899	1,339	8,662	10,001
Other related parties	Hana Land Chip PEF 33	-	5,983	5,983	-	-	-
	SK hynix Inc.	160,789	-	160,789	-	8,880	8,880
	SK hynix Semiconductor (China) Ltd.	11,717	-	11,717	-	779	779
	SK hynix system ic (Wuxi) Co., Ltd.	-	-	-	-	-	-
	Happyarae Co., Ltd.	2,031	-	2,031	453	634	1,087
	THIRA-UTECH Co., Ltd.	-	-	-	214	-	214
	Others	345	139	484	881	1,280	2,161
Others (*1)	SK Gas Co., Ltd.	2,839	-	2,839	-	13	13
	Others	1,949	-	1,949	114	133	247
		<u>₩ 395,543</u>	<u>₩ 7,834</u>	<u>₩403,377</u>	<u>₩ 5,283</u>	<u>₩ 63,720</u>	<u>₩ 69,003</u>

(*1) Although, not designated as related parties as defined in paragraph 9 of KIFRS 1024, the entity is designated as related parties based on the resolution made by the Securities and Futures Commission that conglomerate affiliates designated by the Fair Trade Commission are related parties based on the substance of relation as regulated by paragraph 10 of KIFRS 1024.

(4) Compensation for key management personnel of the Company for the three months and nine months ended September 30, 2019 and 2018 are as follows (Korean won in millions):

	September 30, 2019		September 30, 2018	
	Three months	Nine months	Three months	Nine months
Salaries	₩ 2,904	₩ 8,686	₩ 2,442	₩ 7,326
Provision for pension benefits	367	2,175	343	1,989
Share compensation expense	198	778	397	1,190
Total	<u>₩ 3,469</u>	<u>₩ 11,639</u>	<u>₩ 3,182</u>	<u>₩ 10,505</u>

Key management consists of registered executives who are responsible for the planning, operation and control of the Company's business activities.

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26. Transactions with related parties (cont'd)

(5) Details of significant transactions with related parties in relation to the investments for the nine months ended September 30, 2019 are as follows (U.S. dollars in thousands):

	<u>Currency</u>	<u>Amount</u>	<u>Transactions</u>
Alchemy Acquisition Corp.	USD	276,759	Contribution in kind
Golden Pearl EV Solutions Limited.	USD	245,497	Share capital increase
Plutus Capital NY, Inc.	USD	173,248	Share capital increase
SK South East Asia Investment Pte. Ltd.	USD	100,000	Share capital increase
Saturn Agriculture Investment Co., Ltd.	USD	55,006	Share capital increase

(6) Guarantees provided to related parties are described in Note 29.

27. Discontinued operations

(1) Details of discontinued operations

In accordance with a resolution of the Board of Directors on November 17, 2017, the Company elected to sell Encar used car sales business, and the sale was completed on April 3, 2018. As of September 30, 2019, Encar used car sales business is classified as disposal groups and discontinued operations.

(2) Gain and loss from the discontinued operation for the nine months ended September 30, 2018 are as follows (Korean won in millions):

	<u>Encar used car sales business</u>
Revenue (*1)	₩ 321,401
Expenses	281,262
Loss before income tax expense	(40,139)
Income tax expense	9,202
Gain from discontinued operations	30,937

(*1) Revenue for the nine months ended September 30, 2018 includes gain on disposal of discontinued operations of ₩71,920 million.

(3) Details of cash flows relating to discontinued operation for the nine months ended September 30, 2018 are as follows (Korean won in millions):

	<u>Encar used car sales business</u>
Cash flows from operating activities	₩ 24,976
Cash flows from investing activities	187,661
Cash flows from financing activities	(16)

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28. Cash flow information

(1) Details of non-cash adjustments for the nine months ended September 30, 2019 and 2018 are as follows (Korean won in millions):

	For the nine months ended	
	September 30, 2019	September 30, 2018
Provision for pension benefits	₩ 26,833	₩ 23,909
Depreciation	55,704	37,758
Amortization	14,805	11,857
(Reversal of) bad debt expenses	(154)	140
Provision for service warranties	4,520	3,171
Interest expenses	135,805	128,252
Loss on foreign currency translation	86	198
Loss on valuation of financial assets measured at FVTPL	95	66
Loss on valuation of derivative instruments	258	1,970
Loss on disposal of investments in subsidiaries and associates and joint ventures	-	6,536
Loss on impairment of investments in subsidiaries and associates and joint ventures	58	-
Loss on disposal of property, plant and equipment	21	138
Loss on disposal of intangible assets	4	101
Share compensation expense	778	1,190
Income tax expense	70,832	137,154
Gain on disposal of discontinued operations	-	(71,920)
Dividends income	(1,247,460)	(830,877)
Interest income	(5,295)	(5,109)
Gain on foreign currency translation	(732)	(214)
Gain on valuation of financial assets measured at FVTPL	(1,141)	(1,236)
Gain on valuation of derivative instruments	(106)	(15,632)
Gain on disposal of investments in subsidiaries and associates and joint ventures	-	(198,440)
Gain on disposal of property, plant and equipment	(95)	(18)
Gain on disposal of intangible assets	-	(518)
Others	(2,212)	2,752
	₩ (947,396)	₩ (768,772)

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28. Cash flow information (cont'd)

(2) Details of working capital adjustments for the nine months ended September 30, 2019 and 2018 are as follows (Korean won in millions):

	For the nine months ended	
	September 30, 2019	September 30, 2018
Trade receivables	₩ 19,159	₩ 28,943
Other receivables	(28,689)	(7,707)
Inventories	(61)	18,397
Advanced payments	5,073	(10,480)
Lease receivables	24,233	-
Prepaid expenses	(32,654)	(24,603)
Trade payables	5,161	(4,854)
Advances received	79,446	17,192
Withholdings	(19,574)	(9,655)
Other payables	(9,712)	(33,860)
Accrued expenses	25,243	(514)
Leasehold deposits received	(632)	(27)
Provisions	(3,313)	(8,951)
Retirement benefits paid	(3,082)	(5,934)
Plan assets	4,602	9,580
Others	(970)	(761)
	<u>₩ 64,230</u>	<u>₩ (33,234)</u>

(3) Details of significant non-cash transactions for the nine months ended September 30, 2019 and 2018 are as follows (Korean won in millions):

	For the nine months ended	
	September 30, 2019	September 30, 2018
Account reclassification of investment instruments from changes in accounting policies	₩ -	₩ 75,179
Account reclassification of lease receivables from changes in accounting policies	(71,125)	-
Account reclassification of lease liabilities from changes in accounting policies	132,448	-
Transfer of long-term bonds payable to current-portion	841,778	833,226
Decrease in other payables due to the acquisition of property, plant and equipment and intangible assets	(668)	(2,128)

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29. Commitments and contingencies

(1) Guarantees provided by others for the Company's obligations and indebtedness as of September 30, 2019 and December 31, 2018 are as follows (Korean won in millions, USD in thousands):

	Currency	September 30, 2019	December 31, 2018
Seoul Guarantee Insurance	KRW	302	1,071
Korea Software Financial Cooperative	KRW	278,618	244,882
The Export-Import Bank of Korea	USD	-	1,225
Korea Trade Insurance Corporation	USD	1,217	695

(2) Pending litigation

There are no major pending litigations as of September 30, 2019.

(3) Significant commitments

- 1) SK Innovation Co., Ltd., SK Energy Co., Ltd., SK Global Chemical Co., Ltd., SK Lubricants Co., Ltd., SK Incheon Petrochem Co., Ltd., SK Trading International Co., Ltd. and SK ie technology Co., Ltd. are collectively responsible for any obligations arising before the spin-off on July 1, 2007. The Company and SK Biopharmaceuticals Co., Ltd. are collectively responsible for any obligations that occurred before the spin-off on April 1, 2011.
- 2) The Company entered into a contract to lease the headquarters building from National Agricultural Cooperative Federation ("NACF"), the trustee of Hana Asset Management Co., Ltd.. Under the terms of the lease, the lease period is until March 27, 2021, and the Company has the preemptive right to purchase the building at the fair value when the lessor elects to dispose the property.
- 3) The Company holds IT outsourcing and IT system maintenance agreements to provide hardware and information systems maintenance, and development service entered into between the Company and the affiliates of SK Group companies and others.
- 4) The Company entered into a contract with Gyeonggi province on May 31, 2011 to purchase land located in Pangyo Land Development District. The total agreement amount is ₩82,964 million (the Company's portion: ₩45,536 million (54.9%)), which will be used for the construction of urban infrastructure facilities ("designated purpose" of the land). The contract includes requirements to be complied with and restrictions in transfer of ownership of the land. Should there be non-compliance, the contract may be terminated or cancelled.

29. Commitments and contingencies (cont'd)

- 5) The Company entered into total return swap contracts regarding the issuance of ordinary shares of SK Shipping Co., Ltd. and sale of old shares. The details are as follows.

	Subscription of new shares	Sale of existing shares
Investor	Special Situation 1 st Fund and others	Corporate Turnaround 1 st Fund
Number of shares	6,548,672	4,808,259
Contract date	April 11, 2017	May 11, 2017
Expiry date	April 10, 2022	May 10, 2022
Settlement	The Company and the investors settle the amount that deducts the issue price from the net selling price in cash. If the amount is positive, the investor shall pay to the Company, and if the amount is negative, the Company shall pay to the investor. In case where the sale is not complete, the selling price of the shares is considered to be nil.	
Premium	The Company shall pay to the investors the amount equivalent to 3.14% of the total shares held by investors annually. When the investor receives dividends on the shares held, the amount shall be paid to the Company.	
Call option	The Company has the right to purchase the shares held by the investors at the issued price of the ordinary shares with certain level of additional charges.	

- 6) The Company entered into total return swap contracts with ordinary share investors of SK Siltron Co., Ltd., one of the subsidiaries. The details are as follows.

	Total return swap
Investor	Warmachine Nineth Co., Ltd. and others
Number of shares	13,140,440
Contract date	August 25, 2017
Expiry date	August 24, 2022
Settlement	The Company and the investors settle the amount that deducts the issue price from the net selling price in cash. If the amount is positive, the investor shall pay to the Company, and if the amount is negative, the Company shall pay to the investor. In case where the sale is not complete, the selling price of the shares is considered to be nil.
Premium	The Company shall pay 0.5% of the initial contract amount on the closing date of the transaction and shall pay to the investors the amount equivalent to 3.20% of the total shares held by investors annually. When the investor receives dividends on the shares held, the amount shall be paid to the Company.
Call option	On a three-month basis from the closing date of sale ("the quarterly payment day"), the Company has the right to purchase the shares held by the investors at the initial contract price of the ordinary shares with certain level of additional charges.

29. Commitments and contingencies (cont'd)

- 7) The Company entered into total return swap contracts with ordinary share investors of SK E&S Co., Ltd., one of the subsidiaries. The details are as follows.

	Total return swap
Investor	MD Prime 1st Co., Ltd. and others
Number of shares	4,640,199
Contract date	November 14, 2017
Expiry date	November 13, 2022
Settlement	The Company and the investors settle the amount that deducts the issue price from the net selling price in cash. If the amount is positive, the investor shall pay to the Company, and if the amount is negative, the Company shall pay to the investor. In case where the sale is not complete, the selling price of the shares is considered to be nil.
Premium	The Company shall pay to the investors the amount equivalent to 3.07% of the total shares held by investors annually. When the investor receives dividends on the shares held, the amount shall be paid to the Company.
Call option	On the premium payment date and on a three-month basis between the date on which the resolution is made by the Board of Directors with regards to designation of IPO supervisor and the submission date of demand of preliminary assessment for listing ("the quarterly payment day"), the Company has the right to purchase the shares held by the investors at the initial contract price of the ordinary shares with certain level of additional charges.

- 8) The Company entered into a cash deficiency support agreement with Hudson Energy NY, LLC, a subsidiary of Plutus Capital NY, Inc., to lend funds for the shortfall of payment for loans and credit limit of USD 226,000 thousand.
- 9) SK E&S LNG, LLC, one of the subsidiaries, is scheduled to be provided with liquefaction service amounting to 115 million MMBtu per year for 20 years from FLNG Liquefaction 3, LLC, Which plans to operate natural gas liquefaction plants in Texas starting from 2019. As of September 30, 2019, SK E&S Co., Ltd., one of the subsidiaries, is responsible for performance guarantee in case of SK E&S LNG, LLC's inability to make payments for service or for claims against breach of obligation. In regard to this, the Company provides performance guarantee for SK E&S Co., Ltd.'s guarantee.
- 10) As of September 30, 2019, the Company provides contract performance guarantees for SK Shipping Co., Ltd.'s BBCHP ship acquisition. However, considering the fair value of SK Shipping Co., Ltd.'s ship provided as collateral for the BBCHP contract, the Company believes that there is no actual guarantee amount.
- 11) The Company entered into a cash deficiency support agreement with Abrasax Investment Inc., a subsidiary of Alchemy Acquisition Corp., which is a subsidiary of the Company, to lend funds for the shortfall of payment for loans and credit of up to USD 315,000 thousand.
- (4) The Company has provided 7 blank checks and 10 blank notes as collateral in relation to sales and other transactions as of September 30, 2019.

30. Financial risk management

The principal financial liabilities of the Company comprise borrowings, bonds payable, trade and other payables. The main purpose of these financial liabilities is to finance the operations of the Company. Further, the Company has various financial assets, including trade and other receivables that are directly related to its operations.

30.1 Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks comprise three types of risk: interest rate, foreign currency and other price.

30.1.1 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company manages its interest rate risk by having a balanced portfolio of fixed and variable rate loans and borrowings, The Company's risk hedging activities are evaluated periodically in order to consider the status of interest rates and degree of risk aversion and fulfill optimal risk hedging strategies. The Company does not believe the fluctuation in market interest rate other than those mentioned above has a material impact on its financial statements.

30.1.2 Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The exposure to the risk of changes in foreign exchange rates relates primarily to selling and purchasing. The Company manages its foreign currency risk periodically.

Significant monetary assets and liabilities denominated in foreign currencies as of September 30, 2019 and December 31, 2018 are as follows (Korean won in millions, and USD, EUR and Others in thousands):

	Currency	September 30, 2019		December 31, 2018	
		Foreign currencies	Korea won equivalent	Foreign currencies	Korea won equivalent
Assets	USD	33,136	₩ 39,807	11,114	₩ 12,426
	EUR	1,103	1,451	1,326	1,695
	Others		4,932		8,650
			₩ 46,190		₩ 22,771
Liabilities	USD	1,220	₩ 1,466	2,546	₩ 2,847
	EUR	9	11	9	11
	Others		1,279		956
			₩ 2,756		₩ 3,814

Should the exchange rate of the aforementioned currencies fluctuate by 10%, the effects on income before income tax expense would be as follows (Korean won in millions):

	September 30, 2019		December 31, 2018	
	Increase by 10%	Decrease by 10%	Increase by 10%	Decrease by 10%
Increase (decrease) in income before tax expense	₩ 4,343	₩ (4,343)	₩ 1,896	₩ (1,896)

30.1.3 Other price risk

Other price risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices other than from interest rate risk and foreign currency risk. The Company has not determined that the effect of changes in other price would have materially affected the Company.

30.2 Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investment assets.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk as of September 30, 2019 and December 31, 2018 is as follows and for cash and cash equivalents, credit risk exposure is low (Korean won in millions):

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Short-term and long-term financial instruments	₩ 226,822	₩ 128,510
Trade receivables	292,444	354,128
Other receivables	3,649	1,858
Accrued income	106	118
Long-term investment securities	267,388	162,869
Short-term and long-term guarantee deposits	21,034	21,186
Short-term and long-term lease receivable	48,199	-
Short-term and long-term loan	397	397
Financial derivatives asset	176,099	176,027
	<u>₩ 1,036,138</u>	<u>₩ 845,093</u>

30.2.1 Trade and other receivables

Customer credit risk is managed by each business unit subject to the Company's established policies, procedures and control related to customer credit risk management. Credit quality of the customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables are regularly monitored and any shipments to major customers are generally covered by letters of credit or other forms of credit insurance.

Maximum exposure to credit risk at the reporting date is the book value of each class of financial assets. The Company apply a simple method that recognizes lifetime expected credit losses as a provision for losses on account receivables and other receivables. To measure expected credit losses, trade receivables and contract assets were separated by credit risk characteristics and past due dates.

30.2.2 Other financial assets

Credit risk arising from other financial assets consists of long-term and short-term financial instruments, occurrence of trade opponent arising from the bankruptcy, etc. In this case, the credit risk exposure of the Company will be the same as the book value of the maximum applicable financial instruments. On the other hand, the management of the Company's credit rating, because it is excellent to deal with financial institutions, is judged to have limited impact on the credit risk of the financial institutions of the Company.

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30.3 Liquidity risk

Liquidity risk refers to the risk that the Company may default on the contractual obligations that become due. The Company manages its risk to a shortage of funds using a recurring liquidity planning tool.

The contractual maturity of financial liabilities as of September 30, 2019 is as follows. Amounts include interests paid and presented at gross amounts (Korean won in millions):

	<u>Book value</u>	<u>Contractual cash flow</u>	<u>Less than 3 months</u>	<u>3-12 months</u>	<u>1-5 years</u>	<u>More than 5 years</u>
Borrowings	₩ 760,000	₩ 762,288	₩ 511,364	₩ 250,924	₩ -	₩ -
Bonds payable	6,337,514	6,868,804	289,855	950,249	4,280,906	1,347,794
Financial derivatives liabilities	240,427	240,427	128	101	240,198	-
Trade accounts payable	121,661	121,661	121,661	-	-	-
Lease liabilities	90,343	93,235	15,493	42,731	32,998	2,013
Other liabilities	153,891	153,891	119,904	28,409	5,578	-
	<u>₩ 7,703,836</u>	<u>₩ 8,240,306</u>	<u>₩ 1,058,405</u>	<u>₩ 1,272,414</u>	<u>₩ 4,559,680</u>	<u>₩ 1,349,807</u>

30.4 Capital management

The fundamental goal of capital risk management is to maintain a solid financial structure. In addition, as the Company is a holding company, it should maintain a debt ratio of less than 200% under Article 8 of *Monopoly Regulations and Fair Trade Law*. The debt ratio is calculated as total liabilities divided by total equity.

The Company maintains a debt ratio of 58.71% as of September 30, 2019. The maturity of the debt is dispersed in the long-term and the borrowings mainly consist of long-term bonds, which do not present significant risks for unexpected payment for debts.

The Company's debt ratio as of September 30, 2019 and December 31, 2018 is as follows (Korean won in millions):

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Total liabilities	₩ 8,277,743	₩ 8,208,532
Total equity	14,099,192	13,168,136
Debt ratio	58.71%	62.34%

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31. Business combination

(1) Details of significant information related to merger for the nine months ended September 30, 2018 are as follows:

	Details
Existing company after the acquisition	SK Holdings Co., Ltd.
Extinct company after the acquisition	SK Maritime Co., Ltd.
Effective date	March 1, 2018
Registration date	March 5, 2018
Purpose	Management efficiency
Ratio of acquisition	Ordinary shares of SK Holdings Co., Ltd. : ordinary shares of SK Maritime Co., Ltd. = 1.0000000:0.0000000

(2) Details of adjustments related to merger for the nine months ended September 30, 2018 are as follows (Korean won in millions):

	Amount
Consideration transferred:	₩ 332,400
Identifiable assets and liabilities:	
Current assets	100
Cash and cash equivalents	4
Other receivables	96
Non-current assets	21,696
Long-term investment securities	37
Investments in subsidiaries	21,659
Net assets	21,796
Capital surplus:	310,604

32. Subsequent events

32.1 SK Holdings Co., Ltd.'s acquisition of treasury stock

SK Holdings Co., Ltd. decided to acquire treasury stock on the Board of Directors on October 1, 2019 to increase shareholder value through stock price stabilization. The expected number of shares to be acquired is 3,520,000 common shares, and the expected end date of acquisition is January 1, 2020. The Company will retain the treasury stock for more than six months from the date of its last acquisition.