



SK Holdings Co., Ltd.

Interim condensed separate financial statements
for the three months ended March 31, 2017 and 2016
with the independent auditors' 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 at March 31, 2017, and the interim condensed separate statements of comprehensive income, changes in equity and cash flows for the three-month periods ended March 31, 2017 and 2016, all expressed in Korean won, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the 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 (KIRFS) 1034 *Interim Financial Reporting*. Also, management is responsible for the design and operation of the Company's internal control to prevent and detect any error or fraud which may cause material misstatement of the interim condensed separate financial statements.

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 auditing standards generally accepted in the Republic of Korea. 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 are not presented fairly, in all material respects, in accordance with KIFRS 1034.

Emphasis of matter

Without modifying our conclusion, we draw attention to the following matters:

Emphasis of matter in regard to key audit matters in engineer-to-order manufacturing sectors (ETO)

In accordance with Accounting Audit Practice Guidelines 2016-1, key audit matters in ETO are selected on the basis of auditors' professional judgment and communication with those charged with governance. Such procedures are based on the financial statements as a whole, and we do not express an opinion in regard to such matter.

We have reflected the results of the reviewing procedures performed on the key audit matters as described below in forming the conclusion.

(1) Revenue recognition based on the percentage-of-completion, appropriateness of percentage-of-completion calculation and recoverability of unbilled construction contract

As explained in Note 2 to the accompanying financial statements, when the outcome of construction contract can be reliably measured, construction revenue and construction costs are recognized based on the percentage-of-completion method. The percentage-of-completion is calculated by dividing total construction costs to date by the total estimated costs of the construction, and if such method does not reliably measure the construction contract, there exists risk in relation to measurement of construction revenue and construction costs.

Further, the Company recognized accounts receivable (unbilled contract revenue) for construction cost to date, net of recognized loss, exceeding billed amounts. As at March 31, 2017, unbilled construction contract amounted to ₩80,981 million and if such amount is uncollected, the Company is exposed to risks in relation to asset measurement.

We performed the following audit procedures for the key audit matters associated with revenue recognition based on the percentage-of-completion, appropriateness of percentage-of-completion calculation and recoverability of unbilled construction contract:

- Inquiry about accounting policies on revenue recognition and any changes to the policies.
- Review as to whether it meets the criteria for reliably estimating the outcome of construction contracts.
- Inquiry and analytic review as to construction contracts with a significant change in measure of the percentage-of-completion.
- Review as to reasons for the significant change and recoverability of unbilled construction contract.

(2) Uncertainty in estimating the total estimated costs of the construction contract and the appropriateness of accounting treatment for changes in construction

As explained in Note 2 to the accompanying financial statements, the total estimated costs of the contract are based on the future estimates, and the total construction revenue is based on the agreed amount in the contract. However, the total revenue may change due to alterations in the original contract work and delays caused by the contractor in the completion of the contract. The construction estimated costs and contract revenue are affected by uncertainties associated with the outcomes of future events.

We performed the following review procedures for the key audit matters, selected on the basis of auditors' professional judgment, in relation to uncertainties in estimating the total contract costs and appropriateness of accounting treatment for changes in construction:

- Inquiry about the appropriateness of accounting treatments for the change of the total estimated costs and the change of construction contracts.
- Inquiry about and document inspection as to the reason of significant changes of total construction revenue or the total estimated costs.

Other matters

We have audited the separate statement of financial position of the Company as at December 31, 2016, and the separate statement of comprehensive income, separate statement of changes in shareholders' equity and separate statement of cash flows for the year then ended in accordance with auditing standards generally accepted in the Republic of Korea and our report dated March 9, 2017 expressed an unqualified opinion thereon. The accompanying separate statement of financial position as at December 31, 2016, presented for comparative purpose are not different, in all material respects, from the above audited separate statement of financial position.

Ernst & Young Han Young

May 15, 2017

This review report is effective as at May 15, 2017, the independent auditors' review report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the date of the independent auditors' 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 report.

SK Holdings Co., Ltd.

Interim condensed separate financial statements
for the three months ended March 31, 2017 and 2016

“The accompanying financial statements, including all footnotes and disclosures, have been prepared by, and are the responsibility of, SK Holdings Co., Ltd.”

Chey, Tae-won and Jang, Dong-hyun
Chief Executive Officers
SK Holdings Co., Ltd.

SK Holdings Co., Ltd.

**Interim condensed separate statements of financial position
as at March 31, 2017 and December 31, 2016**

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

| | Notes | Korean won | | Translation into U.S. dollar (Note 2) | |
|-------------------------------------------------|---------------|---------------------|----------------------|------------------------------------------|----------------------|
| | | March 31, 2017 | December 31, 2016 | March 31, 2017 | December 31, 2016 |
| Assets | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | 4 | ₩ 282,252 | ₩ 158,963 | \$ 252,891 | \$ 142,427 |
| Short-term financial instruments | 4, 28 | 27,620 | 37,620 | 24,747 | 33,707 |
| Trade accounts receivable | 4, 5, 25, 28 | 397,290 | 465,740 | 355,963 | 417,292 |
| Other accounts receivable | 4, 25, 28 | 441,162 | 1,347 | 395,271 | 1,207 |
| Inventories | 6 | 100,849 | 98,580 | 90,358 | 88,325 |
| Other current assets | 4, 16, 17, 28 | 92,180 | 22,695 | 82,591 | 20,333 |
| Total current assets | | 1,341,353 | 784,945 | 1,201,821 | 703,291 |
| Non-current assets: | | | | | |
| Available-for-sale financial assets | 4, 7, 28 | 161,685 | 155,695 | 144,866 | 139,499 |
| Investments in subsidiaries | 8 | 14,524,228 | 14,484,809 | 13,013,375 | 12,978,057 |
| Investments in associates and joint ventures | 9 | 151,787 | 120,229 | 135,998 | 107,722 |
| Property, plant and equipment | 10, 27 | 678,360 | 684,381 | 607,795 | 613,190 |
| Investment property | 11 | 40,494 | 40,601 | 36,282 | 36,378 |
| Intangible assets | 12 | 2,094,489 | 2,088,725 | 1,876,614 | 1,871,450 |
| Other non-current assets | 4, 16, 17, 28 | 20,611 | 21,423 | 18,467 | 19,193 |
| Total non-current assets | | 17,671,654 | 17,595,863 | 15,833,397 | 15,765,489 |
| Total assets | | ₩ 19,013,007 | ₩ 18,380,808 | \$ 17,035,218 | \$ 16,468,780 |
| Liabilities | | | | | |
| Current liabilities: | | | | | |
| Short-term borrowings | 4, 13, 28 | ₩ - | ₩ 280,000 | \$ - | \$ 250,874 |
| Trade accounts payable | 4, 25, 28 | 122,277 | 155,605 | 109,557 | 139,419 |
| Other accounts payable | 4, 25, 28 | 27,892 | 90,042 | 24,991 | 80,676 |
| Accrued expenses | 4, 25, 28 | 237,009 | 41,701 | 212,355 | 37,363 |
| Provisions | 14 | 5,243 | 6,098 | 4,698 | 5,464 |
| Current portion of long-term debt | 4, 13, 28 | 982,040 | 754,262 | 879,885 | 675,801 |
| Other current liabilities | 4, 16, 17, 28 | 116,328 | 105,877 | 104,227 | 94,863 |
| Total current liabilities | | 1,490,789 | 1,433,585 | 1,335,713 | 1,284,460 |
| Non-current liabilities: | | | | | |
| Bonds payable | 4, 13, 28 | 4,872,234 | 4,707,396 | 4,365,410 | 4,217,719 |
| Retirement benefit obligation | 15 | 48,950 | 33,067 | 43,858 | 29,627 |
| Deferred income tax liabilities | | 273,267 | 263,779 | 244,841 | 236,340 |
| Other non-current liabilities | 4, 16, 17, 28 | 17,209 | 17,280 | 15,419 | 15,482 |
| Total non-current liabilities | | 5,211,660 | 5,021,522 | 4,669,528 | 4,499,168 |
| Total liabilities | | 6,702,449 | 6,455,107 | 6,005,241 | 5,783,628 |
| Equity: | | | | | |
| Issued capital | 1, 18 | 15,385 | 15,385 | 13,785 | 13,785 |
| Other paid-in capital | 18 | 4,719,083 | 4,719,052 | 4,228,190 | 4,228,162 |
| Retained earnings | 18 | 7,563,924 | 7,183,223 | 6,777,102 | 6,436,003 |
| Other capital components | 18 | 12,166 | 8,041 | 10,900 | 7,202 |
| Total equity | | 12,310,558 | 11,925,701 | 11,029,977 | 10,685,152 |
| Total liabilities and equity | | ₩ 19,013,007 | ₩ 18,380,808 | \$ 17,035,218 | \$ 16,468,780 |

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 ended March 31, 2017 and 2016**

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

| | Notes | For the three months ended March 31, | | | |
|-----------------------------------------------------------------------|------------|--------------------------------------|-----------------------|------------------------------------------|-----------------------|
| | | Korean won | | Translation into U.S. dollar (Note 2) | |
| | | 2017 | 2016 | 2017 | 2016 |
| Operation revenue | 19, 25 | ₩ 1,237,215 | ₩ 1,118,468 | \$ 1,108,516 | \$ 1,002,122 |
| Operation expenses | 20, 21, 25 | <u>584,937</u> | <u>473,758</u> | <u>524,091</u> | <u>424,476</u> |
| Operating income | | 652,278 | 644,710 | 584,425 | 577,646 |
| Financial income | 22 | 10,737 | 2,260 | 9,620 | 2,025 |
| Financial costs | 22 | 41,885 | 37,949 | 37,528 | 34,001 |
| Other non-operating income | 22 | 181 | 2,434 | 162 | 2,181 |
| Other non-operating expenses | 22 | <u>3,500</u> | <u>1,896</u> | <u>3,136</u> | <u>1,699</u> |
| Income before income tax expense | | 617,811 | 609,559 | 553,543 | 546,152 |
| Income tax expense | 23 | <u>26,494</u> | <u>30,597</u> | <u>23,738</u> | <u>27,414</u> |
| Net income | | <u>591,317</u> | <u>578,962</u> | <u>529,805</u> | <u>518,738</u> |
| Other comprehensive income: | | | | | |
| Items not to be reclassified to profit or loss in subsequent periods: | | | | | |
| Remeasurement loss on defined benefit plans | 15 | (1,950) | (5,335) | (1,747) | (4,780) |
| Items to be reclassified to profit or loss in subsequent periods: | | | | | |
| Net loss on available-for-sale financial assets | 7 | <u>4,125</u> | <u>979</u> | <u>3,696</u> | <u>877</u> |
| | | <u>2,175</u> | <u>(4,356)</u> | <u>1,949</u> | <u>(3,903)</u> |
| Total comprehensive income | | <u>₩ 593,492</u> | <u>₩ 574,606</u> | <u>\$ 531,754</u> | <u>\$ 514,835</u> |
| Earnings per share (Korean won and U.S. dollar): | | | | | |
| Basic earnings per share | 24 | ₩ 10,583 | ₩ 10,362 | \$ 9.48 | \$ 9.28 |

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 shareholders' equity
for the three months ended March 31, 2017 and 2016

(Korean won in millions)

| | Issued capital | Other paid-in capital | Retained earnings | Other capital components | Total equity |
|-------------------------------------------------|-----------------|-----------------------|--------------------|--------------------------|---------------------|
| As at January 1, 2016 | ₩ 15,385 | ₩ 4,719,052 | ₩ 6,736,539 | ₩ 10,701 | ₩ 11,481,677 |
| Total comprehensive income: | | | | | |
| Net income | - | - | 578,962 | - | 578,962 |
| Remeasurement loss on defined benefits plans | - | - | (5,335) | - | (5,335) |
| Net gain on available-for-sale financial assets | - | - | - | 979 | 979 |
| Dividends | - | - | (191,750) | - | (191,750) |
| As at March 31, 2016 | <u>₩ 15,385</u> | <u>₩ 4,719,052</u> | <u>₩ 7,118,416</u> | <u>₩ 11,680</u> | <u>₩ 11,864,533</u> |
| As at January 1, 2017 | ₩ 15,385 | ₩ 4,719,052 | ₩ 7,183,223 | ₩ 8,041 | ₩ 11,925,701 |
| Total comprehensive income: | | | | | |
| Net income | - | - | 591,317 | - | 591,317 |
| Remeasurement loss on defined benefits plans | - | - | (1,950) | - | (1,950) |
| Net gain on available-for-sale financial assets | - | - | - | 4,125 | 4,125 |
| Dividends | - | - | (208,666) | - | (208,666) |
| Stock option | - | 31 | - | - | 31 |
| As at March 31, 2017 | <u>₩ 15,385</u> | <u>₩ 4,719,083</u> | <u>₩ 7,563,924</u> | <u>₩ 12,166</u> | <u>₩ 12,310,558</u> |

(Continued)

SK Holdings Co., Ltd.
Interim condensed separate statements of changes in shareholders' equity
for the three months ended March 31, 2017 and 2016 (cont'd)

(U.S. dollar in thousands)

| | Issued capital | Other paid-in capital | Retained earnings | Other capital components | Total equity |
|-------------------------------------------------|------------------|-----------------------|---------------------|--------------------------|----------------------|
| As at January 1, 2016 | \$ 13,785 | \$ 4,228,162 | \$ 6,035,784 | \$ 9,588 | \$ 10,287,319 |
| Total comprehensive income: | | | | | |
| Net income | - | - | 518,738 | - | 518,738 |
| Remeasurement loss on defined benefits plans | - | - | (4,780) | - | (4,780) |
| Net gain on available-for-sale financial assets | - | - | - | 877 | 877 |
| Dividends | - | - | (171,804) | - | (171,804) |
| As at March 31, 2016 | <u>\$ 13,785</u> | <u>\$ 4,228,162</u> | <u>\$ 6,377,938</u> | <u>\$ 10,465</u> | <u>\$ 10,630,350</u> |
| As at January 1, 2017 | \$ 13,785 | \$ 4,228,162 | \$ 6,436,003 | \$ 7,204 | \$ 10,685,154 |
| Total comprehensive income: | | | | | |
| Net income | - | - | 529,805 | - | 529,805 |
| Remeasurement loss on defined benefits plans | - | - | (1,747) | - | (1,747) |
| Net gain on available-for-sale financial assets | - | - | - | 3,696 | 3,696 |
| Dividends | - | - | (186,959) | - | (186,959) |
| Stock option | - | 28 | - | - | 28 |
| As at March 31, 2017 | <u>\$ 13,785</u> | <u>\$ 4,228,190</u> | <u>\$ 6,777,102</u> | <u>\$ 10,900</u> | <u>\$ 11,029,977</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 three months ended March 31, 2017 and 2016
(Korean won in millions and U.S. dollar in thousands)

| | Notes | For the three months ended March 31, | | | |
|---------------------------------------------------------------|-------|--------------------------------------|------------------|---------------------------------------|-------------------|
| | | Korean won | | Translation into U.S. dollar (Note 2) | |
| | | 2017 | 2016 | 2017 | 2016 |
| Cash flows from operating activities: | | | | | |
| Net income | | ₩ 591,317 | ₩ 578,962 | \$ 529,805 | \$ 518,738 |
| Non-cash adjustments | 26 | (506,983) | (486,165) | (454,245) | (435,593) |
| Working capital adjustments | 26 | (123,246) | (16,484) | (110,426) | (14,769) |
| Interest received | | 495 | 609 | 444 | 546 |
| Interest paid | | (41,053) | (45,790) | (36,783) | (41,027) |
| Dividends received | | 171,239 | 216,591 | 153,426 | 194,061 |
| Income taxes paid | | (822) | (10,477) | (736) | (9,387) |
| Net cash provided by operating activities | | 90,947 | 237,246 | 81,485 | 212,569 |
| Cash flows from investing activities: | | | | | |
| Increase in short-term financial instruments, net | | 10,000 | 11,000 | 8,960 | 9,856 |
| Proceeds from disposal of available-for-sale financial assets | | - | 280 | - | 251 |
| Proceeds from disposal of investments in associates | | - | 10,108 | - | 9,057 |
| Proceeds from disposal of property, plant and equipment | | 95 | 123 | 85 | 110 |
| Proceeds from disposal of intangible assets | | 222 | 2,901 | 199 | 2,599 |
| Acquisition of available-for-sale financial assets | | (548) | (2,808) | (491) | (2,516) |
| Acquisition of investments in subsidiaries | | (39,419) | (634,620) | (35,319) | (568,605) |
| Acquisition of investments in associates | | (31,558) | - | (28,275) | - |
| Acquisition of property, plant and equipment | | (9,565) | (20,488) | (8,570) | (18,357) |
| Acquisition of intangible assets | | (13,584) | (8,216) | (12,171) | (7,361) |
| Decrease (increase) in guarantee deposits, net | | 45 | (654) | 40 | (586) |
| Net cash provided by investing activities | | (84,312) | (642,374) | (75,542) | (575,552) |
| Cash flows from financing activities: | | | | | |
| Decrease (increase) in short-term borrowings, net | | (280,000) | 70,000 | (250,874) | 62,718 |
| Issuance of bonds payable | | 398,308 | 398,306 | 356,875 | 356,873 |
| Net cash used in financing activities | | 118,308 | 468,306 | 106,001 | 419,591 |
| Net increase in cash and cash equivalents | | 124,943 | 63,178 | 111,944 | 56,608 |
| Net foreign exchange effects | | (1,654) | (122) | (1,480) | (109) |
| Cash and cash equivalents at the beginning of the year | | 158,963 | 97,835 | 142,427 | 87,658 |
| Cash and cash equivalents at the end of the period | | ₩ 282,252 | ₩ 160,891 | \$ 252,891 | \$ 144,157 |

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, consulting services and sales of pre-owned automobiles, 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 at the acquisition date.

As at March 31, 2017, the issued capital of the Company amounts to ₩15,385 million (including ₩113 million of preferred shares) and major shareholders and their equity ownership are Tae-won Chey (23.40%), National Pension Service (8.40%) and Ki-won Choi (7.46%).

2. Summary of significant accounting policies

The Company maintains its official accounting records in Korean won and prepares the separate financial statements in conformity with Korean International Financial Reporting Standards ("KIFRS"), in the Korean language. Accordingly, these separate financial statements are intended for use by those who are informed about KIFRS and Korean practices. The accompanying separate financial statements have been restructured and translated into English with certain expanded descriptions from the Korean language financial statements. Certain information included in the Korean language separated financial statements, but not required for a fair presentation of the Company's separate financial position, comprehensive income, changes in shareholder's equity or cash flows is not presented in the accompanying separate financial statements.

The accompanying 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 separate financial statements and has been made at the rate of ₩1,116.10 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 March 31, 2017. 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.

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 auditors' 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 at December 31, 2016.

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, 2016, except for the adoption of new standards and interpretations effective as of January 1, 2017.

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, 2017.

Amendments to KIFRS 1007 – *Statement of Cash Flows*

The amendments to KIFRS 1007 are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Additional disclosure to the current interim condensed separate financial statements is not mandatory. The Company will provide additional disclosures in the separate financial statements as at December 31, 2017 and for the year then ended.

Amendments to KIFRS 1012 – *Income Taxes*

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in the opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

The adoption of the above amendments does not have a material impact on the separate financial position and financial performance.

2.2.2 New and revised KIFRSs issued, but not yet effective

The Company has not applied the following new and revised KIFRSs that have been issued, but are not yet effective.

KIFRS 1109 – *Financial Instruments*

The main features of KIFRS 1109 include: a business model for the managing financial assets; classification and measurement of financial assets based on contractual cash flow characteristics of financial assets; an impairment model for financial instruments based on expected credit losses; the hedged item that meet the requirements of hedge accounting, increases in hedging instruments, or changes in the evaluation method for hedge effectiveness. KIFRS 1109 replaces KIFRS 1039 *Financial Instruments: Recognition and Measurement*, which is effective for annual periods beginning on or after January 1, 2018.

KIFRS 1115 – *Revenue from Contracts with Customers*

Under KIFRS 1115, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under KIFRS. Either a full retrospective application or a modified retrospective application of the standard is required for annual periods beginning on or after January 1, 2018. The Company plans to adopt KIFRS 1115 on January 1, 2018. In accordance with the requirements in KIFRS 1008 *Accounting Policies, Changes in Accounting Estimates and Errors* and the transition guidance in KIFRS 1115, the Company is considering to adopt KIFRS 1115 using the retrospective approach.

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

Amendments to KIFRS 1102 – *Share-based Payment*

The IASB issued amendments to KIFRS 1102 Share-based Payment that addresses three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. These amendments are effective for annual periods beginning on 1 January 2018.

2.2.3 Construction contracts

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract shall be recognized as revenue and expenses respectively by reference to the stage of completion of the contract activity at the end of the reporting period. The stage of completion is measured by reference to the contract costs incurred, except for contract costs which are not able to apply the percentage of completion, up to the end of the reporting period as a percentage of total estimated costs for each contract. Variations in construction and others are included in revenue when the amount can be estimated reliably and it is likely to be recoverable.

When the outcome of a construction contract cannot be estimated reliably, revenue shall be recognized only to the extent of contract costs incurred that it is likely to be recoverable. When it is probable that total contract costs will exceed total contract revenue, the expected loss shall be recognized as an expense immediately.

A contract represents an asset where costs incurred plus recognized profits (less recognized losses) exceed progress billings (due from customers for contract work). And a contract represents a liability where the opposite is the case (due to customers for contract work).

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 three months ended March 31, 2017, are consistent with those followed in the preparation of the separate financial statements for the year ended December 31, 2016.

SK Holdings Co., Ltd.
Notes to the interim condensed separate financial statements
for the three months ended March 31, 2017 and 2016

4. Financial instruments

4.1 Financial assets

Details of financial assets as at March 31, 2017 and December 31, 2016 are as follows (Korean won in millions):

| | March 31, 2017 | | | |
|-------------------------------------|---------------------------|-----------------------|-------------------------------------|--------------------|
| | Financial assets at FVTPL | Loans and receivables | Available-for-sale financial assets | Total |
| Current assets: | | | | |
| Cash and cash equivalents | ₩ - | ₩ 282,252 | ₩ - | ₩ 282,252 |
| Short-term financial instruments | - | 27,620 | - | 27,620 |
| Trade accounts receivable (*1) | - | 316,309 | - | 316,309 |
| Other accounts receivable | - | 441,162 | - | 441,162 |
| Accrued income | - | 222 | - | 222 |
| Short-term loans | - | 600 | - | 600 |
| Guarantee deposits | - | 3,699 | - | 3,699 |
| Derivative financial assets | 5,570 | - | - | 5,570 |
| | <u>5,570</u> | <u>1,071,864</u> | <u>-</u> | <u>1,077,434</u> |
| Non-current assets: | | | | |
| Long-term financial instruments | - | 19 | - | 19 |
| Available-for-sale financial assets | - | - | 161,685 | 161,685 |
| Guarantee deposits | - | 16,127 | - | 16,127 |
| Derivative financial assets | 33 | - | - | 33 |
| | <u>33</u> | <u>16,146</u> | <u>161,685</u> | <u>177,864</u> |
| | <u>₩ 5,603</u> | <u>₩ 1,088,010</u> | <u>₩ 161,685</u> | <u>₩ 1,255,298</u> |
| | | | | |
| | December 31, 2016 | | | |
| | Financial assets at FVTPL | Loans and receivables | Available-for-sale financial assets | Total |
| Current assets: | | | | |
| Cash and cash equivalents | ₩ - | ₩ 158,963 | ₩ - | ₩ 158,963 |
| Short-term financial instruments | - | 37,620 | - | 37,620 |
| Trade accounts receivable (*1) | - | 395,272 | - | 395,272 |
| Other accounts receivable | - | 1,347 | - | 1,347 |
| Accrued income | - | 169 | - | 169 |
| Short-term loans | - | 600 | - | 600 |
| Guarantee deposits | - | 3,671 | - | 3,671 |
| Derivative financial assets | 1,094 | - | - | 1,094 |
| | <u>1,094</u> | <u>597,642</u> | <u>-</u> | <u>598,736</u> |
| Non-current assets: | | | | |
| Long-term financial instruments | - | 19 | - | 19 |
| Available-for-sale financial assets | - | - | 155,695 | 155,695 |
| Guarantee deposits | - | 16,763 | - | 16,763 |
| Derivative financial assets | - | - | - | - |
| | <u>-</u> | <u>16,782</u> | <u>155,695</u> | <u>172,477</u> |
| | <u>₩ 1,094</u> | <u>₩ 614,424</u> | <u>₩ 155,695</u> | <u>₩ 771,213</u> |

(*1) Unbilled receivables amounting to ₩80,981 million and ₩70,468 million as at March 31, 2017 and December 31, 2016, respectively, are not included in the financial instruments.

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4.2 Financial liabilities

Details of financial liabilities as at March 31, 2017 and December 31, 2016 are as follows (Korean won in millions):

| | March 31, 2017 | | |
|-----------------------------------|-----------------------------------|-----------------------------|--------------------|
| | Financial liabilities at FVTPL | Other financial liabilities | Total |
| Current liabilities: | | | |
| Short-term borrowings | ₩ - | ₩ - | ₩ - |
| Trade accounts payable | - | 122,277 | 122,277 |
| Other accounts payable | - | 27,892 | 27,892 |
| Accrued expenses | - | 237,009 | 237,009 |
| Current portion of long-term debt | - | 982,040 | 982,040 |
| Derivative financial liabilities | 1,446 | - | 1,446 |
| | <u>1,446</u> | <u>1,369,218</u> | <u>1,370,664</u> |
| Non-current liabilities: | | | |
| Bonds payable | - | 4,872,234 | 4,872,234 |
| Leasehold deposits received | - | 12,223 | 12,223 |
| Derivative financial liabilities | 16 | - | 16 |
| | <u>16</u> | <u>4,884,457</u> | <u>4,884,473</u> |
| | <u>₩ 1,462</u> | <u>₩ 6,253,675</u> | <u>₩ 6,255,137</u> |
| | | | |
| | December 31, 2016 | | |
| | Financial liabilities at FVTPL | Other financial liabilities | Total |
| Current liabilities: | | | |
| Short-term borrowings | ₩ - | ₩ 280,000 | ₩ 280,000 |
| Trade accounts payable | - | 155,605 | 155,605 |
| Other accounts payable | - | 90,042 | 90,042 |
| Accrued expenses | - | 41,701 | 41,701 |
| Current portion of long-term debt | - | 754,262 | 754,262 |
| Derivative financial liabilities | 1,541 | - | 1,541 |
| | <u>1,541</u> | <u>1,321,610</u> | <u>1,323,151</u> |
| Non-current liabilities: | | | |
| Bonds payable | - | 4,707,396 | 4,707,396 |
| Leasehold deposits received | - | 12,223 | 12,223 |
| Derivative financial liabilities | 115 | - | 115 |
| | <u>115</u> | <u>4,719,619</u> | <u>4,719,734</u> |
| | <u>₩ 1,656</u> | <u>₩ 6,041,229</u> | <u>₩ 6,042,885</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 at March 31, 2017 and December 31, 2016 are as follows (Korean won in millions):

| | March 31, 2017 | | | |
|------------------------------------------|-------------------|----------------|----------------|-----------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial assets: | | | | |
| Financial assets at FVTPL | ₩ - | ₩ 5,603 | ₩ - | ₩ 5,603 |
| Available-for-sale financial assets (*1) | <u>38,094</u> | <u>-</u> | <u>2,152</u> | <u>40,246</u> |
| | <u>₩ 38,094</u> | <u>₩ 5,603</u> | <u>₩ 2,152</u> | <u>₩ 45,849</u> |
| Financial liabilities: | | | | |
| Financial liabilities at FVTPL | ₩ - | ₩ 1,462 | ₩ - | ₩ 1,462 |
| | | | | |
| | December 31, 2016 | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| Financial assets: | | | | |
| Financial assets at FVTPL | ₩ - | ₩ 1,094 | ₩ - | ₩ 1,094 |
| Available-for-sale financial assets (*1) | <u>32,652</u> | <u>-</u> | <u>2,152</u> | <u>34,804</u> |
| | <u>₩ 32,652</u> | <u>₩ 1,094</u> | <u>₩ 2,152</u> | <u>₩ 35,898</u> |
| Financial liabilities: | | | | |
| Financial liabilities at FVTPL | ₩ - | ₩ 1,656 | ₩ - | ₩ 1,656 |

(*1) This does not include available-for-sale financial assets, which are measured at cost because their fair values could not be reliably estimated.

5. Trade accounts receivable

Details of trade accounts receivable as at March 31, 2017 and December 31, 2016 are as follows (Korean won in millions):

| | March 31, 2017 | December 31, 2016 |
|----------------------------------|------------------|-------------------|
| Trade accounts receivable: | | |
| Trade accounts receivable | ₩ 318,146 | ₩ 397,204 |
| Unbilled receivable | <u>80,981</u> | <u>70,468</u> |
| | <u>399,127</u> | <u>467,672</u> |
| Allowance for doubtful accounts: | | |
| Trade accounts receivable | <u>(1,837)</u> | <u>(1,932)</u> |
| | <u>₩ 397,290</u> | <u>₩ 465,740</u> |

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6. Inventories

Details of inventories as at March 31, 2017 and December 31, 2016 are as follows (Korean won in millions):

| | March 31, 2017 | | | December 31, 2016 | | |
|----------------------|------------------|---------------------|------------------|-------------------|---------------------|-----------------|
| | Cost | Valuation allowance | Book value | Cost | Valuation allowance | Book value |
| Merchandises | ₩ 100,755 | ₩ (142) | ₩ 100,613 | ₩ 98,523 | ₩ (119) | ₩ 98,404 |
| Raw material | 206 | - | 206 | 157 | - | 157 |
| Materials in transit | 30 | - | 30 | 19 | - | 19 |
| | <u>₩ 100,991</u> | <u>₩ (142)</u> | <u>₩ 100,849</u> | <u>₩ 98,699</u> | <u>₩ (119)</u> | <u>₩ 98,580</u> |

7. Available-for-sale financial assets

(1) Details of available-for-sale financial assets as at March 31, 2017 and December 31, 2016 are as follows (Korean won in millions):

| | March 31, 2017 | | December 31, 2016 | |
|-------------------------------|------------------|------------------|-------------------|------------------|
| | Cost | Book value | Cost | Book value |
| Marketable equity instruments | ₩ 45,841 | ₩ 38,094 | ₩ 45,841 | ₩ 32,652 |
| Non-marketable instruments | 123,032 | 123,035 | 122,487 | 122,490 |
| Debt securities (*1) | 556 | 556 | 553 | 553 |
| | <u>₩ 169,429</u> | <u>₩ 161,685</u> | <u>₩ 168,881</u> | <u>₩ 155,695</u> |

(*1) Represents Mobile TCS Co., Ltd.'s convertible bond.

(2) Changes in available-for-sale financial assets for the three months ended March 31, 2017 and 2016 are as follows (Korean won in millions):

| | For the three months ended | |
|------------------------|----------------------------|------------------|
| | March 31, 2017 | March 31, 2016 |
| Beginning balance | ₩ 155,695 | ₩ 148,455 |
| Acquisitions | 548 | 2,910 |
| Gain on valuation (*1) | 5,442 | 1,292 |
| Disposals | - | (155) |
| Ending balance | <u>₩ 161,685</u> | <u>₩ 152,502</u> |

(*1) Excludes the effect of deferred income tax recognized directly to equity (2017: ₩(-)1,317 million, 2016: ₩(-)313 million).

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8. Investments in subsidiaries

(1) Details of investments in subsidiaries as at March 31, 2017 and December 31, 2016 are as follows (Korean won in millions):

| | Domicile | Principal Business activity | Equity ownership (*1) | March 31, 2017 | | December 31, 2016 |
|------------------------------------------------|-------------------|-------------------------------------------------|-----------------------|---------------------|---------------------|---------------------|
| | | | | 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 Tele-communication | 25.22% | 5,080,681 | 5,080,681 | 5,080,681 |
| SK Networks Co., Ltd. (*2) | Korea | Trading and distribution | 39.14% | 706,229 | 706,229 | 706,229 |
| SK Engineering & Construction Co., Ltd. (*2) | Korea | Construction | 44.48% | 545,300 | 545,300 | 545,300 |
| SK E&S Co., Ltd. | Korea | City gas business | 100.00% | 2,600,000 | 2,600,000 | 2,600,000 |
| SK Shipping Co., Ltd. | Korea | Shipping | 83.08% | 332,400 | 332,400 | 332,400 |
| SKC Co., Ltd. (*2) | Korea | Petrochemicals manufacturing | 41.00% | 548,654 | 548,654 | 548,654 |
| SK Materials Co., Ltd. (*2) | Korea | Special-gas manufacturing and sales | 49.10% | 473,335 | 473,335 | 473,335 |
| SKY Property Management Ltd. (*3) | Virgin Island | Investment | 5.00% | 44,885 | 44,885 | 44,885 |
| SK GI Management | Cayman Islands | Investment | 100.00% | 9,523 | 9,523 | 9,523 |
| SK China Company, Ltd. | Hong Kong | Consulting and investment | 80.76% | 299,352 | 299,352 | 299,352 |
| SK Biopharmaceuticals Co., Ltd. | Korea | Life science | 100.00% | 328,702 | 328,702 | 328,702 |
| SK BIOTEK Co., Ltd. | Korea | Life science | 100.00% | 163,818 | 163,818 | 163,818 |
| SK Industrial Development China Co., Ltd. (*3) | Hong Kong | Investment | 18.00% | 69,624 | 69,624 | 69,624 |
| SK Technology Innovation Company (*3) | Cayman Islands | Research and development | 2.12% | 1,876 | 1,876 | 1,876 |
| SK Forest Co., Ltd. | Korea | Landscape construction | 100.00% | 61,387 | 61,387 | 61,387 |
| SK MENA Investment B.V. (*3) | Netherlands | Investment | 11.54% | 5,178 | 5,178 | 5,178 |
| SK Latin Americas Investment S.A. (*3) | Spain | Investment | 11.54% | 5,135 | 5,135 | 5,135 |
| Gemini Partners Pte. Ltd. (*3) | Singapore | Consulting investment | 20.00% | 6,018 | 6,018 | 6,018 |
| HAPPYNARAE Co., Ltd. (*3) | Korea | E-commerce | 5.00% | 1,436 | 1,436 | 1,436 |
| SK Infosec Co., Ltd. | Korea | Information security services | 100.00% | 37,905 | 44,077 | 44,077 |
| SK C&C Beijing Co., Ltd. | China | Computer system | 100.00% | 25,481 | 25,481 | 25,481 |
| SK C&C India Pvt. Ltd. | India | Computer system | 100.00% | 3,442 | 382 | 382 |
| SK MENA B.V. | Netherlands | Investment | 100.00% | 11,364 | 11,364 | 11,364 |
| SK S.E.Asia Pte. Ltd. | Singapore | Investment | 100.00% | 25,847 | 25,847 | 25,847 |
| S&G Technology | Saudi Arabia | Computer system | 51.00% | 74 | 74 | 74 |
| SK ENCARSALLES.COM., Ltd. | Korea | Online used car retailers | 50.01% | 13,914 | 13,914 | 13,914 |
| Saturn Agriculture Investment Co., Ltd. | Hong Kong | Investment | 100.00% | - | - | - |
| FSK L&S Co., Ltd. | Korea | Conversion logistics business | 60.00% | 7,200 | 7,200 | 7,200 |
| SMCore, Inc. (*2, *4) | Korea | Car materials system manufacturing and sales | 26.65% | 39,419 | 39,419 | - |
| | | | | <u>₩ 14,521,116</u> | <u>₩ 14,524,228</u> | <u>₩ 14,484,809</u> |

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

(*2) SK Innovation Co., Ltd. and 6 others were classified as investment in subsidiaries as the Company is able to exercise de facto control. Although the Company holds less than the majority of voting shares, it is determined that the Company has control over the investees as the remaining voting rights are widely dispersed.

(*3) Classified as investment in subsidiaries as it was determined that the Company has control over the investee using indirect equity ownership through the Company's other subsidiaries.

(*4) During the current reporting period, the Company acquired 26.65% of SMCore, Inc. and voting rights of shares of the CEO has been delegated to the Company. Consequently, the Company classified SMCore, Inc. as its subsidiary.

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8. Investments in subsidiaries (cont'd)

(2) Fair value of marketable investments in subsidiaries as at March 31, 2017 is as follows (Korean won in millions):

| | <u>March 31, 2017</u> | |
|-------------------------|-----------------------|-----------|
| SK Innovation Co., Ltd. | ₩ | 5,142,151 |
| SK Telecom Co., Ltd. | | 5,131,590 |
| SK Networks Co., Ltd. | | 725,657 |
| SKC Co., Ltd. | | 474,012 |
| SK Materials Co., Ltd. | | 841,512 |
| SMCore, Inc. | | 74,616 |

9. Investments in associates and joint ventures

Details of investments in associates and joint ventures as at March 31, 2017 and December 31, 2016 are as follows (Korean won in millions):

| | Domicile | Principal business activity | Equity ownership | <u>March 31, 2017</u> | | | December 31, 2016 |
|-----------------------------------|-----------|-----------------------------|------------------|-----------------------|------------------|------------------|-------------------|
| | | | | Acquisition cost | Book value | Book value | |
| Investments in associates: | | | | | | | |
| SBS Golf Co., Ltd. | Korea | Cable broadcast | 21.38% | ₩ 3,300 | ₩ 8,554 | ₩ 8,554 | |
| Mobile TCS Co., Ltd. | Korea | Mobile service | 41.00% | 820 | 820 | 820 | |
| Daehan Kanggun BcN Co., Ltd. (*1) | Korea | Wired communication | 0.20% | 58 | 58 | 58 | |
| FSK Holdings Co., Ltd. | Hong Kong | IT service | 30.00% | 11,937 | 11,937 | 11,937 | |
| Mozido Corfire, Inc. (*2) | USA | System consulting | 19.94% | 6,767 | - | - | |
| SOCAR, Inc. | Korea | Rental of cars | 20.00% | 58,860 | 58,860 | 58,860 | |
| 9352-7281 Quebec Inc. (*3) | Canada | Investment | 40.09% | 31,558 | 31,558 | - | |
| | | | | <u>113,300</u> | <u>111,787</u> | <u>80,229</u> | |
| Investments in joint ventures: | | | | | | | |
| Hana Land Chip PEF 33 (*1) | Korea | Real estate | 13.51% | 40,000 | 40,000 | 40,000 | |
| | | | | <u>₩ 153,300</u> | <u>₩ 151,787</u> | <u>₩ 120,229</u> | |

(*1) 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.

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

(*3) The investment in the entity was acquired during the current reporting period.

10. Property, plant and equipment

(1) Details of property, plant and equipment as at March 31, 2017 and December 31, 2016 are as follows (Korean won in millions):

| | <u>March 31, 2017</u> | | | <u>December 31, 2016</u> | | |
|--------------------------|-----------------------|--------------------------|------------------|--------------------------|--------------------------|------------------|
| | Acquisition cost | Accumulated depreciation | Book value | Acquisition cost | Accumulated depreciation | Book value |
| Land | ₩ 173,818 | ₩ - | ₩ 173,818 | ₩ 173,818 | ₩ - | ₩ 173,818 |
| Buildings | 483,169 | (96,764) | 386,405 | 483,169 | (92,920) | 390,249 |
| Structures | 7,041 | (222) | 6,819 | 7,041 | (156) | 6,885 |
| Machinery and equipment | 427 | (383) | 44 | 425 | (383) | 42 |
| Vehicles | 9,014 | (2,156) | 6,858 | 7,939 | (2,020) | 5,919 |
| Furniture and fixtures | 309,221 | (207,677) | 101,544 | 309,520 | (203,943) | 105,577 |
| Construction-in-progress | 2,872 | - | 2,872 | 1,891 | - | 1,891 |
| | <u>₩ 985,562</u> | <u>₩ (307,202)</u> | <u>₩ 678,360</u> | <u>₩ 983,803</u> | <u>₩ (299,422)</u> | <u>₩ 684,381</u> |

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10. Property, plant and equipment (cont'd)

(2) Details of changes in property, plant and equipment for the three months ended March 31, 2017 and 2016 are as follows (Korean won in millions):

| For the three months ended March 31, 2017 | | | | | | |
|-------------------------------------------|-------------------|----------------|-------------------|---------------|------------|------------------|
| | Beginning balance | Acquisition | Depreciation | Disposal | Transfer | Ending balance |
| Land | ₩ 173,818 | ₩ - | ₩ - | ₩ - | ₩ - | ₩ 173,818 |
| Buildings | 390,249 | - | (3,844) | - | - | 386,405 |
| Structures | 6,885 | - | (66) | - | - | 6,819 |
| Machinery and equipment | 42 | 6 | (4) | - | - | 44 |
| Vehicles | 5,919 | 1,134 | (165) | (30) | - | 6,858 |
| Furniture and fixtures | 105,577 | 3,836 | (7,823) | (48) | 2 | 101,544 |
| Construction-in-progress | 1,891 | 983 | - | - | (2) | 2,872 |
| | <u>₩ 684,381</u> | <u>₩ 5,959</u> | <u>₩ (11,902)</u> | <u>₩ (78)</u> | <u>₩ -</u> | <u>₩ 678,360</u> |

| For the three months ended March 31, 2016 | | | | | | |
|-------------------------------------------|-------------------|-----------------|-------------------|----------------|------------|------------------|
| | Beginning balance | Acquisition | Depreciation | Disposal | | Ending balance |
| Land | ₩ 163,134 | ₩ - | ₩ - | ₩ - | ₩ - | ₩ 163,134 |
| Buildings | 337,160 | - | (3,504) | - | - | 333,656 |
| Structures | 881 | - | - | - | - | 881 |
| Machinery and equipment | 33 | 19 | (4) | - | - | 48 |
| Vehicles | 6,995 | 158 | (299) | (116) | - | 6,738 |
| Furniture and fixtures | 85,096 | 8,115 | (6,988) | (30) | - | 86,193 |
| Construction-in-progress | 71,939 | 12,196 | - | (4) | - | 84,131 |
| | <u>₩ 665,238</u> | <u>₩ 20,488</u> | <u>₩ (10,795)</u> | <u>₩ (150)</u> | <u>₩ -</u> | <u>₩ 674,781</u> |

11. Investment property

(1) Details of investment properties as at March 31, 2017 and December 31, 2016 are as follows (Korean won in millions):

| | March 31, 2017 | | | December 31, 2016 | | |
|-----------|------------------|--------------------------|-----------------|-------------------|--------------------------|-----------------|
| | Acquisition cost | Accumulated depreciation | Book value | Acquisition cost | Accumulated depreciation | Book value |
| Land | ₩ 31,395 | ₩ - | ₩ 31,395 | ₩ 31,395 | ₩ - | ₩ 31,395 |
| Buildings | 9,810 | (711) | 9,099 | 9,810 | (604) | 9,206 |
| | <u>₩ 41,205</u> | <u>₩ (711)</u> | <u>₩ 40,494</u> | <u>₩ 41,205</u> | <u>₩ (604)</u> | <u>₩ 40,601</u> |

(2) Changes in investment properties for the three months ended March 31, 2017 and 2016 are as follows (Korean won in millions):

| For the three months ended March 31, 2017 | | | | | | |
|-------------------------------------------|-------------------|-------------|----------------|------------|------------|-----------------|
| | Beginning balance | Acquisition | Depreciation | | | Ending balance |
| Land | ₩ 31,395 | ₩ - | ₩ - | ₩ - | ₩ - | ₩ 31,395 |
| Buildings | 9,206 | - | (107) | - | - | 9,099 |
| | <u>₩ 40,601</u> | <u>₩ -</u> | <u>₩ (107)</u> | <u>₩ -</u> | <u>₩ -</u> | <u>₩ 40,494</u> |

| For the three months ended March 31, 2016 | | | | | | |
|-------------------------------------------|-------------------|-------------|----------------|------------|------------|-----------------|
| | Beginning balance | Acquisition | Depreciation | | | Ending balance |
| Land | ₩ 31,395 | ₩ - | ₩ - | ₩ - | ₩ - | ₩ 31,395 |
| Buildings | 9,632 | - | (107) | - | - | 9,525 |
| | <u>₩ 41,027</u> | <u>₩ -</u> | <u>₩ (107)</u> | <u>₩ -</u> | <u>₩ -</u> | <u>₩ 40,920</u> |

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12. Intangible assets

(1) Details of intangible assets as at March 31, 2017 and December 31, 2016 are as follows (Korean won in millions):

| | March 31, 2017 | | | | December 31, 2016 | | | |
|-----------------------------------|--------------------|--------------------------|------------------------|--------------------|--------------------|--------------------------|------------------------|--------------------|
| | Acquisition cost | Accumulated amortization | Accumulated impairment | Book value | Acquisition cost | Accumulated amortization | Accumulated impairment | Book value |
| Development costs | ₩ 91,670 | ₩ (42,679) | ₩ (2,688) | ₩ 46,303 | ₩ 87,412 | ₩ (39,926) | ₩ (2,688) | ₩ 44,798 |
| Goodwill | 4,639 | - | - | 4,639 | 4,639 | - | - | 4,639 |
| Memberships | 53,331 | - | (13,648) | 39,683 | 49,077 | - | (13,648) | 35,429 |
| Brand contract -related assets | 1,975,000 | - | - | 1,975,000 | 1,975,000 | - | - | 1,975,000 |
| Others | 30,511 | (1,647) | - | 28,864 | 30,447 | (1,588) | - | 28,859 |
| | <u>₩ 2,155,151</u> | <u>₩ (44,326)</u> | <u>₩ (16,336)</u> | <u>₩ 2,094,489</u> | <u>₩ 2,146,575</u> | <u>₩ (41,514)</u> | <u>₩ (16,336)</u> | <u>₩ 2,088,725</u> |

(2) Changes in intangible assets for the three months ended March 31, 2017 and 2016 are as follows (Korean won in millions):

| | For the three months ended March 31, 2017 | | | | | |
|----------------------------------------|-------------------------------------------|----------------|------------------|------------|----------------|--------------------|
| | Beginning balance | Acquisition | Depreciation | Impairment | Disposal | Ending balance |
| Development costs | ₩ 44,798 | ₩ 4,258 | ₩ (2,753) | ₩ - | ₩ - | ₩ 46,303 |
| Goodwill | 4,639 | - | - | - | - | 4,639 |
| Memberships (*1) | 35,429 | 4,501 | - | - | (247) | 39,683 |
| Brand contract -related assets (*1) | 1,975,000 | - | - | - | - | 1,975,000 |
| Others | 28,859 | 64 | (59) | - | - | 28,864 |
| | <u>₩ 2,088,725</u> | <u>₩ 8,823</u> | <u>₩ (2,812)</u> | <u>₩ -</u> | <u>₩ (247)</u> | <u>₩ 2,094,489</u> |

| | For the three months ended March 31, 2016 | | | | | |
|----------------------------------------|-------------------------------------------|-----------------|------------------|----------------|------------------|--------------------|
| | Beginning balance | Acquisition | Depreciation | Impairment | Disposal | Ending balance |
| Development costs | ₩ 40,792 | ₩ 3,311 | ₩ (2,982) | ₩ (967) | ₩ - | ₩ 40,154 |
| Goodwill | 4,639 | - | - | - | - | 4,639 |
| Memberships (*1) | 31,816 | 4,774 | - | - | (2,987) | 33,603 |
| Brand contract -related assets (*1) | 1,975,000 | - | - | - | - | 1,975,000 |
| Others | 905 | 23,201 | (76) | - | - | 24,030 |
| | <u>₩ 2,053,152</u> | <u>₩ 31,286</u> | <u>₩ (3,058)</u> | <u>₩ (967)</u> | <u>₩ (2,987)</u> | <u>₩ 2,077,426</u> |

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

13. Borrowings and bonds payable

(1) Short-term borrowings

Details of short-term borrowings as at March 31, 2017 and December 31, 2016 are as follows (Korean won in millions):

| Description | Financial institution | Interest rate (%) | March 31, 2017 | December 31, 2016 |
|----------------------|-------------------------------|-------------------|----------------|-------------------|
| Working capital loan | KEB Hana Bank | - | ₩ - | ₩ 10,000 |
| Working capital loan | Shinhan Bank | - | - | 50,000 |
| Working capital loan | Woori Bank | - | - | 10,000 |
| Working capital loan | Kookmin Bank | - | - | 90,000 |
| Commercial paper | Samsung Securities | - | - | 60,000 |
| Commercial paper | Korea Investment & Securities | - | - | 60,000 |
| | | | <u>₩ -</u> | <u>₩ 280,000</u> |

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13. Borrowings and bonds payable (cont'd)

(2) Bonds payable

Details of bonds payable as at March 31, 2017 and December 31, 2016 are as follows (Korean won in millions):

| Issuance number | Interest rate (%) | Maturity | Security | March 31, 2017 | December 31, 2016 |
|-----------------|-------------------|------------|-----------|--------------------|--------------------|
| 256-2nd | 3.78 | 2017-05-25 | Unsecured | ₩ 200,000 | ₩ 200,000 |
| 257-1st | 3.21 | 2017-08-27 | Unsecured | 150,000 | 150,000 |
| 257-2nd | 3.36 | 2019-08-27 | Unsecured | 100,000 | 100,000 |
| 258-1st | 3.21 | 2017-10-19 | Unsecured | 100,000 | 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 |
| 260-1st | 3.59 | 2018-09-06 | Unsecured | 100,000 | 100,000 |
| 260-2nd | 3.84 | 2020-09-06 | Unsecured | 100,000 | 100,000 |
| 261-1st | 3.77 | 2018-12-03 | Unsecured | 150,000 | 150,000 |
| 261-2nd | 3.97 | 2020-12-03 | Unsecured | 100,000 | 100,000 |
| 262-1st | 3.43 | 2019-02-12 | Unsecured | 150,000 | 150,000 |
| 262-2nd | 3.68 | 2021-02-12 | Unsecured | 100,000 | 100,000 |
| 263-1st | 3.19 | 2019-05-30 | Unsecured | 150,000 | 150,000 |
| 263-2nd | 3.36 | 2021-05-30 | Unsecured | 100,000 | 100,000 |
| 264-1st | 3.04 | 2019-08-05 | Unsecured | 80,000 | 80,000 |
| 264-2nd | 3.25 | 2021-08-05 | Unsecured | 170,000 | 170,000 |
| 265-1st | 2.28 | 2017-12-02 | Unsecured | 100,000 | 100,000 |
| 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 |
| 269-1st | 3.82 | 2017-06-14 | Unsecured | 100,000 | 100,000 |
| 269-2nd | 4.12 | 2019-06-14 | Unsecured | 150,000 | 150,000 |
| 270-1st | 3.19 | 2017-11-02 | Unsecured | 100,000 | 100,000 |
| 270-2nd | 3.39 | 2019-11-02 | Unsecured | 50,000 | 50,000 |
| 270-3rd | 3.80 | 2022-11-02 | Unsecured | 50,000 | 50,000 |
| 271-1st | 3.03 | 2018-02-27 | Unsecured | 100,000 | 100,000 |
| 271-2nd | 3.34 | 2020-02-27 | Unsecured | 100,000 | 100,000 |
| 272-2nd | 3.57 | 2018-08-30 | Unsecured | 100,000 | 100,000 |
| 272-3rd | 3.92 | 2020-08-30 | Unsecured | 60,000 | 60,000 |
| 273-1st | 3.47 | 2019-03-25 | Unsecured | 100,000 | 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 |
| 274-1st | 1.94 | 2018-09-30 | Unsecured | 70,000 | 70,000 |
| 274-2nd | 2.17 | 2020-09-30 | Unsecured | 150,000 | 150,000 |
| 274-3rd | 2.34 | 2022-09-30 | Unsecured | 80,000 | 80,000 |
| 275-1st | 2.27 | 2018-12-07 | Unsecured | 120,000 | 120,000 |
| 275-2nd | 2.52 | 2020-12-07 | Unsecured | 120,000 | 120,000 |
| 275-3rd | 2.66 | 2022-12-07 | Unsecured | 60,000 | 60,000 |
| 276-1st | 1.73 | 2018-03-07 | Unsecured | 130,000 | 130,000 |
| 276-2nd | 2.02 | 2021-03-07 | Unsecured | 120,000 | 120,000 |
| 276-3rd | 2.26 | 2023-03-07 | Unsecured | 150,000 | 150,000 |
| 277-1st | 1.70 | 2018-06-01 | Unsecured | 100,000 | 100,000 |
| 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 |
| 278-1st | 1.49 | 2018-09-07 | Unsecured | 180,000 | 180,000 |
| 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 | - |
| 279-2nd | 2.34 | 2022-03-06 | Unsecured | 190,000 | - |
| 279-3rd | 2.58 | 2024-03-06 | Unsecured | 120,000 | - |
| | | | | <u>5,810,000</u> | <u>5,410,000</u> |
| | | | | 44,274 | 51,658 |
| | | | | <u>(982,040)</u> | <u>(754,262)</u> |
| | | | | <u>₩ 4,872,234</u> | <u>₩ 4,707,396</u> |

Addition: premium on bonds payable
Less: current portion

SK Holdings Co., Ltd.
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13. Borrowings and bonds payable (cont'd)

(3) The Company's bonds payable repayment schedule as at March 31, 2017 is as follows (Korean won in millions):

| <u>Year ending</u> | <u>Amount of repayment</u> |
|--------------------------------|----------------------------|
| April 1, 2017 ~ March 31, 2018 | ₩ 980,000 |
| April 1, 2018 ~ March 31, 2019 | 1,070,000 |
| April 1, 2019 ~ March 31, 2020 | 1,070,000 |
| April 1, 2020 ~ March 31, 2021 | 950,000 |
| April 1, 2021 and thereafter | 1,740,000 |
| | <u>₩ 5,810,000</u> |

14. Provisions

Changes in provisions for the three months ended March 31, 2017 and 2016 are as follows (Korean won in millions):

| | <u>For the three months ended March 31, 2017</u> | | | |
|----------------------------------|--------------------------------------------------|-----------------|------------------|-----------------------|
| | <u>Beginning balance</u> | <u>Increase</u> | <u>Decrease</u> | <u>Ending balance</u> |
| Provision for service warranties | ₩ 5,284 | ₩ 563 | ₩ (1,584) | ₩ 4,263 |
| Provision for sale warranties | 814 | 1,403 | (1,237) | 980 |
| | <u>₩ 6,098</u> | <u>₩ 1,966</u> | <u>₩ (2,821)</u> | <u>₩ 5,243</u> |
| | <u>For the three months ended March 31, 2016</u> | | | |
| | <u>Beginning balance</u> | <u>Increase</u> | <u>Decrease</u> | <u>Ending balance</u> |
| Provision for service warranties | ₩ 4,620 | ₩ 2,617 | ₩ (2,992) | ₩ 4,245 |
| Provision for sale warranties | 680 | 74 | - | 754 |
| | <u>₩ 5,300</u> | <u>₩ 2,691</u> | <u>₩ (2,992)</u> | <u>₩ 4,999</u> |

The Company estimates a provision for service warranties for revenue from projects based on historical claim rates and past experiences. The Company recognizes a provision for sales warranties for products sold and services rendered, based on the weighted average of possible outcomes.

15. Retirement benefit obligation

(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 three months ended March 31, 2017, were ₩4 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 retirement benefit obligation as at March 31, 2017 and December 31, 2016 are as follows (Korean won in millions):

| | <u>March 31, 2017</u> | <u>December 31, 2016</u> |
|---------------------------------------------|-----------------------|--------------------------|
| Present value of defined benefit obligation | ₩ 251,698 | ₩ 237,311 |
| Fair value of plan assets | (202,748) | (204,244) |
| | <u>₩ 48,950</u> | <u>₩ 33,067</u> |

SK Holdings Co., Ltd.
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15. Retirement benefit obligation (cont'd)

(4) Changes in the retirement benefit obligation for the three months ended March 31, 2017 and 2016 are as follows (Korean won in millions):

| | <u>For the three months ended March 31, 2017</u> | | |
|-------------------------------------------------------------------------------|---------------------------------------------------|------------------------------|-----------------|
| | Present value of defined benefit obligation | Fair value of plan assets | Total |
| Beginning balance | ₩ 237,311 | ₩ (204,244) | ₩ 33,067 |
| Provision for pension benefits: | | | |
| Current service cost | 10,937 | - | 10,937 |
| Net interest expense (income) | 1,334 | (1,271) | 63 |
| Re-measurement: | | | |
| Return on plan assets (excluding amounts included in net interest expense) | - | (370) | (370) |
| Actuarial changes arising from changes in financial assumptions | (1,014) | - | (1,014) |
| Experience adjustments | 3,957 | - | 3,957 |
| Benefit paid | (6,159) | 8,240 | 2,081 |
| Others | 5,332 | (5,103) | 229 |
| Ending balance | <u>₩ 251,698</u> | <u>₩ (202,748)</u> | <u>₩ 48,950</u> |

| | <u>For the three months ended March 31, 2016</u> | | |
|-------------------------------------------------------------------------------|---------------------------------------------------|------------------------------|-----------------|
| | Present value of defined benefit obligation | Fair value of plan assets | Total |
| Beginning balance | ₩ 211,451 | ₩ (185,030) | ₩ 26,421 |
| Provision for pension benefits: | | | |
| Current service cost | 6,743 | - | 6,743 |
| Net interest expense (income) | 1,148 | (1,131) | 17 |
| Re-measurement: | | | |
| Return on plan assets (excluding amounts included in net interest expense) | - | 320 | 320 |
| Actuarial changes arising from changes in financial assumptions | 4,491 | - | 4,491 |
| Experience adjustments | 2,228 | - | 2,228 |
| Contributions by employer directly to plan assets | - | (514) | (514) |
| Benefit paid | (1,760) | 2,641 | 881 |
| Others | 963 | (952) | 11 |
| Ending balance | <u>₩ 225,264</u> | <u>₩ (184,666)</u> | <u>₩ 40,598</u> |

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16. Other assets and liabilities

(1) Details of other assets as at March 31, 2017 and December 31, 2016 are as follows (Korean won in millions):

| | <u>March 31, 2017</u> | <u>December 31, 2016</u> |
|---------------------------------|-----------------------|--------------------------|
| Current assets: | | |
| Short-term loans | ₩ 600 | ₩ 1,500 |
| Accrued income | 222 | 169 |
| Advance payments | 70,614 | 9,287 |
| Prepaid expenses | 11,435 | 7,852 |
| Guarantee deposits | 3,699 | 3,671 |
| Derivative financial assets | 5,570 | 1,094 |
| Others | 40 | 22 |
| | <u>₩ 92,180</u> | <u>₩ 22,695</u> |
| Non-current assets: | | |
| Long-term financial instruments | ₩ 19 | ₩ 19 |
| Long-term guarantee deposits | 16,127 | 16,763 |
| Derivative financial assets | 33 | - |
| Others | 4,432 | 4,641 |
| | <u>₩ 20,611</u> | <u>₩ 21,423</u> |

(2) Details of other liabilities as at March 31, 2017 and December 31, 2016 are as follows (Korean won in millions):

| | <u>March 31, 2017</u> | <u>December 31, 2016</u> |
|----------------------------------|-----------------------|--------------------------|
| Current liabilities: | | |
| Advance received | ₩ 51,544 | ₩ 55,028 |
| Withholdings | 23,665 | 26,513 |
| Income tax payable | 39,599 | 22,721 |
| Derivative financial liabilities | 1,446 | 1,541 |
| Others | 74 | 74 |
| | <u>₩ 116,328</u> | <u>₩ 105,877</u> |
| Non-current liabilities: | | |
| Leasehold deposits received | ₩ 12,223 | ₩ 12,223 |
| Derivative financial liabilities | 16 | 115 |
| Others | 4,970 | 4,942 |
| | <u>₩ 17,209</u> | <u>₩ 17,280</u> |

17. 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. Details of assets and liabilities after valuation as at March 31, 2017 and December 31, 2016 are as follows (Korean won in millions):

| | <u>March 31, 2017</u> | | <u>December 31, 2016</u> | |
|------------------|-----------------------|--------------------|--------------------------|--------------------|
| | <u>Assets</u> | <u>Liabilities</u> | <u>Assets</u> | <u>Liabilities</u> |
| Forward contract | ₩ 5,603 | ₩ 1,462 | ₩ 1,094 | ₩ 1,656 |

SK Holdings Co., Ltd.
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18. Equity

18.1 Issued capital

Details of issued capital as at March 31, 2017 and December 31, 2016 are as follows (Korean won in millions):

| | <u>March 31, 2017</u> | <u>December 31, 2016</u> |
|----------------------------------------|-----------------------|--------------------------|
| Number of shares authorized for issued | 400,000,000 | 400,000,000 |
| Per share (Korean won) | ₩ 200 | ₩ 200 |
| Number of shares issued: | | |
| Ordinary share | 70,360,297 | 70,360,297 |
| Preferred share | 566,135 | 566,135 |
| Issued capital: | | |
| Ordinary share | ₩ 15,272 | ₩ 15,272 |
| Preferred share | 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.

18.2 Other paid-in capital

Details of other paid-in capital as at March 31, 2017 and December 31, 2016 are as follows (Korean won in millions):

| | <u>March 31, 2017</u> | <u>December 31, 2016</u> |
|----------------------|-----------------------|--------------------------|
| Paid-in surplus (*1) | ₩ 5,605,831 | ₩ 5,605,831 |
| Treasury shares (*2) | (904,490) | (904,490) |
| Stock option | 31 | - |
| Others | 17,711 | 17,711 |
| | <u>₩ 4,719,083</u> | <u>₩ 4,719,052</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 at March 31, 2017, 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 (11,021,664 ordinary shares and 1,818 preferred shares) during the merger in 2015. There are no additional acquisitions or disposals during the current period.

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18.3 Retained earnings

Details of retained earnings as at March 31, 2017 and December 31, 2016 are as follows (Korean won in millions):

| | <u>March 31, 2017</u> | <u>December 31, 2016</u> |
|----------------------------------|-----------------------|--------------------------|
| Legal reserve (*1) | ₩ 7,693 | ₩ 7,693 |
| Voluntary reserve | 71,563 | 80,896 |
| Unappropriated retained earnings | <u>7,484,668</u> | <u>7,094,634</u> |
| | <u>₩ 7,563,924</u> | <u>₩ 7,183,223</u> |

(*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.

18.4 Other capital components

Details of other capital components as at March 31, 2017 and December 31, 2016 are as follows (Korean won in millions):

| | <u>March 31, 2017</u> | <u>December 31, 2016</u> |
|---------------------------------------------|-----------------------|--------------------------|
| Gain on available-for-sale financial assets | ₩ 12,166 | ₩ 8,041 |

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18.5 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:

| | 1-1 | 1-2 | 1-3 |
|------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------|---------------------------------------|
| 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 | 224,400 | 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 ₩31 million and the remaining share compensation expense to be recognized in later periods are ₩4,256 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:

| | 1-1 | 1-2 | 1-3 |
|-------------------------------------------------------------------|---------|---------|---------|
| 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 | 224,400 | 263,950 |
| Fair value per share (Korean won) | 38,317 | 34,200 | 30,962 |

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19. Operating revenues

(1) Details of operating revenues for the three months ended March 31, 2017 and 2016 are as follows (Korean won in millions):

| | For the three months ended | |
|------------------------|----------------------------|--------------------|
| | March 31, 2017 | March 31, 2016 |
| IT Service (*1) | ₩ 355,948 | ₩ 276,878 |
| Used car distribution | 225,337 | 195,547 |
| Dividend income | 593,433 | 574,626 |
| Trademark usage income | 51,028 | 59,549 |
| Rental income | 11,469 | 11,868 |
| | <u>₩ 1,237,215</u> | <u>₩ 1,118,468</u> |

(*1) Includes contract revenue of ₩80,857 million and ₩64,576 million recognized from construction contract for the three months ended March 31, 2017 and 2016, respectively.

(2) Details of accumulated cost, accumulated profit, unbilled receivables, overbilled receivables related to construction contracts in progress as at March 31, 2017 and December 31, 2016 are as follows (Korean won in millions):

| | March 31, 2017 | December 31, 2016 |
|--------------------------------------------------|----------------|-------------------|
| Accumulated cost and profit | ₩ 239,124 | ₩ 307,039 |
| Progress billings | 169,728 | 248,995 |
| Unbilled receivables (trade accounts receivable) | 80,981 | 70,468 |
| Overbilled receivables (advance receipts) | 11,585 | 12,424 |

(3) Details of construction profit variation by changes of accounting estimates related to construction contracts as at March 31, 2017 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) |
|-----------------------------|------------------------------------------|--------------------------|----------------------------------------|---------------------------------------|
| Construction contracts (*1) | ₩ 6,297 | ₩ 5,012 | ₩ 574 | ₩ 711 |

(*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 construction costs based on the situations which occurred from the inception of construction contract to current reporting period and the estimated construction revenue as at current reporting period. Estimated construction cost and revenue can be changed in the future period.

(4) There are no construction contracts where the percentage of work completed is measured based on the ratio of total costs incurred to date to the total estimated contract costs, and the contract revenue exceeds 5% of the preceding year's revenue.

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20. Operating expenses

Details of operating expenses for the three months ended March 31, 2017 and 2016 are as follows (Korean won in millions):

| | For the three months ended | |
|--------------------------------|----------------------------|------------------|
| | March 31, 2017 | March 31, 2016 |
| Material costs | ₩ 272,477 | ₩ 202,527 |
| Outsourcing costs | 136,797 | 112,800 |
| Salaries | 81,523 | 71,779 |
| Provision for pension benefits | 10,573 | 6,814 |
| Depreciation | 11,471 | 10,142 |
| Rents | 11,763 | 11,481 |
| Communications | 5,750 | 5,739 |
| Employee welfare benefits | 13,296 | 12,907 |
| Commissions | 5,895 | 9,038 |
| Supplies | 920 | 888 |
| Education and training | 3,763 | 2,995 |
| Research and development | 5,145 | 3,798 |
| Office management | 9,485 | 7,373 |
| Travel | 3,247 | 3,024 |
| Others | 12,832 | 12,453 |
| | <u>₩ 584,937</u> | <u>₩ 473,758</u> |

21. Expenses classified based on nature of expense

Details of classification based on nature of expenses for the three months ended March 31, 2017 and 2016 are as follows (Korean won in millions):

| | For the three months ended | |
|--------------------------------|----------------------------|------------------|
| | March 31, 2017 | March 31, 2016 |
| Material costs | ₩ 272,536 | ₩ 202,682 |
| Outsourcing costs | 137,026 | 113,027 |
| Salaries | 83,865 | 72,292 |
| Provision for pension benefits | 11,004 | 6,991 |
| Depreciation and amortization | 14,821 | 13,960 |
| Rents | 11,764 | 11,482 |
| Communications | 5,750 | 5,739 |
| Employee welfare benefits | 13,690 | 13,180 |
| Commissions | 5,958 | 9,039 |
| Education and training | 3,820 | 3,047 |
| Office management | 9,486 | 8,261 |
| Travel | 3,273 | 3,147 |
| Others | 11,944 | 10,911 |
| | <u>₩ 584,937</u> | <u>₩ 473,758</u> |

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22. Financial income (costs) and other non-operating income (expenses)

22.1 Financial income and costs

Details of financial income and costs for the three months ended March 31, 2017 and 2016 are as follows (Korean won in millions):

| | For the three months ended | |
|------------------------------------------------|----------------------------|-----------------|
| | March 31, 2017 | March 31, 2016 |
| Financial income: | | |
| Interest income | ₩ 541 | ₩ 754 |
| Gain on foreign currency transactions | 2,482 | 584 |
| Gain on foreign currency translation | 204 | 129 |
| Gain on valuation of derivative instruments | 5,998 | 619 |
| Gain on transactions of derivative instruments | 1,512 | 174 |
| | <u>₩ 10,737</u> | <u>₩ 2,260</u> |
| | | |
| | For the three months ended | |
| | March 31, 2017 | March 31, 2016 |
| Financial costs: | | |
| Interest expenses | ₩ 35,810 | ₩ 36,185 |
| Loss on foreign currency transactions | 1,272 | 810 |
| Loss on foreign currency translation | 1,995 | 602 |
| Loss on valuation of derivative instruments | 2,419 | 56 |
| Loss on transactions of derivative instruments | 389 | 296 |
| | <u>₩ 41,885</u> | <u>₩ 37,949</u> |

22.2 Other non-operating income and expenses

Details of other non-operating income and expenses for the three months ended March 31, 2017 and 2016 are as follows (Korean won in millions):

| | For the three months ended | |
|---------------------------------------------------------|----------------------------|----------------|
| | March 31, 2017 | March 31, 2016 |
| Other non-operating income: | | |
| Dividends income | ₩ 3 | ₩ 474 |
| Gain on disposal of available-for-sale financial assets | - | 125 |
| Gain on disposal of investments in associates | - | 1,320 |
| Gain on disposal of property, plant and equipment | 46 | 26 |
| Gain on disposal of intangible assets | - | 167 |
| Others | 132 | 322 |
| | <u>₩ 181</u> | <u>₩ 2,434</u> |
| Other non-operating expenses: | | |
| Loss on disposal of property, plant and equipment | ₩ 29 | ₩ 53 |
| Loss on disposal of intangible assets | 25 | 152 |
| Impairment of intangible assets | - | 967 |
| Donations | 3,018 | 130 |
| Others | 428 | 594 |
| | <u>₩ 3,500</u> | <u>₩ 1,896</u> |

SK Holdings Co., Ltd.
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for the three months ended March 31, 2017 and 2016

23. 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 three months ended March 31, 2017 and 2016 were 4.29% and 5.02%, respectively.

24. Earnings per share

(1) Basic earnings per share for the three months ended March 31, 2017 and 2016 are as follows (Korean won in millions, except per share information):

| | For the three months ended | |
|-----------------------------------------------------------------|----------------------------|----------------|
| | March 31, 2017 | March 31, 2016 |
| Net income | ₩ 591,317 | ₩ 578,962 |
| Less : Preferred share dividends | (529) | (487) |
| Net income attributable to ordinary share owners of the Company | 590,788 | 578,475 |
| Weighted-average number of issued shares outstanding (*1) | 55,824,357 | 55,824,357 |
| Basic earnings per share (Korean won) | ₩ 10,583 | ₩ 10,362 |

(*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.

(2) The weighted-average number of issued shares outstanding for the three months ended March 31, 2017 and 2016 are as follows:

| | For the three months ended | |
|------------------------------------------------------|----------------------------|----------------|
| | March 31, 2017 | March 31, 2016 |
| Weighted-average number of shares outstanding | 70,360,297 | 70,360,297 |
| Weighted-average number of treasury shares | (14,535,940) | (14,535,940) |
| Weighted-average number of issued shares outstanding | 55,824,357 | 55,824,357 |

25. Transactions with related parties

Details of significant transactions with related parties for the three months ended March 31, 2017 and 2016, and significant balances with related parties as at March 31, 2017 and December 31, 2016 are as follows (Korean won in millions):

(1) The subsidiaries of the Company as at March 31, 2017, are as follows:

| | Subsidiary |
|----------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Ultimate controlling party | Tae-won, Chey and related parties |
| Subsidiary (total 290) | SK Innovation Co., Ltd., SK Energy Co.,Ltd., Netruck Co., Ltd., Jeju United FC Corporation, SK Energy Road Investment 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 Shanghai Asphalt Co., Ltd., SK Energy Hong Kong Co., Ltd., Shandong SK Hightech Oil Co., Ltd., SK Global Chemical Co., Ltd., SK Global Chemical (China) Holding Co., Ltd., SK Global Chemical International Trading (Shanghai) Co., Ltd., SK Golden Tide Plastics (Yantai) Co., Ltd., SK Global Chemical International Trading (Guangzhou) Co., Ltd., Shanghai Huayou Internaional Freight Forwarding Co., Ltd., SK Global Chemical Americas, Inc., 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., Bergaya International Pte. Ltd., MOKGAM SERVICE, SK Lubricants Co., Ltd., Yubase Manufacturing Asia Corporation, SK Energy Lubricants (Tianjin) Co., Ltd., PT. Patra SK, SK Lubricants & Oils India Private Limited, SK Lubricants Americas, Inc., SK Lubricants Europe B.V., |

SK Holdings Co., Ltd.**Notes to the interim condensed separate financial statements
for the three months ended March 31, 2017 and 2016****25. Transactions with related parties (cont'd)**

| Subsidiary | Subsidiary |
|---------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Subsidiary (total 290) | SK Lubricants Japan Co., Ltd., Iberian Lube Base Oils S.A., SK Lubricants Russia LLC, Mobile Energy Co., Ltd., SK Innovation Insurance (Bermuda), Ltd., SK USA, Inc., Moche Energy Company, LLC, SK E&P Company, SK E&P America, Inc., SK Plymouth, LLC, SK Permian, LLC, SK Battery Systems Co., Ltd., SK Telecom Co., Ltd., SK Telink Co., Ltd., SK Broadband Co., Ltd., PS&Marketing Corp., Serviceace Co., Ltd., Service Top Co., Ltd., Networks Co., Ltd., NSOK Co., Ltd. (formely, Neosnetworks Co., Ltd.), SK techx Co.,Ltd., One store Co., Ltd., HelloNature Co., Ltd., SK Planet Co., Ltd., M&SERVICE Co., Ltd., SK Communications Co., Ltd., Stonebridge Cinema Fund, K-Net Culture & Contents Venture Fund, SK Planet Japan, K. K., SK Planet Global Pte. Ltd., SKP America LLC, shopkick Management Company, Inc., shopkick, Inc., SKP Global Holdings Pte. Ltd., SK Telecom China Holding Co., Ltd., SK Global Healthcare Business Company., Ltd., SKT Vietnam Pte. Ltd., SKT Americas Inc., YTK Investment Ltd., Atlas Investment Ltd., Technology Innovation Partners, L.P., SK Telecom China Fund I L.P., IRIVER LIMITED, iriver Inc., iriver Enterprise Ltd., iriver China Co., Ltd., Dongguan iriver Electronics Co., Ltd., Groovers JP Ltd., ENTRIX Co., Ltd., Planet11 E-commerce Solutions India Pvt. Ltd., 11street (Thailand) Co., Ltd., SK Networks Co., Ltd., SK Networks Service Co., Ltd., SK Pinx Co., Ltd., Car Life Service Co., Ltd., SKN (China) Holdings Co., Ltd., Liaoning SK Networks Real Estate Development Co., Ltd., Shenyang SK Bus Terminal Co., Ltd., Liaoning SK Networks Logistics Co., Ltd., Dandong SK Networks 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 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., SK Networks Japan Co., Ltd., SK Networks Deutschland GmbH, Daiyang SK Networks SAN. VE TIC. Ltd. STI, SK Networks Resources Australia Pty. Ltd., SK Magic Inc., Magic Service.Co.,Ltd., SKC Co., Ltd., SK Telesys Co., Ltd., SK Airgas Co., Ltd., SKC Solmics Co., Ltd., Solmics Taiwan Co., Ltd., Solmics Shanghai Co., Ltd., SKW 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., SE (JIANGSU) Electronic Materials Co., Ltd., Techdream Co., Ltd., SKC INFRA SERVICE Co., Ltd., SK Shipping Co., Ltd., GaSan 2nd L.L.C, BLUESEAOCEAN 1ST L.L.C, BLUESEAOCEAN 2ND L.L.C, With Ocean L.L.C, YUKYUNG 1ST L.L.C, NEPTUNE SOLUTION L.L.C, SK Shipping Hongkong Ltd., SK Shipping Singapore Pte. Ltd., SK B&T Pte. Ltd., Promise Shipholding S.A. and 63 other companies, SK Shipping Europe Plc., 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., Wiryee 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, Prism Energy International Pte. Ltd. (formely, SK LNG Trading Pte., Ltd.), PT SK E&S Nusantara, Fajar Energy International Pte. Ltd., 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, N-Compass Development, LLC, SKEC Consultores Ecquador, S.A., Sunlake Co., Ltd., SK E&C India Pvt. 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 Tri chem Co., Ltd., SK Infosec Co., Ltd., SK ENCARSALES.COM., Ltd., SK C&C Beijing Co., Ltd., SK C&C Chengdu Co., Ltd., SK C&C India Pvt. Ltd., SK MENA B.V., SK S.E.Asia Pte. Ltd., ESSENCORE Limited, ISD Technology (ShenZhen) Limited, S&G Technology, SK Biopharmaceuticals Co., Ltd., SK Biotek Co., Ltd., SK Life Science, Inc., SK China Company, Ltd., SK China (Beijing) Co., Ltd., SK Beijing Investment Management Ltd., SKY Property Mgmt (Beijing) Co., Ltd., SK Bio Energy HongKong Co., Ltd., SK Property Investment Management Co., Ltd., SK Industrial Development China Co., Ltd., Shanghai SKY Real Estate Development Co., Ltd., SK International Supply Chain Management Co., Ltd., Ningde Sky Beverage Co., Ltd., SK China Investment Management Co., Ltd., SK International Agro-Products Logistics Development Co., Ltd., SKY Property Management Ltd., SKY Investment Co., Ltd., |

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25. Transactions with related parties (cont'd)

| Subsidiary | Subsidiary |
|---------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Subsidiary (total 290) | SK China Real Estate Co., Ltd., SK China Creative Industry Development Co., Ltd., Gemini Partners Pte. Ltd., Solaris Partners Pte. Ltd., Beijing SK Magellan Capital Advisors Co., Ltd., SK GI Management, SK MENA Investment B.V., SK Latin Investment Americas S.A., SK Technology Innovation Company, HAPPYNARAE Co., Ltd., Suzhou HAPPYNARAE Co., Ltd., SK Forest Co., Ltd., FSK L&S Co., Ltd., Saturn Agriculture Investment Co., Ltd., SMCORE, Inc., PointCode Inc., SMC US, Inc. |

(2) Details of transactions with the related parties for the three months ended March 31, 2017 and 2016 are as follows (Korean won in millions):

| Subsidiary | Company name | For the three months ended March 31, | | | |
|------------|-------------------------------------------|--------------------------------------|-----------|---------------|-------|
| | | Sales (*1) | | Purchase (*2) | |
| | | 2017 | 2016 | 2017 | 2016 |
| | SK Innovation Co., Ltd. | ₩ 213,500 | ₩ 162,706 | ₩ 683 | ₩ 487 |
| | SK Biopharmaceuticals Co., Ltd. | 271 | 659 | - | - |
| | SK M & SERVICE Co., Ltd. | 74 | 56 | 704 | 425 |
| | Jeju United FC Corporation | 32 | 32 | - | - |
| | SK Lubricants Co., Ltd. | 3,214 | 2,895 | - | - |
| | SK Energy Co., Ltd. | 19,985 | 25,707 | - | - |
| | SK Global Chemical Co., Ltd. | 6,358 | 7,546 | - | - |
| | SK Incheon Petrochem Co., Ltd. | 4,153 | 4,096 | - | - |
| | SK Trading International Co., Ltd. | 1,064 | 584 | - | - |
| | SK BIOTEK Co., Ltd. | 457 | 165 | - | - |
| | SK USA, Inc. | - | - | 504 | 261 |
| | SK Engineering & Construction Co., Ltd. | 7,349 | 7,376 | - | - |
| | SK TNS Co., Ltd. | 252 | 258 | - | - |
| | SK Forest Co., Ltd. | 32 | 26 | 247 | - |
| | SKC Co., Ltd. | 13,895 | 13,719 | - | - |
| | SK Telesys Co., Ltd. | 297 | 299 | - | - |
| | SK Mobile Energy Co., Ltd. | 63 | 78 | - | - |
| | SKC Solmics Co., Ltd. | 105 | 76 | - | - |
| | SK E&S Co., Ltd. | 154,868 | 220,177 | - | - |
| | Kangwon City Gas Co., Ltd. | 58 | 77 | - | - |
| | Yeongnam energy service Co., Ltd. | 239 | 311 | - | - |
| | Ko-one energy service Co., Ltd. | 340 | 426 | 13 | 14 |
| | Pusan City Gas Co., Ltd. | 497 | 397 | - | - |
| | Jeonbuk Energy Service Co., Ltd. | 51 | 65 | 27 | - |
| | Chonnam City Gas Co., Ltd. | 72 | 83 | - | - |
| | Chungcheong energy service Co., Ltd. | 154 | 188 | - | - |
| | SK Infosec Co., Ltd. | 972 | 890 | 4,479 | 2,302 |
| | SK ENCARSALES.COM., Ltd. | 5,349 | 4,066 | 221 | 383 |
| | SK C&C Beijing Co., Ltd. | 37 | 473 | 1,642 | 1,478 |
| | ESSENCORE Limited | 737 | 538 | - | - |
| | SK Networks Co., Ltd. | 21,724 | 22,032 | 5,112 | 4,906 |
| | HAPPYNARAE Co., Ltd. | 121 | 47 | 1,012 | 312 |
| | SK Networks Service Co., Ltd. | 283 | 829 | 258 | 511 |
| | SK Pinx Co., Ltd. | 9 | 9 | 1,373 | 631 |
| | SK Shipping Co., Ltd. | 1,589 | 1,702 | - | - |
| | SK Telecom Co., Ltd. | 274,995 | 274,760 | 2,680 | 2,892 |
| | SK Telink Co., Ltd. | 1,120 | 876 | 36 | 120 |
| | SK Communications Co., Ltd. | 44 | 61 | - | - |
| | SK techx Co., Ltd. | 4,549 | - | - | - |
| | SK Broadband Co., Ltd. | 57,571 | 21,596 | 2,507 | 2,203 |
| | PS&Marketing Corp. | 700 | 949 | 171 | 50 |
| | Serviceace Co., Ltd. | 83 | 92 | - | - |
| | Service Top Co., Ltd. | 82 | 89 | - | - |
| | Networkons Co., Ltd. | 423 | 167 | - | - |
| | SK Planet Co., Ltd. | 10,023 | 20,007 | 118 | 58 |
| | SK Materials Co., Ltd. | 19,687 | 48 | - | - |
| | Others | 612 | 158 | 46 | 14 |
| Others | Hana Land Chip PEF 33 | 1,629 | 1,728 | 8,226 | 8,629 |
| | SK D&D Co., Ltd. | 119 | 87 | - | - |
| | Mitsui Chemicals & SKC Polyurethanes Inc. | 198 | 257 | - | - |
| | SK Securities Co., Ltd. | 5,723 | 5,029 | - | - |
| | SK Gas Co., Ltd. | 1,910 | 2,445 | - | - |
| | SK Advanced Co., Ltd. | 237 | 309 | - | - |

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25. Transactions with related parties (cont'd)

| | | For the three months ended March 31, | | | |
|--------|-------------------------------------|--------------------------------------|------------------|-----------------|-----------------|
| | | Sales (*1) | | Purchase (*2) | |
| | Company name | 2017 | 2016 | 2017 | 2016 |
| Others | DONGBU POWER DANGJIN12 CORPORATION | 2 | 58 | - | - |
| | SK Chemicals Co., Ltd. | 1,164 | 1,574 | - | - |
| | Mobile TCS Co., Ltd. | 145 | 92 | - | - |
| | SK WYVERNS Co., Ltd. | 12 | 10 | - | 500 |
| | Konan Technology | - | - | 61 | 36 |
| | SK hynix Inc. | 61,658 | 41,829 | 62 | 23 |
| | SK hystec. Inc. | 179 | 95 | 122 | 45 |
| | SK hyeng Inc. | 78 | 70 | 6 | 3 |
| | SK hynix Semiconductor (China) Ltd. | 628 | - | 299 | - |
| | Others | 1,507 | 668 | 19 | - |
| | | <u>₩ 903,279</u> | <u>₩ 851,642</u> | <u>₩ 30,628</u> | <u>₩ 26,283</u> |

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

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

(3) Details of outstanding balances of receivables and payables with the related parties as at March 31, 2017 and December 31, 2016 are as follows (Korean won in millions):

| | | March 31, 2017 | | | | | |
|------------|-----------------------------------------|-------------------|-------------------|----------|----------------|----------------|---------|
| | | Receivables | | | Payables | | |
| | Company name | Trade receivables | Other receivables | Total | Trade payables | Other payables | Total |
| Subsidiary | SK Innovation Co., Ltd. | ₩ 14,387 | ₩ 199,281 | ₩213,668 | ₩ - | ₩ 5,216 | ₩ 5,216 |
| | SK M&SERIVCE Co., Ltd. | 15 | - | 15 | - | 227 | 227 |
| | SK Lubricants Co., Ltd. | 648 | - | 648 | - | 1,816 | 1,816 |
| | SK Energy Co., Ltd. | 3,364 | - | 3,364 | - | 6,365 | 6,365 |
| | SK Global Chemical Co., Ltd. | 1,958 | - | 1,958 | - | 3,063 | 3,063 |
| | SK Incheon Petrochem Co., Ltd. | 488 | - | 488 | - | 1,911 | 1,911 |
| | SK Trading International Co., Ltd. | 326 | - | 326 | - | 1,390 | 1,390 |
| | SK USA, Inc. | - | - | - | - | 445 | 445 |
| | SK Engineering & Construction Co., Ltd. | 4,788 | - | 4,788 | - | - | - |
| | SK Forest Co., Ltd. | - | 290 | 290 | - | - | - |
| | SKC Co., Ltd. | 1,508 | 11,543 | 13,051 | - | 125 | 125 |
| | SK Telesys Co., Ltd. | 284 | - | 284 | - | 14 | 14 |
| | SK E&S Co., Ltd. | 2,227 | - | 2,227 | - | 24 | 24 |
| | Pusan City Gas Co., Ltd. | 211 | - | 211 | - | - | - |
| | Chungcheong energy service Co., Ltd. | 12 | - | 12 | - | - | - |
| | SK Infosec Co., Ltd. | 521 | 15,176 | 15,697 | 905 | 2,256 | 3,161 |
| | SK ENCARSALLES.COM., Ltd. | - | 4,901 | 4,901 | - | 17 | 17 |
| | SK C&C Beijing Co., Ltd. | 142 | - | 142 | 419 | 5 | 424 |
| | ESSENCORE Limited | 672 | - | 672 | - | 38 | 38 |
| | SK Networks Co., Ltd. | 5,534 | 9,786 | 15,320 | 2 | 619 | 621 |
| | HAPPYNARAE Co., Ltd. | 111 | - | 111 | 340 | 183 | 523 |
| | SK Networks Service Co., Ltd. | 44 | - | 44 | 25 | 161 | 186 |
| | SK Shipping Co., Ltd. | 2,381 | - | 2,381 | - | - | - |
| | SK Telecom Co., Ltd. | 67,586 | 183,611 | 251,197 | 260 | 4,142 | 4,402 |
| | SK Telink Co., Ltd. | 496 | - | 496 | 4 | 47 | 51 |
| | SK Broadband Co., Ltd. | 61,950 | - | 61,950 | 741 | 3,092 | 3,833 |
| | PS&Marketing Corp. | 318 | - | 318 | - | - | - |
| | Networks Co., Ltd. | 509 | - | 509 | - | 102 | 102 |
| | SK Planet Co., Ltd. | 7,780 | - | 7,780 | - | 122 | 122 |
| | SK Biopharmaceuticals Co., Ltd. | 88 | - | 88 | - | 13 | 13 |
| | SK techx Co., Ltd. | 4,271 | - | 4,271 | - | 117 | 117 |
| | SK Materials Co., Ltd. | 110 | 18,384 | 18,494 | - | 69 | 69 |
| | Others | 1,243 | 53 | 1,296 | - | 131 | 131 |
| Others | Hana Land Chip PEF 33 | - | 7,356 | 7,356 | - | - | - |
| | SK Securities Co., Ltd. | 2,421 | - | 2,421 | - | 516 | 516 |
| | SK Gas Co., Ltd. | 623 | - | 623 | - | 3 | 3 |
| | SK Chemicals Co., Ltd. | 1,227 | - | 1,227 | - | - | - |
| | Hana Card Co., Ltd. | - | - | - | 8 | - | 8 |
| | SK hynix Inc. | 101,958 | - | 101,958 | - | 13,550 | 13,550 |

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

| | | March 31, 2017 | | | | | |
|--------------|-----------------------------------------|-------------------|------------------|------------------|----------------|-----------------|-----------------|
| | | Receivables | | | Payables | | |
| Company name | | Trade | Other | Total | Trade | Other | Total |
| | | receivables | receivables | | payables | payables | |
| | SK hynix Semiconductor (China) Ltd. | 2,922 | - | 2,922 | - | 1,033 | 1,033 |
| | Others | 3,516 | 148 | 3,664 | 95 | 1,542 | 1,637 |
| | | <u>₩ 296,639</u> | <u>₩ 450,529</u> | <u>₩ 747,168</u> | <u>₩ 2,799</u> | <u>₩ 48,354</u> | <u>₩ 51,153</u> |
| | | December 31, 2016 | | | | | |
| | | Receivables | | | Payables | | |
| Company name | | Trade | Other | Total | Trade | Other | Total |
| | | receivables | receivables | | payables | payables | |
| Subsidiary | SK Innovation Co., Ltd. | ₩ 19,472 | ₩ 199 | ₩ 19,671 | ₩ 5 | ₩ 5,155 | ₩ 5,160 |
| | SK M&SERIVCE Co., Ltd. | 89 | - | 89 | 11 | 44 | 55 |
| | SK Lubricants Co., Ltd. | 3,207 | - | 3,207 | - | 1,888 | 1,888 |
| | SK Energy Co., Ltd. | 8,198 | - | 8,198 | - | 6,509 | 6,509 |
| | SK Global Chemical Co., Ltd. | 2,475 | - | 2,475 | - | 2,374 | 2,374 |
| | SK Incheon Petrochem Co., Ltd. | 2,096 | - | 2,096 | - | 1,907 | 1,907 |
| | SK Trading International Co., Ltd. | 1,742 | - | 1,742 | - | 1,365 | 1,365 |
| | SK USA, Inc. | - | - | - | - | 393 | 393 |
| | SK Engineering & Construction Co., Ltd. | 5,994 | - | 5,994 | - | 56 | 56 |
| | SK Forest Co., Ltd. | - | 290 | 290 | - | - | - |
| | SKC Co., Ltd. | 1,451 | - | 1,451 | - | 3 | 3 |
| | SK Telesys Co., Ltd. | 392 | - | 392 | - | 40 | 40 |
| | SK E&S Co., Ltd. | 1,817 | - | 1,817 | - | - | - |
| | Pusan City Gas Co., Ltd. | 335 | - | 335 | - | - | - |
| | Chungcheong energy service Co., Ltd. | 12 | - | 12 | - | - | - |
| | SK Infosec Co., Ltd. | 2,031 | 23 | 2,054 | 3,855 | 4,114 | 7,969 |
| | SK ENCARSALLES.COM., Ltd. | - | 5,076 | 5,076 | - | 25 | 25 |
| | SK C&C Beijing Co., Ltd. | 281 | - | 281 | 454 | 209 | 663 |
| | ESSENCORE Limited | 1,142 | - | 1,142 | - | 34 | 34 |
| | SK Networks Co., Ltd. | 7,129 | 72 | 7,201 | 2 | 170 | 172 |
| | HAPPYNARAE Co., Ltd. | 133 | - | 133 | 827 | 175 | 1,002 |
| | SK Networks Service Co., Ltd. | 70 | - | 70 | 1,153 | 204 | 1,357 |
| | SK Shipping Co., Ltd. | 628 | - | 628 | - | - | - |
| | SK Telecom Co., Ltd. | 100,939 | 340 | 101,279 | 369 | 7,535 | 7,904 |
| | SK Telink Co., Ltd. | 289 | - | 289 | 2 | 16 | 18 |
| | SK Broadband Co., Ltd. | 68,504 | - | 68,504 | 819 | 3,499 | 4,318 |
| | PS&Marketing Corp. | 420 | - | 420 | - | - | - |
| | Networkons Co., Ltd. | 45 | - | 45 | - | - | - |
| | SK Planet Co., Ltd. | 15,716 | - | 15,716 | 9 | 124 | 133 |
| | SK Biopharmaceuticals Co., Ltd. | 156 | - | 156 | - | 16 | 16 |
| | SK techx Co., Ltd. | 6,437 | - | 6,437 | - | 423 | 423 |
| | SK Materials Co., Ltd. | 1,039 | - | 1,039 | - | 3 | 3 |
| | Others | 1,774 | - | 1,774 | - | 985 | 985 |
| Others | Hana Land Chip PEF 33 | - | 5,727 | 5,727 | - | - | - |
| | SK Securities Co., Ltd. | 2,648 | - | 2,648 | - | 160 | 160 |
| | SK Gas Co., Ltd. | 861 | - | 861 | - | - | - |
| | SK Chemicals Co., Ltd. | 1,454 | - | 1,454 | - | - | - |
| | Hana Card Co., Ltd. | - | - | - | 8 | - | 8 |
| | SK hynix Inc. | 105,205 | - | 105,205 | - | 13,294 | 13,294 |
| | SK hynix Semiconductor (China) Ltd. | 6,471 | - | 6,471 | - | 610 | 610 |
| | Others | 3,336 | 148 | 3,484 | 49 | 2,503 | 2,552 |
| | | <u>₩ 373,988</u> | <u>₩ 11,875</u> | <u>₩ 385,863</u> | <u>₩ 7,563</u> | <u>₩ 53,833</u> | <u>₩ 61,396</u> |

SK Holdings Co., Ltd.
Notes to the interim condensed separate financial statements
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25. Transactions with related parties (cont'd)

(4) Compensation for key management personnel of the Company for the three months ended March 31, 2017 and 2016 are as follows (Korean won in millions):

| | For the three months ended | |
|--------------------------------|----------------------------|----------------|
| | March 31, 2017 | March 31, 2016 |
| Salaries | ₩ 1,169 | ₩ 540 |
| Provision for pension benefits | 1,102 | 206 |
| | <u>₩ 2,271</u> | <u>₩ 746</u> |

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

(5) There are no significant transactions with related parties in relation to the investments during the current reporting period.

(6) Guarantees provided to related parties are described in Note 27.

26. Cash flow information

(1) Details of non-cash adjustments for the three months ended March 31, 2017 and 2016 are as follows (Korean won in millions):

| | For the three months ended | |
|---------------------------------------------------------|----------------------------|--------------------|
| | March 31, 2017 | March 31, 2016 |
| Provision for pension benefits | ₩ 11,000 | ₩ 6,760 |
| Depreciation | 11,902 | 10,795 |
| Depreciation of investment property | 107 | 107 |
| Amortization | 2,812 | 3,058 |
| Bad debt expenses | (95) | 164 |
| Outsourcing fees (provision for service warranties) | 1,966 | 2,691 |
| Interest expenses | 35,810 | 36,185 |
| Loss on foreign currency translation | 1,995 | 602 |
| Loss on valuation of derivative instruments | 2,419 | 56 |
| Loss on disposal of property, plant and equipment | 29 | 53 |
| Loss on disposal of intangible assets | 25 | 152 |
| Loss on impairment of intangible assets | - | 967 |
| Income tax expense | 26,494 | 30,597 |
| Reversal of service warranties | (1,303) | (179) |
| Dividends income | (593,436) | (575,100) |
| Interest income | (541) | (754) |
| Gain on foreign currency translation | (204) | (129) |
| Gain on valuation of derivative instruments | (5,998) | (619) |
| Gain on disposal of available-for-sale financial assets | - | (125) |
| Gain on disposal of investments in associates | - | (1,320) |
| Gain on disposal of property, plant and equipment | (46) | (26) |
| Gain on disposal of intangible assets | - | (167) |
| Others | 81 | 67 |
| | <u>₩ (506,983)</u> | <u>₩ (486,165)</u> |

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26. Cash flow information (cont'd)

(2) Details of working capital adjustments for the three months ended March 31, 2017 and 2016 are as follows (Korean won in millions):

| | For the three months ended | |
|----------------------------------|----------------------------|-------------------|
| | March 31, 2017 | March 31, 2016 |
| Trade accounts receivable | ₩ 68,210 | ₩ 79,136 |
| Other accounts receivable | (17,019) | (46) |
| Accrued income | (7) | (469) |
| Inventories | (2,291) | (19,198) |
| Advance payments | (61,327) | (753) |
| Prepaid expenses | (3,408) | (6,328) |
| Trade accounts payable | (33,194) | (713) |
| Advance received | (3,484) | (11,456) |
| Withholdings | (2,848) | (2,262) |
| Other accounts payable | (53,721) | (39,481) |
| Accrued expenses | (13,808) | (13,187) |
| Leasehold deposits received | - | (5) |
| Provision for service warranties | (1,518) | (2,813) |
| Retirement benefit obligation | (827) | (797) |
| Plan assets | 3,137 | 1,175 |
| Others | (1,141) | 713 |
| | <u>₩ (123,246)</u> | <u>₩ (16,484)</u> |

(3) Details of significant non-cash transactions for the three months ended March 31, 2017 and 2016 are as follows (Korean won in millions):

| | For the three months ended | |
|---------------------------------------------------------------------------------------------------|----------------------------|----------------|
| | March 31, 2017 | March 31, 2016 |
| Write-off of trade accounts receivable and others | ₩ - | ₩ 515 |
| Acquisitions of available-for-sale financial assets | - | 102 |
| Acquisition of investments in associates | - | 58,860 |
| Accounts payable regarding the acquisition of property, plant and equipment and intangible assets | (8,367) | 23,070 |
| Dividend payable | 208,666 | 191,750 |

27. Commitments and contingencies

(1) Guarantees provided by others for the Company's obligations and indebtedness as at March 31, 2017 and December 31, 2016 are as follows (Korean won in millions, and USD and VND in thousands):

| | Currency | March 31, 2017 | December 31, 2016 |
|--------------------------------------|----------|----------------|-------------------|
| Seoul Guarantee Insurance | KRW | 1,316 | 1,943 |
| Korea Software Financial Cooperative | KRW | 236,202 | 355,006 |
| The Export-Import Bank of Korea | USD | 2,659 | 2,659 |
| Korea Trade Insurance Corporation | USD | 6,587 | 6,587 |
| Korea Trade Insurance Corporation | VND | 90,113,661 | 90,113,661 |

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27. Commitments and contingencies (cont'd)

(2) Pending litigation

Details of significant pending litigations as at March 31, 2017 is as follows (Korean won in millions, US Dollar in thousands):

| | Plaintiff | Defendant | Description | Claim amount | Current status |
|-----------|-----------------------------------------------------------|------------------------|-------------------|--------------|--------------------------|
| Defendant | Samsung Card Co., Ltd. | Company | Claim for damages | KRW 2,831 | Second trial in progress |
| | Defense Acquisition Program administration | Company | Claim for damages | USD 19,673 | First trial in progress |
| | Korea Minting Security Printing & ID Card operating Corp. | Company | Claim for damages | KRW 2,000 | First trial in progress |
| Plaintiff | Company | Samsung Card Co., Ltd. | Claim for damages | KRW 5,564 | Second trial in progress |

As at March 31, 2017, the Company is unable to determine the ultimate outcomes of the above litigations.

(3) The assets pledged as collateral for the Company's guarantee of implementation of the agreement as at March 31, 2017 are as follows (Korean won in millions):

| | Book value | Collateralized amount | Reason for collateral | Collateral beneficiary |
|--------------------|------------|-----------------------|----------------------------------------------|-----------------------------|
| Land and buildings | ₩ 9,470 | ₩ 1,700 | Guarantee of implementation of the agreement | RCI Financial Service Korea |

(4) Significant commitments

- 1) HPEIK V SGPS LDA participated in new share issue of SK Shipping Co., Ltd. in the amount of 21,132,075 shares (issue price per share: ₩5,300) during 2010, under the condition that it can exercise a put option when certain defined events occur. The issued and outstanding shares of the entity were acquired by D&D Strategic Growth Ltd. (88.75%) and Daewoo Securities (Hong Kong) Ltd. (11.25%) in 2014. D&D Strategic Growth Ltd. and others sent out a notice on December 15, 2016, to exercise the put option and SK Shipping Co., Ltd., the first obligator, exercised the put option on May 12, 2017 through capital reduction.

Details of the put option that the Company entered into are as below.

| Classification | Description |
|--------------------|---------------------------------------------------------------------------------------------------------------------------------|
| Exercise condition | SK Shipping Co., Ltd. should not be listed on the share market within six years after the paid-in capital increase, and others. |
| Exercise price | Investment amount plus compound annual interest of 6%. |
| Obligator | Primary: SK Shipping Co., Ltd., Secondary: SK Holdings Co., Ltd. |

- 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 28, 2021, and the Company has the preemptive right to purchase the building at the fair value when the lessor elects to dispose the property.

27. Commitments and contingencies (cont'd)

- 3) 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 at December 31, 2016, SK E&S Co., Ltd., one of the subsidiaries, is responsible for performance guarantee in case of SK E&S LNG, LLCs 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.
 - 4) The Company, SK Innovation Co., Ltd., SK Energy Co., Ltd., SK Global Chemical Co., Ltd., SK Lubricants Co., Ltd., SK Incheon Petrochem Co., Ltd. and SK Trading International Co., Ltd., are collectively responsible for any obligations of the Company arising before the spin-off on July 1, 2007. The Company and SK Biopharmaceuticals Co., Ltd. are collectively responsible for any obligations of the Company that occurred before the spin-off on April 1, 2011.
 - 5) The Company provided performance guarantee to SK Shipping Co., Ltd., a subsidiary. Amount of guarantee provided to SK Shipping Co., Ltd. by the Company was calculated as the lower of ₩0 or other guarantee of ₩68,341 million, less the estimated value of ships owned by SK Shipping Co., Ltd.
 - 6) 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 SK Company companies and others.
 - 7) 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.
- (5) The Company has provided 7 blank checks and 12 blank notes as collateral in relation to sales and other transactions as at March 31, 2017.

28. Financial risk management

The principal financial liabilities of the Company comprise borrowings, bonds payable, trade and other accounts payable. 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 accounts receivable that are directly related to its operations.

28.1 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.

28.1.1 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.

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28.1.2 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 at March 31, 2017 and December 31, 2016 are as follows (Korean won in millions, and USD, EUR and Others in thousands):

| | Currency | March 31, 2017 | | December 31, 2016 | |
|-------------|----------|--------------------|----------------------|--------------------|----------------------|
| | | Foreign currencies | Korea won equivalent | Foreign currencies | Korea won equivalent |
| Assets | USD | 26,960 | ₩ 30,020 | 12,542 | ₩ 15,157 |
| | EUR | 913 | 1,089 | 213 | 270 |
| | Others | | 1,085 | | 4,085 |
| | | | ₩ 32,194 | | ₩ 19,512 |
| Liabilities | USD | 2,963 | ₩ 3,307 | 7,585 | ₩ 9,167 |
| | Others | | 7 | | 653 |
| | | | ₩ 3,314 | | ₩ 9,820 |

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):

| | For the three months ended | | | |
|--------------------------------------------------|----------------------------|-----------------|-----------------|-----------------|
| | March 31, 2017 | | March 31, 2016 | |
| | Increase by 10% | Decrease by 10% | Increase by 10% | Decrease by 10% |
| Increase (decrease) in income before tax expense | ₩ 2,888 | ₩ (2,888) | ₩ 969 | ₩ (969) |

28.1.3 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.

28.2 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 securities.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk as at March 31, 2017 and December 31, 2016 is as follows and for cash and cash equivalents, credit risk exposure is low (Korean won in millions):

| | March 31, 2017 | December 31, 2016 |
|------------------------------------------------|----------------|-------------------|
| Short-term and long-term financial instruments | ₩ 27,639 | ₩ 37,639 |
| Trade accounts receivable | 316,309 | 395,272 |
| Other accounts receivable | 441,162 | 1,347 |
| Accrued income | 222 | 169 |
| Available-for-sale financial assets | 556 | 553 |
| Short-term and long-term guarantee deposits | 19,826 | 20,434 |
| Short-term and long-term loan | 600 | 600 |
| | ₩ 806,314 | ₩ 456,014 |

28.2.1 Trade and other accounts receivable

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 requirement for impairment is analyzed at each reporting date on an individual basis for major clients. Additionally, a large number of minor receivables are companied into homogenous Companies and looked for impairment collectively. The calculation is based on actually incurred historical data.

28.2.2 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.

28.3 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 at March 31, 2017 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> |
|-----------------------------------|--------------------|------------------------------|---------------------------|--------------------|--------------------|--------------------------|
| Bonds payable | ₩ 5,854,274 | ₩ 6,001,733 | ₩ 301,174 | ₩ 686,615 | ₩ 3,953,592 | ₩ 1,060,352 |
| Financial derivatives liabilities | 1,462 | 1,462 | 1,070 | 376 | 16 | - |
| Trade accounts payable | 122,277 | 122,277 | 122,277 | - | - | - |
| Other liabilities | <u>277,124</u> | <u>277,815</u> | <u>258,612</u> | <u>6,980</u> | <u>12,223</u> | <u>-</u> |
| | <u>₩ 6,255,137</u> | <u>₩ 6,403,287</u> | <u>₩ 683,133</u> | <u>₩ 693,971</u> | <u>₩ 3,965,831</u> | <u>₩ 1,060,352</u> |

28.4 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 54.44% as at March 31, 2017. 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 at March 31, 2017 and December 31, 2016 is as follows (Korean won in millions):

| | <u>March 31, 2017</u> | <u>December 31, 2016</u> |
|-------------------|-----------------------|--------------------------|
| Total liabilities | ₩ 6,702,449 | ₩ 6,455,107 |
| Total equity | 12,310,558 | 11,925,701 |
| Debt ratio | 54.44% | 54.13% |

29. Subsequent events

29.1 Spin-off of SK Shipping Co., Ltd.

In accordance with a resolution of the board of directors on February 27, 2017, SK Shipping Co., Ltd., a subsidiary, split its shipping business division, with April 1, 2017 as the division date. In addition, the company name of the surviving company after the split is SK Maritime Co., Ltd., and the name of the spin-off company is SK Shipping Co., Ltd.