



SK Holdings Co., Ltd.

Separate financial statements
for the years ended December 31, 2017 and 2016
with the independent auditors' report

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Independent auditors' report

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

We have audited the accompanying separate financial statements of SK Holdings Co., Ltd. (the "Company"), which comprise the separate statements of financial position as at December 31, 2017 and 2016, and the separate statements of comprehensive income, separate statements of changes in shareholders' equity and separate statements of cash flows for the years then ended, presented 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 separate financial statements in accordance with Korean International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of the separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these separate financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the separate financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the separate financial statements referred to above, presented in Korean won, present fairly, in all material respects, the financial position of the Company as at December 31, 2017 and 2016, and its financial performance and cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

Emphasis of matter

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

Emphasis of matter in regard to key audit matters in the engineer-to-order manufacturing sector (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 performed below auditing procedures on the key audit matters in forming the audit opinion.

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

As explained in Note 2 to the accompanying separate financial statements, when the outcome of a construction contract is reliably measurable, construction revenue and construction costs are recognized based on the percentage-of-completion method. The percentage-of-completion is calculated by dividing cumulative 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 a risk in relation to measurement of construction revenue and construction costs.

Further, the Company recognized accounts receivable (unbilled construction contract) for the amount that cumulative construction costs to date plus profit recognized (or less the loss recognized) exceeds the amount billed to customers. As at December 31, 2017, unbilled construction contract amounted to ₩63,331 million and if such amount is uncollected, the Company is exposed to risks in relation to asset measurement.

We performed the following review procedures for the key audit matters associated with revenue recognition based on the percentage-of-completion, the appropriateness of the percentage-of-completion and the 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 analytical review as to construction contracts with significant changes in the percentage-of-completion
- Review as to reasons for the significant changes 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 separate 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. As a result, the measurement of construction costs and contract revenue is affected by uncertainties associated with the outcomes of future events.

We performed the following audit 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 the appropriateness of accounting treatment for changes in construction:

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

Ernst & Young Han Young

March 9, 2018

This audit report is effective as at March 9, 2018, the independent auditors' report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the date of the independent auditors' report to the time this report is used. Such events and circumstances could significantly affect the accompanying separate financial statements and may result in modifications to this report.

SK Holdings Co., Ltd.

Separate financial statements
for the years ended December 31, 2017 and 2016

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

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

SK Holdings Co., Ltd.
Separate statements of financial position
as at December 31, 2017 and 2016

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

	Notes	Korean won		Translation into U.S. dollar (Note 2)	
		2017	2016	2017	2016
Assets					
Current assets:					
Cash and cash equivalents	4	₩ 84,482	₩ 158,963	\$ 78,852	\$ 148,369
Short-term financial instruments	4,30,31	43,516	37,620	40,616	35,113
Trade accounts receivable	4,5,26,31	463,079	465,740	432,219	434,702
Other accounts receivable	4,26,31	1,767	1,347	1,649	1,257
Inventories	6	785	98,580	733	92,010
Other current assets	4,16,17,26,31	13,603	22,695	12,696	21,183
Assets held-for-sale	28, 30	224,942	-	209,951	-
Total current assets		<u>832,174</u>	<u>784,945</u>	<u>776,716</u>	<u>732,634</u>
Non-current assets:					
Available-for-sale financial assets	4,7,30,31	78,984	155,695	73,720	145,319
Investments in subsidiaries	8	15,583,417	14,484,809	14,544,910	13,519,516
Investments in associates and joint ventures	9	647,970	120,229	604,788	112,217
Property, plant and equipment	10,30	671,658	684,381	626,898	638,773
Investment property	11	40,174	40,601	37,497	37,895
Goodwill and intangible assets	12	2,090,299	2,088,725	1,950,998	1,949,529
Other non-current assets	4,16,17,26,30,31	14,385	21,423	13,426	19,994
Total non-current assets		<u>19,126,887</u>	<u>17,595,863</u>	<u>17,852,237</u>	<u>16,423,243</u>
Total assets		<u>₩ 19,959,061</u>	<u>₩ 18,380,808</u>	<u>\$ 18,628,953</u>	<u>\$ 17,155,877</u>
Liabilities and equity					
Current liabilities:					
Short-term borrowings	4,13,29,31	₩ 780,000	₩ 280,000	\$ 728,019	\$ 261,340
Trade accounts payable	4,26,31	125,590	155,605	117,220	145,235
Other accounts payable	4,26,31	98,155	90,042	91,614	84,041
Accrued expenses	4,31	58,695	41,701	54,783	38,922
Provisions	14	7,949	6,098	7,419	5,692
Current portion of long-term debt	4,13,29,31	1,052,733	754,262	982,577	703,997
Other current liabilities	4,16,17,26,31	135,282	105,877	126,267	98,821
Liabilities held-for-sale	28	16,582	-	15,477	-
Total current liabilities		<u>2,274,986</u>	<u>1,433,585</u>	<u>2,123,376</u>	<u>1,338,048</u>
Non-current liabilities:					
Bonds payable	4,13,29,31	5,034,055	4,707,396	4,698,577	4,393,687
Retirement benefit obligation	15	38,799	33,067	36,213	30,863
Deferred income tax liabilities	24	257,340	263,779	240,190	246,200
Other non-current liabilities	4,16,17,26,31	21,180	17,280	19,769	16,128
Total non-current liabilities		<u>5,351,374</u>	<u>5,021,522</u>	<u>4,994,749</u>	<u>4,686,878</u>
Total liabilities		<u>7,626,360</u>	<u>6,455,107</u>	<u>7,118,125</u>	<u>6,024,926</u>
Equity:					
Issued capital	1,18	15,385	15,385	14,360	14,360
Other paid-in capital	18	4,720,271	4,719,052	4,405,704	4,404,566
Retained earnings	18	7,585,590	7,183,223	7,080,073	6,704,520
Other capital components	18	11,455	8,041	10,691	7,505
Total equity		<u>12,332,701</u>	<u>11,925,701</u>	<u>11,510,828</u>	<u>11,130,951</u>
Total liabilities and equity		<u>₩ 19,959,061</u>	<u>₩ 18,380,808</u>	<u>\$ 18,628,953</u>	<u>\$ 17,155,877</u>

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

SK Holdings Co., Ltd.
Separate statements of comprehensive income
for the years ended December 31, 2017 and 2016

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

	Notes	Korean won		Translation into U.S. dollar (Note 2)	
		2017	2016	2017	2016
Operation revenue	20,26	₩ 2,477,840	₩ 2,298,832	\$ 2,312,712	\$ 2,145,634
Operation expenses	21,22,26	<u>1,608,374</u>	<u>1,463,060</u>	<u>1,501,190</u>	<u>1,365,559</u>
Operating income		869,466	835,772	811,522	780,075
Financial income	4,23	17,953	17,206	16,757	16,059
Financial costs	4,23	168,267	160,465	157,053	149,771
Other non-operating income	23	39,862	4,034	37,206	3,765
Other non-operating expenses	23	<u>115,778</u>	<u>23,247</u>	<u>108,062</u>	<u>21,698</u>
Income from continuing operations before income tax expense		643,236	673,300	600,370	628,430
Income tax expense from continuing operations	24	<u>39,133</u>	<u>40,048</u>	<u>36,525</u>	<u>37,379</u>
Net income from continuing operations		604,103	633,252	563,845	591,051
Gain from discontinued operation	27	8,018	8,442	7,484	7,879
Net income		<u>₩ 612,121</u>	<u>₩ 641,694</u>	<u>\$ 571,328</u>	<u>\$ 598,930</u>
Other comprehensive income:					
Items not to be reclassified to profit or loss in subsequent periods:					
Remeasurement loss on defined benefit plans	15	(1,088)	(3,260)	(1,015)	(3,043)
Items to be reclassified to profit or loss in subsequent periods:					
Net gain (loss) on available-for-sale financial assets	7	3,414	(2,660)	3,186	(2,483)
		<u>2,326</u>	<u>(5,920)</u>	<u>2,171</u>	<u>(5,526)</u>
Total comprehensive income		<u>₩ 614,447</u>	<u>₩ 635,774</u>	<u>\$ 566,016</u>	<u>\$ 585,525</u>
Earnings per share (Korean won and U.S. dollar):	25				
Basic earnings per share		₩ 10,924	₩ 11,457	\$ 10.20	\$ 10.69
Basic earnings per share from continuing operations		10,781	11,306	10.06	10.55

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

SK Holdings Co., Ltd.

Separate statements of changes in shareholders' equity
for the years ended December 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	-	-	641,694	-	641,694
Remeasurement loss on defined benefits plans	-	-	(3,260)	-	(3,260)
Net loss on available-for-sale financial assets	-	-	-	(2,660)	(2,660)
Dividends	-	-	(191,750)	-	(191,750)
As at December 31, 2016	<u>₩ 15,385</u>	<u>₩ 4,719,052</u>	<u>₩ 7,183,223</u>	<u>₩ 8,041</u>	<u>₩ 11,925,701</u>
As at January 1, 2017	₩ 15,385	₩ 4,719,052	₩ 7,183,223	₩ 8,041	₩ 11,925,701
Total comprehensive income:					
Net income	-	-	612,121	-	612,121
Remeasurement loss on defined benefits plans	-	-	(1,088)	-	(1,088)
Net gain on available-for-sale financial assets	-	-	-	3,414	3,414
Dividends	-	-	(208,666)	-	(208,666)
Stock option	-	1,220	-	-	1,220
Acquisition of treasury shares	-	(1)	-	-	(1)
As at December 31, 2017	<u>₩ 15,385</u>	<u>₩ 4,720,271</u>	<u>₩ 7,585,590</u>	<u>₩ 11,455</u>	<u>₩ 12,332,701</u>

(Continued)

SK Holdings Co., Ltd.

**Separate statements of changes in shareholders' equity
for the years ended December 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	\$ 14,360	\$ 4,404,566	\$ 6,287,604	\$ 9,988	\$ 10,716,518
Total comprehensive income:					
Net income	-	-	598,930	-	598,930
Remeasurement loss on defined benefits plans	-	-	(3,043)	-	(3,043)
Net loss on available-for-sale financial assets	-	-	-	(2,483)	(2,483)
Dividends	-	-	(178,971)	-	(178,971)
As at December 31, 2016	\$ 14,360	\$ 4,404,566	\$ 6,704,520	\$ 7,505	\$ 11,130,951
As at January 1, 2017	\$ 14,360	\$ 4,404,566	\$ 6,704,520	\$ 7,505	\$ 11,130,951
Total comprehensive income:					
Net income	-	-	571,328	-	571,328
Remeasurement loss on defined benefits plans	-	-	(1,015)	-	(1,015)
Net gain on available-for-sale financial assets	-	-	-	3,186	3,186
Dividends	-	-	(194,760)	-	(194,760)
Stock option	-	1,139	-	-	1,139
Acquisition of treasury shares	-	(1)	-	-	(1)
As at December 31, 2017	\$ 14,360	\$ 4,405,704	\$ 7,080,073	\$ 10,691	\$ 11,510,828

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

SK Holdings Co., Ltd.
Separate statements of cash flows
for the years ended December 31, 2017 and 2016
(Korean won in millions and U.S. dollar in thousands)

	Notes	Korean won		Translation into U.S. dollar (Note 2)	
		2017	2016	2017	2016
Cash flows from operating activities:					
Net income		₩ 612,121	₩ 641,694	\$ 571,328	\$ 598,930
Non-cash adjustments	29	(334,001)	(315,793)	(311,743)	(294,748)
Working capital adjustments	29	(18,355)	(51,254)	(17,132)	(47,838)
Interest received		4,616	3,900	4,308	3,640
Interest paid		(169,588)	(180,429)	(158,286)	(168,405)
Dividends received		691,840	596,190	645,735	556,459
Income taxes paid		(44,865)	(43,879)	(41,875)	(40,955)
Net cash provided by operating activities		741,768	650,429	692,335	607,083
Cash flows from investing activities:					
Decrease (increase) in short-term and long-term financial instruments, net		(5,876)	29,580	(5,484)	27,609
Decrease in short-term loans		203	1,000	189	933
Acquisition of available-for-sale financial assets		(46,724)	(12,260)	(43,610)	(11,443)
Acquisition of investments in subsidiaries		(1,126,050)	(644,678)	(1,051,008)	(601,716)
Acquisition of investments in associates		(496,876)	-	(463,763)	-
Acquisition of property, plant and equipment		(60,961)	(61,352)	(56,898)	(57,263)
Acquisition of intangible assets		(32,243)	(49,924)	(30,094)	(46,597)
Proceeds from disposal of available-for-sale financial assets		418	1,743	390	1,627
Proceeds from disposal of investments in subsidiaries		12,344	6,231	11,521	5,816
Proceeds from disposal of investments in associates		5,001	10,108	4,668	9,434
Proceeds from disposal of property, plant and equipment		1,312	244	1,225	228
Proceeds from disposal of intangible assets		3,030	4,057	2,828	3,787
Decrease (increase) in guarantee deposits		(1,920)	2,234	(1,792)	2,085
Increase in derivatives		(2,430)	-	(2,268)	-
Others, net		-	81	-	74
Net cash used in investing activities		(1,750,772)	(712,936)	(1,634,096)	(665,426)
Cash flows from financing activities:					
Increase in short-term borrowings, net		500,000	30,000	466,679	28,001
Issuance of bonds payable		1,394,481	1,195,262	1,301,550	1,115,608
Repayment of current portion of long-term debt		(750,000)	(910,000)	(700,019)	(849,356)
Payment of dividends		(208,666)	(191,750)	(194,760)	(178,971)
Net cash provided by financing activities	29	935,815	123,512	873,450	115,282
Net increase (decrease) in cash and cash equivalents		(73,189)	61,005	(68,311)	56,939
Net foreign exchange effects		(1,292)	123	(1,206)	115
Cash and cash equivalents at the beginning of the year		158,963	97,835	148,369	91,315
Cash and cash equivalents at the end of the year		₩ 84,482	₩ 158,963	\$ 78,852	\$ 148,369

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

1. Corporate information

SK Holdings Co., Ltd. (the “Company”) was established on April 13, 1991, and has been 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.

Upon the acquisition of SK Holdings Co., Ltd. by SK C&C Co., Ltd. effective on 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 December 31, 2017, the issued capital of the Company amounts to ₩15,385 million (including ₩113 million of preferred shares). Major shareholders and their equity ownership are Tae-won Chey, National Pension Service and Ki-won Choi, each holding 23.40%, 8.40% and 7.46% respectively, as at December 31, 2017.

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 ₩1,071.4 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 December 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 has prepared the statutory separate financial statements in accordance with KIFRS. This financial statement is the separate financial statements by KIFRS 1027.

The significant accounting policies used for the preparation of the accompanying separate financial statements as at and for the year ended December 31, 2017, are the same as the accounting policies adopted for the preparation of separate financial statements as at and for the year ended December 31, 2016, except for adoption of new and revised KIFRSs applied in the current period, which are summarized below.

The accompanying separate financial statements have been prepared on a historical cost basis, except for certain non-current assets and financial instruments that are measured at fair value. Historical cost is based on the fair values of the consideration given.

The accompanying separate financial statements were approved at the Company’s Board of Directors’ meeting on February 6, 2018.

The principal accounting policies are set out below:

2.1.1 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 require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). It is not necessary to compare former information when applying for the first time, and according to this amendment, the company has provided the information for the current period in Note 29. The amendments do not have a material impact on the separate financial statements of the Company except for additional disclosure.

Amendments to KIFRS 1012 - *Income Taxes*

The amendments clarify that a company needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how a company 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. The amendments do not have a material impact on the separate financial statements of the Company.

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The amendments clarify that the disclosure requirements in KIFRS 1112, other than those in paragraphs B10–B16, apply to a company's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal Company that is classified) as held for sale.

The amendments do not have a material impact on the separate financial statements of the Company.

2.1.2 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.

Amendments to KIFRS 1102 - *Share-based Payment*

The KASB issued amendments to KIFRS 1102 *Share-based Payment* that address 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.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after January 1, 2018, with early application permitted.

The Company is assessing the potential effect of the amendments on its separate financial statements. The Company will apply these amendments on the required effective date.

2.1.2 New and revised KIFRSs issued, but not yet effective (cont'd)

KIFRS 1109 – Financial Instruments

KIFRS 1109, published on September 25, 2015 which will replace the KIFRS 1039 *Financial Instruments: Recognition and Measurement*, is effective for annual periods beginning on or after January 1, 2018. The Company currently plans to apply KIFRS 1109 in the period beginning on January 1, 2018.

Adoption of KIFRS 1109 will generally be applied retrospectively, except for the following:

- Exemption allowing the Company not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes; and
- Prospective application of new hedge accounting except for those specified in KIFRS 1109 for retrospective application such as accounting for the time value of options and the forward element of forward contracts.

Key features of KIFRS 1109 include new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics, impairment model based on changes in expected credit losses, and new approaches to hedge qualification and methods for assessing hedge effectiveness.

To ensure smooth implementation of KIFRS 1109, the Company needs to assess the financial impact of adopting KIFRS 1109, to formulate the accounting policy, and to design, implement and enhance the accounting system and related controls. The expected quantitative impact of adopting KIFRS 1109 on the Company's separate financial statements cannot be reliably estimated because it will be dependent on the financial instruments that the Company holds and economic conditions at that time as well as accounting elections and judgments that it will make in the future.

The Company has preliminarily assessed the potential impact on the separate financial statements for the fiscal year 2017 based on the current situation and information available at the end of the current year to assess the financial impact of the initial adoption of KIFRS 1109. The Company will analyze more specific financial impacts based on additional information later, and the results of the preliminary impact assessments may change based on additional information which is available. Meanwhile, the Company expects that the impact of adoption of KIFRS 1109 on the separate financial statements and equity will not be significant.

① Classification and measurement of financial assets

Classification of financial assets under KIFRS 1109 is driven by the entity's business model for managing financial assets and their contractual cash flows. This contains three principal classification categories: financial assets measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). Derivatives embedded in contracts where the host is a financial asset are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. Details of the classification based on business models and contractual cash flows are as follows:

Business model assessment	Contractual cash flow characteristics	
	Solely payments of principal and interest	Others
Purpose of collecting contractual cash flows	Amortized cost (*1)	
Purpose of collecting contractual cash flows and selling	FVOCI-measured at fair value (*1)	FVTPL-measured at fair value (*2)
Purpose of selling, etc.	FVTPL-measured at fair value	

2.1.2 New and revised KIFRSs issued, but not yet effective (cont'd)

- (*1) To eliminate or significantly reduce the accounting mismatch, the Company may irrevocably designate a financial asset as measured at FVTPL using the fair value option at initial recognition.
- (*2) Equity instruments that are not held for trading may be irrevocably designated as FVOCI using the fair value option.

As new classification requirements for financial assets under KIFRS 1109 are more stringent than requirements under KIFRS 1039, the adoption of the new standard may result in an increase in financial assets designated as FVTPL and higher volatility in profit or loss of the Company. As at December 31, 2017, the Company's financial assets consist of ₩540,871 million of loans and receivables, ₩78,984 million of available-for-sale financial assets, and ₩3,614 million of financial assets at fair value through profit or loss.

A financial asset is measured at amortized cost under KIFRS 1109 if the asset is held by the Company to collect its contractual cash flows and the asset's contractual cash flows represent solely payments of principal and interest. As at December 31, 2017, the Company has ₩540,871 million of loans and receivables measured at amortized cost.

According to the results of the preliminary impact assessment, if the Company applies KIFRS 1109 to its financial assets as at December 31, 2017, the amendments above do not have a material impact on separate financial statements of the Company, because the objective of the business model is mostly achieved by collecting contractual cash flows and the asset's contractual cash flows represent solely payments of principal and interest and most of the financial assets are classified to be measured at amortized cost.

According to KIFRS 1109, a financial asset that is held within a business model whose objective is achieved by both collecting contractual cash flow and selling the financial asset, and the contractual terms of the debt instruments give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, is measured at FVOCI. As at December 31, 2017, the Company has ₩13,486 million of debt instruments measured at available-for-sale financial assets.

Most of the debt instruments held by the Company classified as available-for-sale financial assets are expected to be classified as financial assets measured at FVOCI upon adoption of KIFRS 1109 as at January 1, 2018. Therefore, management does not expect there to be a significant impact.

Under KIFRS 1109, equity instruments that are not held for trading may be irrevocably designated as FVOCI on initial recognition with no recycling of amounts from OCI to profit and loss. As at December 31, 2017, the Company has ₩65,498 million of available-for-sale equity instruments.

As the Company plans to classify the equity instruments with long-term investment purposes to financial assets measured at FVOCI under KIFRS 1109, the Company's preliminary assessment did not indicate any material impact on the Company's separate financial statements except that no recycling of amounts from OCI to profit and loss is allowed.

The Company plans to designate long-term investment equity securities, which account for most of the available-for-sale equity instruments, as measured at FVOCI. This is why the adoption of KIFRS 1109 will not have a material impact on the separate financial statements, except that it will not be recycled to profit and loss.

2.1.2 New and revised KIFRSs issued, but not yet effective (cont'd)

According to KIFRS 1109, a financial asset whose contractual terms do not give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding, or a debt instrument that is held for trading, or an equity instrument that is not designated as a financial asset measured at FVOCI, are measured at FVTPL. As at December 31, 2017, the Company has no financial assets measured at FVTPL.

According to the results of the preliminary impact assessment, if the Company applies KIFRS 1109 to its financial assets at FVTPL as at December 31, 2017, the amendments above will not have a material impact on separate financial statements of the Company. This is because most of the Company's financial assets will be designated as financial assets measured at FVTPL.

② Classification and measurement of financial liabilities

Under KIFRS 1109, for the financial liabilities designated as measured FVTPL using the fair value option, the element of gains or losses attributable to changes in the own credit risk should normally be recognized in other comprehensive income (OCI), with the remainder recognized in profit or loss. These amounts recognized in OCI are not recycled to profit or loss even when the liability is derecognized. However, if presentation of the fair value change in respect of the liability's credit risk in OCI results in or enlarges an accounting mismatch in profit or loss, gains and losses are entirely presented in profit or loss.

According to the results of the preliminary impact assessment, as at December 31, 2017, since financial liabilities at FVTPL are mostly short-term and credit risk fluctuations of financial liabilities are trivial, the adoption of KIFRS 1109 will not have a material impact on the separate financial statements.

③ Impairment: financial assets and contract assets

The current impairment requirements under KIFRS 1039 are based on an 'incurred loss model', where the impairment exists if there is objective evidence as a result of one or more events that occurred after the initial recognition of an asset. However, KIFRS 1109 replaces the incurred loss model in KIFRS 1039 with an 'expected credit loss model' which applies to debt instruments measured at amortized cost or at fair value through other comprehensive income.

Under KIFRS 1109, the Company should recognize a loss allowance or provision at an amount equal to 12-month expected credit losses or lifetime expected credit losses for financial assets determined by the extent of probable credit deterioration since initial recognition as explained below. Therefore, the new impairment requirements are expected to result in earlier recognition of credit losses compared to the incurred loss model of KIFRS 1039.

	Stages (*1)	Loss allowances
Stage 1	No significant increase in credit risk since initial recognition (*2)	Loss allowances are determined for the amount of the expected credit losses that result from default events that are possible within 12 months after the reporting date.
Stage 2	Significant increase in credit risk since initial recognition	Loss allowances are determined for the amount of the expected credit losses that result from all possible default events over the expected life of the financial.
Stage 3	Objective evidence of credit risk impairment	

2.1.2 New and revised KIFRSs issued, but not yet effective (cont'd)

- (*1) Under KIFRS 1115 *Revenue from Contracts with Customers* for trade receivables and contract assets arising with no significant credit risk, loss allowances are recognized at an amount equal to lifetime expected credit losses. However, for trade receivables and contract assets with a significant financing component arising under KIFRS 1115, the Company may choose as its accounting policy to recognize loss allowances at an amount equal to lifetime expected credit losses. In addition, for receivables under lease arrangement, the Company may choose to recognize loss allowances at an amount equal to lifetime expected credit losses.
- (*2) The Company may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date.

④ Hedge accounting

KIFRS 1109 maintains the mechanics of hedge accounting from those in KIFRS 1039. However, KIFRS 1109 replaces existing rule-based requirements under KIFRS 1039 that are complex and difficult to apply with principle based requirement focusing more on the Company's risk management purposes and procedures. Under KIFRS 1109, more hedging instruments and hedged items are permitted and the 80%-125% effectiveness requirement is removed.

By complying with the hedging rules in KIFRS 1109, the Company may apply hedge accounting for transactions that currently do not meet the hedging criteria under KIFRS 1039 thereby reducing volatility in profit or loss.

As at December 31, 2017, the Company does not have assets and liabilities applied with hedge accounting and since there are no changes in general accounting principle for the effective portion of hedge accounting, it will not have a significant impact on the Company's separate financial statements. Meanwhile, as at December 31, 2017, the Company owns derivative financial assets and liabilities not designated as hedging instruments, amounting to ₩3,614 million and ₩2,736 million, respectively.

KIFRS 1115 – Revenue from Contracts with Customers

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. Early adoption is permitted. The Company plans to adopt KIFRS 1115 for annual periods beginning on or after January 1, 2018. The Company has elected to recognize the cumulative effect of initially applying this standard as an adjustment to the opening balance of retained earnings at the date of initial application, and to apply this standard retrospectively only to contracts that are not completed as at January 1, 2018.

The current KIFRS 1018 provides the criteria for the recognition of revenue relating to: sale of goods, rendering of services, interest, royalties, dividends and construction contracts; however, under the new KIFRS 1115, revenue is recognized by applying a five-stage revenue recognition model (① Identify a contract with a customer. → ② Identify the performance obligations in the contract → ③ Determine the transaction price → ④ Allocate the transaction price to the performance obligations in the contract → ⑤ Recognize revenue when the Company satisfies a performance obligation) to its all contracts with customers.

During 2017, the Company has performed a detailed impact assessment on the adoption of KIFRS 1115. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Company in 2018 when the Company will adopt KIFRS 1115.

2.1.2 New and revised KIFRSs issued, but not yet effective (cont'd)

① Identification of the separate performance obligations in the contract

The Company operates IT service business which provides consulting related to information and communication, and investment business which controls the subsidiaries by owing the equity. The revenue of IT service business for the year ended December 31, 2017 amounts to ₩1,553,465 million, accounting for approximately 63% of total revenue.

Multiple performance obligations can be identified in a contract in IT service. In this case, the Company should allocate the transaction price to the performance obligation and recognize the revenue to each performance obligation that has been performed.

② Allocation of the transaction price to the performance obligations in the contract

In accordance with KIFRS 1115, the Company should allocate the transaction price to each performance obligation in a contract in proportion to their stand-alone selling price. The Company plans to use adjusted market assessment method for estimating the stand-alone selling price. However, in some circumstances, 'expected cost plus a margin' approach will be used.

③ Requirements for presentation and disclosure

The presentation and disclosure requirements in KIFRS 1115 are more detailed than under current KIFRS. The presentation requirements represent a significant change from current practice and significantly increases the volume of disclosures required in the Company's financial statements. Many of the disclosure requirements in KIFRS 1115 are new and the Company has assessed that the impact of some of these disclosures requirements will be significant.

④ Other adjustments

The recognition and measurement requirements in KIFRS 1115 are also applicable to the recognition and measurement of gains or losses on disposal of non-financial assets (such as property and equipment and intangible assets), when that disposal is not in the ordinary course of business. However, the Company does not expect that these amendments will have a material impact on the separate financial statements.

KIFRS 1116 - Leases

KIFRS 1116 Leases enacted in May 2017, is effective for annual periods beginning on or after January 1, 2019. Early application is permitted, but not before an entity applies KIFRS 1115 Revenue from Contracts with Customers. This standard replaces KIFRS 1017 Leases, KIFRS 2104 Determining whether an Arrangement contains a Lease, KIFRS 2015 Operating Leases-Incentives and KIFRS 2027 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The Company assesses whether a contract is, or contains, a lease at inception of a contract and also assesses whether a contract is, or contains, a lease at the initial adoption of KIFRS 1116. However, the Company may not reassess all arrangements entered into before the date of initial application of the standard by applying the simplified approach.

For a contract that is, or contains a lease, the Company will account for each lease component within the contract as a lease separately from non-lease components of the contract.

A lessee will recognize an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset) and a liability representing the right to make lease payments (i.e., the lease liability). However, in case of short-term leases (i.e., leases with a lease term of 12 months or less at the commencement date) and leases of 'low-value' assets, the Company may elect to apply the exception under KIFRS 1116. As a practical expedient, a lessee may elect, by class of the underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single component.

2.1.2 New and revised KIFRSs issued, but not yet effective (cont'd)

Lessor accounting under KIFRS 1116 is not significantly changed from current accounting under KIFRS 1017.

In relation to sale and leaseback transactions, the Company (the seller-lessee) will apply the requirements of KIFRS 1115 to determine whether the transfer of an asset is accounted for as a sale of the asset. However, the Company does not reassess sale and leaseback transactions entered into before the date of initial application.

① Lease accounting for lessees

As a lessee, the Company can either apply the KIFRS 1116 using a full retrospective approach; or modified retrospective approach. The full retrospective approach requires the Company to retrospectively apply the new standard to each prior reporting period presented, while modified retrospective approach requires the lessee to recognize the cumulative effect of initial application at the date of initial application of the new leases standard.

② Lease accounting for lessors

In case where the Company is lessor, the Company should reassess leases that were classified as operation leases applying KIFRS 1017 and are ongoing at the date of initial application, whether each sublease should be classified as an operating lease or a finance lease, they are accounted as new finance lease contracted on the initial application date of KIFRS 1116.

The Company plans to change the accounting process and internal control and to assess the financial impact on its separate financial statements resulting from the adoption of KIFRS 1116 by December 31, 2018.

KIFRS 1040 - Investment Property

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with KIFRS 1008 is only permitted if it is possible without the use of hindsight. These amendments are effective for annual periods beginning on or after January 1, 2018. Early application of the amendments is permitted and must be disclosed.

The Company is assessing the potential effect of the amendments on its separate financial statements. The Company will apply these amendments on the required effective date.

2.1.2 New and revised KIFRSs issued, but not yet effective (cont'd)

KIFRS 2122 - Foreign Currency Transactions and Advance Consideration

The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which a company initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration.

The Interpretation is effective for annual periods beginning on or after January 1, 2018. Early application of interpretation is permitted and must be disclosed.

Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the Interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after:

- (i) The beginning of the reporting period in which the entity first applies the interpretation, or
- (ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

2.2 Business combinations

Businesses combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the fair values of the assets transferred by the Company, liabilities incurred by the Company to the former owners of the acquiree and the equity interests issued by the Company in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Company re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

2.3 Current versus non-current classification

The Company presents assets and liabilities in the statement of financial position based on current/non-current classification.

An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

2.3 Current versus non-current classification (cont'd)

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Company classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

2.4 Foreign currencies

The separate financial statements are presented in the currency of the primary economic environment in which the Company operates (its functional currency). For the purpose of the separate financial statements, the results of operations and financial position of the Company are expressed in Korean won, which is the functional currency of the entity and the presentation currency for the separate financial statements.

In preparing the separate financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in

Exchange differences are recognized in profit or loss in the period in which they arise, except for:

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings, and
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks.

2.5 Cash and cash equivalents

Cash and cash equivalents include cash, bank balances and short-term highly liquid investments with an original maturity of three months or less.

2.6 Financial assets

Financial assets are recognized when an entity becomes a party to the contractual provisions of the instruments. Financial assets are initially measured at fair value. Transaction costs that are directly attributable to the acquisition of financial assets are added to the fair value of the financial assets, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss ("FVTPL") are recognized immediately in profit or loss.

Financial assets are classified into the following specified categories: 'financial assets at FVTPL,' 'held-to-maturity investments,' 'available-for-sale ("AFS") financial assets' and 'loans and receivables.' The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

2.6.1 Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL. A financial asset is classified as held for trading if it has been acquired principally for the purpose of selling in the near term or it is a derivative or embedded derivative separated from contracts that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognized in profit or loss.

2.6.2 Held-to-maturity investments

Non-derivatives financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are measured at amortized cost using the effective interest method, less any impairment, with revenue recognized on an effective yield basis.

2.6.3 AFS financial assets

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

They are subsequently measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS financial assets are recognized in OCI (as gain or loss on valuation of AFS financial assets). When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in OCI is reclassified to profit or loss.

Dividends on AFS equity instruments are recognized in profit or loss when the Company's right to receive the dividends is established.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to, and must be settled by, delivery of such unquoted equity investments are measured at cost, less any identified impairment losses at the end of each reporting period.

2.6.4 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables including trade and other receivables, bank balances and cash are measured at amortized cost using the effective interest method, less any impairment.

2.6.5 Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that one or more events have occurred after the initial recognition of the financial asset and the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For certain categories of financial asset, such as trade accounts receivable, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments and an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that

2.6.5 Impairment of financial assets (cont'd)

correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

For financial assets that are carried at cost and whose fair value cannot be reliably measured, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in OCI are reclassified to profit or loss in the period. In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in OCI. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

2.6.6 Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognize a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulated gain or loss that had been recognized in OCI and accumulated in equity is recognized in profit or loss.

2.7 Inventories

Inventories are valued at the lower of cost or net realizable value, with cost being determined using the first-in, first-out method or the specific identification method. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

The Company recorded valuation allowance on a periodic basis, when significant changes with an adverse effect (an oversupply, an obsolete or decline in the price of goods) on the entity have taken place during the period, or will take place in the near future, and loss from inventory revaluation is recognized as operating expenses.

2.8 Investments in subsidiaries, associates and joint ventures

Pursuant to KIFRS 1027 *Consolidated and Separate Financial Statements*, the accompanying separate financial statements are accounted for, by a parent or investor in an associate, on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees. Moreover, KIFRS 1027 requires that, in the separate financial statements, investments in subsidiaries and associates should be accounted for at cost. All dividends should be recognized in profit or loss within separate financial statements once the right to receive payments has been established.

2.9 Property, plant and equipment

Construction in progress is stated at cost, net of accumulated impairment losses, and property, plant and equipment is stated at cost, less subsequent accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment is directly attributable to its purchase or construction, which includes any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. It also includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent costs are recognized in the carrying amount of an asset or as a separate asset if it is probable that future economic benefits associated with the assets will flow into the Company and the cost of an asset can be measured reliably. Routine maintenance and repairs are expensed as incurred.

The Company does not depreciate land. Depreciation expense is computed using the straight-line method based on the estimated useful lives of the assets as follows:

<u>Description</u>	<u>Useful lives (years)</u>	<u>Description</u>	<u>Useful lives (years)</u>
Buildings	20 ~ 50	Vehicles	4 ~ 10
Structures	20 ~ 40	Others	4 ~ 25
Machinery and equipment	5		

The Company reviews the depreciation method, the estimated useful lives and residual values of property, plant and equipment at the end of each annual reporting period. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

2.10 Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost and intangible assets acquired in a business combination are carried at fair value at the acquisition date. Subsequently, intangible assets are carried at cost, less accumulated amortization and accumulated impairment losses.

The residual value of development cost and other intangible assets is estimated as nil ("0") and amortization of these is provided using the straight-line method over the estimated useful life of the assets. However, intangible assets with indefinite useful lives such as goodwill, membership and brand contract-related assets are not amortized as there is no foreseeable limit to the period over which the asset is expected to use.

<u>Description</u>	<u>Useful lives (years)</u>
Development cost	3 ~ 10
Others	10

2.10 Intangible assets (cont'd)

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at the end of each annual reporting period. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate. Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually.

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. Other development expenditures are recognized in profit or loss as incurred.

An intangible asset is derecognized on disposal or when no future economic benefits are expected from its use. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

2.11 Impairment of tangible and intangible assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually and whenever there is an indication that the asset may be impaired. Recoverable amount is the higher of fair value, less costs to sell, or value in use. If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or the CGU) is reduced to its recoverable amount and the reduced amount is recognized in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a CGU) is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or the CGU) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

2.12 Investment property

Investment properties are properties held to earn rentals and for capital appreciation. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are reported at cost, less accumulated depreciation and accumulated impairment losses.

Subsequent costs are recognized in carrying amount of an asset or as a separate asset if it is probable that the future economic benefits associated with the assets will flow into the Company and the cost of an asset can be measured reliably. Routine maintenance and repairs are expensed as incurred.

While land is not depreciated, all other investment property is depreciated based on the respective asset's estimated useful lives ranging from 25 to 50 years using the straight-line method.

2.12 Investment property (cont'd)

The Company reviews the depreciation method, the estimated useful lives and residual values of investment properties at the end of each annual reporting period. If expectations differ from previous estimates, the changes are accounted for as a change in accounting estimate.

2.13 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings, pending their expenditure on qualifying assets, is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

2.14 Non-current assets held for sale and discontinued operations

The Company classifies non-current assets (or disposal group) as held for sale if their carrying amounts will be recovered principally through a sale or distribution rather than through continuing use. Such non-current assets and disposal group classified as held for sale or as held for distribution are measured at the lower of their carrying amount and fair value less costs to sell or to distribute. Costs to distribute are the incremental costs directly attributable to the disposal of an asset (or disposal group), excluding the finance costs and income tax expense.

The criteria for held for distribution classification is regarded as met only when the distribution is highly probable and the asset or disposal group is available for immediate distribution in its present condition. Actions required to complete the distribution should indicate that it is unlikely that significant changes to the distribution will be made or that the decision to distribute will be withdrawn. Management must be committed to the distribution expected within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortized once classified as held for sale or as held for distribution.

Assets and liabilities classified as held for sale or for distribution are presented separately as current items in the statement of financial position.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or
- Is a subsidiary acquired exclusively with a view to resale

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss and other comprehensive income. Additional disclosures are provided in Note 27. All other notes to the financial statements include amounts for continuing operations, unless otherwise mentioned.

2.15 Discount (premium) on bonds

Discount (premium) on bonds is presented as a direct deduction from (addition to) the nominal value of the bonds and is amortized using the effective interest rate method over the lives of the bonds.

2.16 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

2.17 Financial liabilities and equity instruments

2.17.1 Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and the definitions of financial liability and an equity instrument.

2.17.2 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized as the proceeds are received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

2.17.3 Financial liabilities

Financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instruments. Financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the issue of financial liabilities are deducted from the fair value of the financial liabilities on initial recognition. Transaction costs directly attributable to acquisition of financial liabilities at FVTPL are recognized immediately in profit or loss.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

2.17.3.1 Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as FVTPL. Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in financial income and costs in the statement of comprehensive income.

2.17.3.2 Other financial liabilities

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

2.17.4 Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of debt instruments.

Financial guarantee contract liabilities are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- The amount of the obligation under the contract, as determined in accordance with KIFRS 1037 *Provisions, Contingent Liabilities and Contingent Assets*, or
- The amount initially recognized, less cumulative amortization recognized in accordance with the KIFRS 1018 *Revenue*.

2.17.5 Derecognition of financial liabilities

The Company derecognizes financial liabilities when the Company's obligations are discharged, canceled or expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

2.18 Retirement benefit costs

Contributions to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the separate statement of financial position with a charge or credit recognized in OCI in the period in which it occurs. Remeasurement recognized in OCI is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are composed of service cost (including current service cost and past service cost, as well as gains and losses on curtailments and settlements), net interest expense (income) and remeasurement.

The Company presents the service cost and net interest expense (income) components in profit or loss, and the remeasurement component in OCI. Curtailment gains and losses are accounted for as past service costs.

2.19 Derivative financial instruments

The Company enters into foreign exchange forward contracts to manage its exposure to foreign exchange rate risk. Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately, unless the derivative is designated and effective as a hedging instrument, in such case the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

2.19.1 Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in the line of the statement of comprehensive income relating to the hedged item.

2.19.1 Fair value hedges (cont'd)

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to profit or loss from that date.

2.19.2 Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in OCI. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, and is included in the financial income and financial costs.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated or exercised, or it no longer qualifies for hedge accounting. Any gain or loss accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

2.20 Provision

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

At the end of each reporting period, the remaining provision balance is reviewed and assessed to determine if the current best estimate is being recognized. If the existence of an obligation to transfer economic benefit is no longer probable, the related provision is reversed during the period.

2.21 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. The Company recognizes revenue when the amount of revenue can be reliably measured; when it is probable that the future economic benefits will flow to the entity; and when specific criteria have been met for each of the Company's activities, as described below:

2.21.1 Dividends income

The main purpose of the Company's business is to instruct, govern and give management guidance to its subsidiaries and others by acquiring their shares. Dividend income from subsidiaries is recognized when the right to receive the dividend as a shareholder is established and is included in operating revenue.

2.21.2 Trademark usage income

Trademark usage income is recognized on an accrual basis in accordance with the substance of the related contracts.

2.21.3 Rendering of services

Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract. To use the methods which measure services performed to date reliably, the Company determines the stage of completion by using the methods which reliably measure services performed to date, depending on the nature of the transaction.

2.21.4 Sale of goods

Revenue from sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

2.21.5 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).

2.22 Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax. Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in OCI or directly in equity, in which case, the current and deferred tax are also recognized in OCI or directly in equity.

2.22.1 Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the separate statement of profit or loss and comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

2.22.2 Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the separate financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

2.22.2 Deferred tax (cont'd)

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent it is probable that there will be sufficient taxable profits against which the benefits of the temporary differences can be utilized and they are expected to reverse in the foreseeable future. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset if, and only if, the Company has a legally enforceable right to set off current tax assets against current tax liabilities, and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities that intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.22.3 Current tax and deferred tax for the year

Current tax and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in OCI or directly in equity, in which case the current tax and deferred tax are also recognized in OCI or directly in equity. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

2.23 Earnings per share

Basic earnings per share (EPS) amounts are calculated by dividing net income attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

2.24 Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

Fair value for measurement and/or disclosure purposes in these separate financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of KIFRS 1102 *Share-based Payment*; leasing transactions that are within the scope of KIFRS 1017 *Leases*; and measurements that have some similarities to fair value, but are not fair value, such as net realisable value in KIFRS 1002 *Inventories* or value in use in KIFRS 1036 *Impairment of Assets*

2.24 Fair value (cont'd)

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3, based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described 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.

2.25 Operating segment

In accordance with KIFRS 1108 provided an exemption from segment reporting in the separate financial statements of the parent, the Company disclosed its information of operating segment in the consolidated financial statements.

3. Significant accounting judgements, estimates and assumptions

When preparing the 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.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

3.1 Impairment of non-financial assets

The Company assesses, at each reporting date, whether there is an indication of impairment of its non-financial assets. If any indication exists, or annually, intangible assets with indefinite useful lives including brand contract-related asset are tested for impairment. Other non-financial assets are tested for impairment when there is an indication that the carrying amount of an asset is not recoverable. In assessing value in use, management estimates future cash flows of the assets or CGU and determines an appropriate discount rate to calculate the present value of the estimated future cash flows.

3.2 Valuation of financial instruments

Subsequent to initial recognition, AFS financial assets are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss or OCI. Where the fair value of financial assets and financial liabilities recorded in the separate statements of financial position cannot be derived from active markets, the Company uses valuation techniques that require the management's judgments on the expected future cash flows and discount rates.

3.3 Bad debt allowance for trade receivables, loans and other receivables

The Company estimates a bad debt allowance for trade receivables, loans and other receivables, based on the aging of accounts receivables and past experience of bad debt, as well as observable changes in economic and industrial conditions that correlate with default on receivables.

3.4 Measurement and useful lives of tangible and intangible assets

If the Company acquires property and equipment or intangible assets from business combination, it is required to estimate the fair value of these assets at the acquisition date. For estimating the useful lives of tangible and intangible assets, significant management judgment is required.

3.5 Defined benefit plan

The Company's defined benefit obligation is determined based on the actuarial valuation carried out at the end of each annual reporting period. Actuarial assumptions are the Company's best estimates of the variables in determining the cost of providing post-retirement benefits, such as discount rates, rates of expected future salary increases and mortality rates. Significant estimation uncertainty is likely to persist in making such assumptions due to the long-term nature of post-retirement benefit plan.

3.6 Deferred tax assets

Recognition and measurement of deferred tax assets and liabilities requires significant management judgment. Especially, when determining if deferred tax assets will be realizable or not in the future, it involves significant management assumptions and judgment on the Company's future performance.

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4. Financial instruments

4.1 Financial assets

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

	December 31, 2017			
	Financial assets at FVTPL	Loans and receivables	Available-for-sale financial assets	Total
Current assets:				
Cash and cash equivalents	₩ -	₩ 84,482	₩ -	₩ 84,482
Short-term financial instruments	-	43,516	-	43,516
Trade accounts receivable (*1)	-	399,748	-	399,748
Other accounts receivable	-	1,767	-	1,767
Accrued income	-	112	-	112
Short-term loans	-	-	-	-
Guarantee deposits	-	1	-	1
Derivative financial assets	599	-	-	599
	<u>599</u>	<u>529,626</u>	<u>-</u>	<u>530,225</u>
Non-current assets:				
Long-term financial instruments	-	19	-	19
Available-for-sale financial assets	-	-	78,984	78,984
Long-term loans	-	397	-	397
Long-term guarantee deposits	-	10,829	-	10,829
Derivative financial assets	3,015	-	-	3,015
	<u>3,015</u>	<u>11,245</u>	<u>78,984</u>	<u>93,244</u>
	<u>₩ 3,614</u>	<u>₩ 540,871</u>	<u>₩ 78,984</u>	<u>₩ 623,469</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
Long-term loans	-	-	-	-
Long-term 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 ₩63,331 million and ₩70,468 million as at December 31, 2017 and 2016, respectively, are not included in the financial instruments.

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4.2 Financial liabilities

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

	December 31, 2017		
	Financial liabilities at FVTPL	Other financial liabilities	Total
Current liabilities:			
Short-term borrowings	₩ -	₩ 780,000	₩ 780,000
Trade accounts payable	-	125,590	125,590
Other accounts payable	-	98,155	98,155
Accrued expenses	-	58,695	59,695
Current portion of long-term debt	-	1,052,733	1,052,733
Derivative financial liabilities	51	-	51
	<u>51</u>	<u>2,115,173</u>	<u>2,115,224</u>
Non-current liabilities:			
Bonds payable	-	5,034,055	5,034,055
Leasehold deposits received	-	11,775	11,775
Derivative financial liabilities	2,685	-	2,685
	<u>2,685</u>	<u>5,045,830</u>	<u>5,048,515</u>
	<u>₩ 2,736</u>	<u>₩ 7,161,003</u>	<u>₩ 7,163,739</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 Gain and loss by category of financial instruments

Details of gain and loss by category of financial instruments for the years ended in December 31, 2017 and 2016 are as follows (Korean won in millions):

	For the year ended December 31, 2017						
	Dividends income	Interest income	Interest expense	Loss on foreign currency	Gain (loss) on derivatives instruments	Impairment and loss on disposals	Total
Financial assets at FVTPL	₩ -	₩ -	₩ -	₩ -	₩ (2,595)	₩ -	₩ (2,595)
Loans and receivables	-	4,559	-	(810)	-	(123)	3,626
Available-for-sale financial assets	3	-	-	-	-	(90,708)	(90,705)
Financial liabilities at FVTPL	-	-	-	-	1,606	-	1,606
Other financial liabilities	-	-	(152,787)	(287)	-	-	(153,074)
	<u>₩ 3</u>	<u>₩ 4,559</u>	<u>₩ (152,787)</u>	<u>₩ (1,097)</u>	<u>₩ (989)</u>	<u>₩ (90,831)</u>	<u>₩ (241,142)</u>

	For the year ended December 31, 2016						
	Dividends income	Interest income	Interest expense	Gain (loss) on foreign currency	Gain (loss) on derivatives instruments	Reversal (impairment) and gain (loss) on disposals	Total
Financial assets at FVTPL	₩ -	₩ -	₩ -	₩ -	₩ 1,058	₩ -	₩ 1,058
Loans and receivables	-	3,660	-	(707)	-	(966)	1,987
Available-for-sale financial assets	1,200	-	-	-	-	118	1,318
Financial liabilities at FVTPL	-	-	-	-	(1,435)	-	(1,435)
Other financial liabilities	-	-	(145,932)	97	-	-	(145,835)
	<u>₩ 1,200</u>	<u>₩ 3,660</u>	<u>₩ (145,932)</u>	<u>₩ (610)</u>	<u>₩ (377)</u>	<u>₩ (848)</u>	<u>₩ (142,907)</u>

4.4 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.

Details of fair value of financial instruments by hierarchy level as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets at FVTPL	₩ -	₩ 599	₩ 3,015	₩ 3,614
Available-for-sale financial assets (*1)	-	-	15,072	15,072
	<u>₩ -</u>	<u>₩ 599</u>	<u>₩ 18,087</u>	<u>₩ 18,686</u>
Financial liabilities:				
Financial liabilities at FVTPL	₩ -	₩ 51	₩ 2,685	₩ 2,736
	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)	32,652	-	2,152	34,804
	<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 December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017	December 31, 2016
Trade accounts receivable:		
Trade accounts receivable	₩ 400,252	₩ 397,204
Unbilled receivables	63,331	70,468
	<u>463,583</u>	<u>467,672</u>
Allowance for doubtful accounts:		
Trade accounts receivable	(504)	(1,932)
	<u>₩ 463,079</u>	<u>₩ 465,740</u>

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6. Inventories

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

	December 31, 2017			December 31, 2016		
	Cost	Valuation allowance	Book value	Cost	Valuation allowance	Book value
Merchandises	₩ 604	₩ -	₩ 604	₩ 98,523	₩ (119)	₩ 98,404
Raw materials	172	-	172	157	-	157
Materials in transit	9	-	9	19	-	19
	<u>₩ 785</u>	<u>₩ -</u>	<u>₩ 785</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 December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017		December 31, 2016	
	Cost	Book value	Cost	Book value
Marketable equity instruments	₩ -	₩ -	₩ 45,841	₩ 32,652
Non-marketable equity instruments	156,285	65,498	122,487	122,490
Debt securities (*1)	13,078	13,486	553	553
	<u>₩ 169,363</u>	<u>₩ 78,984</u>	<u>₩ 168,881</u>	<u>₩ 155,695</u>

(*1) Represents convertible bonds of Mobile TCS Co., Ltd. and Socar, Inc.

(2) Details of marketable equity instruments as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017			December 31, 2016		
	Equity ownership	Acquisition cost	Book value	Acquisition cost	Book value	
SK Security Co., Ltd.	-	₩ -	₩ -	₩ 45,841	₩ 32,652	

(3) Details of non-marketable equity instruments as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017			December 31, 2016		
	Equity ownership	Acquisition cost	Book value(*1)	Acquisition cost	Book value(*1)	
Ilshin Leisure Co., Ltd.	0.13%	₩ 1	₩ 1	₩ 1	₩ 1	
Intellectual Discovery Co., Ltd.	1.34%	500	500	500	500	
Ultra Robot Land Co., Ltd.	8.39%	417	417	417	417	
Ultra Robot Land Assets Management Co., Ltd.	8.39%	25	25	25	25	
nDosa Technologies(*2)	20.00%	649	-	649	-	
Taihan Industrial System	0.01%	-	-	-	-	
Pulus, Inc	19.99%	4,387	4,387	-	-	
Mozido (C-3 Preferred share) (*3)	1.98%	90,790	-	90,790	90,790	
Prostar Asia-Pacific Energy Infrastructure Fund I L.P. (*2)	24.75%	24,976	24,976	5,589	5,589	
Dogus-SK Private Equity Investment Company (*2)	42.16%	7,472	7,472	7,472	7,472	
CFC-SK El Dorado LATAM Fund L.P. (*2)	24.75%	4,514	4,514	3,892	3,892	
Hermed Capital Health Care Fund L.P. (*2)	33.00%	20,911	20,911	11,173	11,173	
Engineering Guarantee Insurance	0.01%	16	16	16	16	
Information & Communication Financial Cooperative	0.05%	107	107	107	107	
Special Cooperation Korea Software Financial Cooperative (formerly, Korea Software Financial Cooperative)	0.69%	1,500	2,152	1,500	2,152	

SK Holdings Co., Ltd.
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7. Available-for-sale financial assets (cont'd)

	December 31, 2017			December 31, 2016	
	Equity ownership	Acquisition cost	Book value(*1)	Acquisition cost	Book value(*1)
Fire Guarantee	0.01%	20	20	20	20
IBK-SKS No.3 (*4)	-	-	-	176	176
IBK-SKS Private Equity Fund No.4 (*4)	-	-	-	160	160
		<u>₩ 156,285</u>	<u>₩ 65,498</u>	<u>₩ 122,487</u>	<u>₩ 122,490</u>

(*1) Non-marketable equity instruments and others, which have a high possibility of the fair values being distorted, as they do not have a quoted market price in an active market and reliable inputs to measure fair values, were measured at cost, less any identified impairment losses.

(*2) As the Company do not have significant influence, the Company classifies it as available-for-sale financial assets despite having more than 20% equity ownership.

(*3) The equity ownership is based on ordinary and preferred shares, and the Company recognized impairment loss amounting to ₩90,790 million.

(*4) During the current reporting period, the Company disposed IBK-SKS No.3 and IBK-SKS Private Equity Fund No.4 and the Company recognized ₩158 million of loss on disposal and ₩241 million of gain on disposal, respectively.

(4) Changes in available-for-sale financial assets for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	For the years ended	
	December 31, 2017	December 31, 2016
Beginning balance	₩ 155,695	₩ 148,455
Acquisitions	46,724	12,374
Gain on valuation (*1)	19,549	(3,509)
Disposals	(335)	(1,625)
Impairment loss	(90,790)	-
Transfer(*2, *3)	(51,859)	-
Ending balance	<u>₩ 78,984</u>	<u>₩ 155,695</u>

(*1) Excludes the effect of deferred income tax recognized directly to equity (2017: ₩(-)4,731 million, 2016: ₩849 million).

(*2) The Company decided to sell its interests in SK Securities Co., Ltd., which are classified as AFS securities in accordance with the Article 8-2 "Restrictions on activities by holding companies" of *Monopoly Regulation and Fair Trade Act* of the Republic of Korea, during the current reporting period. The entire stake of the equity ownership is publicly offered, and the investment has been classified as held-for-sale. The stock sale and purchase agreement with J&W Partners (after signing the contract, J&W Partners will transfer the contract to an investment company established by the private equity investment organization in which J&W Partners participates as a general partner) with regards to a sale of ordinary shares of SK Securities Co., Ltd. was approved by the Board of the Directors on March 5, 2018.

(*3) The gain on valuation of assets held for sale in the current period is ₩(-)15,045 million, which is the amount before income tax effect of ₩3,641 million deducted directly from equity.

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8. Investments in subsidiaries

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

	Domicile	Principal Business activity	December 31, 2017			December 31, 2016
			Equity ownership (*1)	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	25.22%	5,080,681	5,080,681	5,080,681
		Tele-communication				
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	90.00%	2,600,000	2,600,000	2,600,000
SK Maritime Co., Ltd. (formerly, SK Shipping Co., Ltd.) (*3)	Korea	Shipping	100.00%	332,400	332,400	332,400
SKC Co., Ltd. (*2)	Korea	Petrochemicals manufacturing	41.00%	548,654	548,654	548,654
SKY Property Management Ltd. (*4)	Virgin Island	Investment	-	-	-	44,885
SK GI Management	Cayman Islands	Investment	100.00%	9,523	9,523	9,523
SK China Company, Ltd. (*4, 5, 6)	Hong Kong	Consulting and investment	27.42%	557,117	557,117	299,352
SK Biopharmaceuticals Co., Ltd.	Korea	Life science	100.00%	328,702	328,702	328,702
SK Biotek Co., Ltd. (*7)	Korea	Life science	100.00%	336,318	336,318	163,818
SK Industrial Development China Co., Ltd. (*4)	Hong Kong	Investment	-	-	-	69,624
SK Technology Innovation Company (*5)	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. (*5)	Netherlands	Investment	11.54%	5,178	5,178	5,178
SK Latin Americas Investment S.A. (*5)	Spain	Investment	11.54%	5,135	5,135	5,135
Gemini Partners Pte. Ltd. (*5)	Singapore	Consulting investment	20.00%	6,018	6,018	6,018
Happynarae Co., Ltd.	Korea	E-commerce	-	-	-	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	-	-	-	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 Encarsales.com., Ltd. (*8)	Korea	Online used car retailers	-	-	-	13,914
SK Materials Co., Ltd. (*2)	Korea	Special-gas manufacturing and sales	49.10%	473,335	473,335	473,335
Saturn Agriculture Investment Co., Ltd.	Hong Kong	Investment	100.00%	5	5	-
FSK L&S Co., Ltd. (*9)	Korea	Conversion Logistics business	60.00%	24,158	24,158	7,200
SK computer and communication LLC (*10)	UAE	Computer system	49.00%	380	380	-
SK Siltron Co., Ltd.	Korea	Silicon wafer for electronic industry manufacturing and sales	51.00%	626,023	626,023	-
SK Investment Management Co., Ltd. (*6)	Hong Kong	Investment	80.76%	9,201	9,201	-
Plutus Capital NY, Inc.	USA	Investment	100.00%	120,186	120,186	-
Plutus Fashion NY, Inc.	USA	Fashion	100.00%	36,813	36,813	-
				<u>₩ 15,580,305</u>	<u>₩ 15,583,417</u>	<u>₩ 14,484,809</u>

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

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

(*3) SK Maritime Co., Ltd. (formerly, SK Shipping Co., Ltd.) reduced its capital of ₩162,696 million in May 2017. Therefore, the Company's ownership interest increased from 83.08% to 99.99%. After that, the Company received equity shares from other shareholders of SK Maritime Co., Ltd., so as at December 31, 2017, the equity ownership is 100%.

(*4) During the current reporting period, the Company transferred all of its ordinary shares in SKY Property Management Ltd. and SK Industrial Development China Co., Ltd. and cash consideration of USD 100 million to SK China Company Ltd., one of its subsidiaries.

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8. Investments in subsidiaries (cont'd)

- (*5) Classified as investment in subsidiaries as control can be exercised using indirect equity ownership through the Company's subsidiaries.
- (*6) During the current reporting period, the Company has received shares of SK Investment Management Co., Ltd., established by SK China Company, Ltd., one of the subsidiaries of the Company. The Company recognized the book value of SK China Company, Ltd. by the proportion of fair value of each share.
- (*7) The Company participated in new share issue of SK Biotek Co., Ltd. and acquired ₩172,500 million additionally.
- (*8) The Company decided to sell SK Encarsales.com., Ltd., which are classified as assets held-for-sale (see Note 28).
- (*9) Increased due to uniform capital increase during the current reporting period.
- (*10) During the current reporting period, the Company acquired 49% equity ownership of SK computer and communication LLC, and voting rights of shares (51%) have been delegated to the Company. Consequently, the Company classified SK computer and communication LLC as the Company's subsidiaries.

(2) Changes in subsidiaries for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	For the year ended December 31, 2017				Ending balance
	Beginning balance	Acquisitions	Disposal	Others	
SK Innovation Co., Ltd.	₩ 3,072,937	₩ -	₩ -	₩ -	₩ 3,072,937
SK Telecom Co., Ltd.	5,080,681	-	-	-	5,080,681
SK Networks Co., Ltd.	706,229	-	-	-	706,229
SK Engineering & Construction Co., Ltd.	545,300	-	-	-	545,300
SK E&S Co., Ltd.	2,600,000	-	-	-	2,600,000
SK Shipping Co., Ltd.	332,400	-	-	-	332,400
SKC Co., Ltd.	548,654	-	-	-	548,654
SKY Property Management Ltd.	44,885	-	-	(44,885)	-
SK GI Management	9,523	-	-	-	9,523
SK China Company, Ltd.	299,352	113,666	-	144,099	557,177
SK Biopharmaceuticals Co., Ltd.	328,702	-	-	-	328,702
SK Biotek Co., Ltd.	163,818	172,500	-	-	336,318
SK Industrial Development China Co., Ltd.	69,624	-	-	(69,624)	-
SK Technology Innovation Company	1,876	-	-	-	1,876
SK Forest Co., Ltd.	61,387	-	-	-	61,387
SK MENA Investment B.V.	5,178	-	-	-	5,178
SK Latin Americas Investment S.A.	5,135	-	-	-	5,135
Gemini Partners Pte. Ltd.	6,018	-	-	-	6,018
Happynarae Co., Ltd.	1,436	-	(1,436)	-	-
SK Infosec Co., Ltd.	44,077	-	-	-	44,077
SK C&C Beijing Co., Ltd.	25,481	-	-	-	25,481
SK C&C India Pvt. Ltd.	382	-	-	-	382
SK MENA B.V.	11,364	-	(11,364)	-	-
SK S.E.Asia Pte. Ltd.	25,847	-	-	-	25,847
S&G Technology	74	-	-	-	74
SK Encarsales.com., Ltd.	13,914	-	-	(13,914)	-
SK Materials Co., Ltd.	473,335	-	-	-	473,335
FSK L&S Co., Ltd.	7,200	16,958	-	-	24,158
Saturn Agriculture Investment Co., Ltd.	-	5	-	-	5
SK computer and communication LLC	-	380	-	-	380
SK Siltron Co., Ltd.	-	626,023	-	-	626,023
SM Core, Inc. (*1)	-	39,419	-	(39,419)	-
SK Investment Management Co., Limited	-	-	-	9,201	9,201
Plutus Capital NY, Inc.	-	120,186	-	-	120,186
Plutus Fashion NY, Inc.	-	36,813	-	-	36,813
	<u>₩ 14,484,809</u>	<u>₩ 1,125,950</u>	<u>₩ (12,800)</u>	<u>₩ (14,542)</u>	<u>₩ 15,583,417</u>

- (*1) During the current reporting period, the Company acquired 26.65% equity ownership of SM Core, Inc. and voting rights of shares (16.93%) owned by the CEO have been delegated to the Company. Consequently, the Company classified SM Core, Inc. as its subsidiary. However, as the delegation expired, the Company is unable to exercise de facto control so the Company classified SM Core, Inc. as its investments in associates and joint ventures.

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8. Investments in subsidiaries (cont'd)

	For the year ended December 31, 2016			
	Beginning balance	Acquisitions	Disposal	Ending balance
SK Innovation Co., Ltd.	₩ 3,072,937	₩ -	₩ -	₩ 3,072,937
SK Telecom Co., Ltd.	5,080,681	-	-	5,080,681
SK Networks Co., Ltd.	706,229	-	-	706,229
SK Engineering & Construction Co., Ltd.	545,300	-	-	545,300
SK E&S Co., Ltd.	2,600,000	-	-	2,600,000
SK Shipping Co., Ltd.	332,400	-	-	332,400
SKC Co., Ltd.	548,654	-	-	548,654
SKY Property Management Ltd.	44,885	-	-	44,885
SK GI Management	9,523	-	-	9,523
SK China Company, Ltd.	299,352	-	-	299,352
SK Biopharmaceuticals Co., Ltd.	328,702	-	-	328,702
SK Biotech Co., Ltd.	-	163,818	-	163,818
SK Industrial Development China Co., Ltd.	69,624	-	-	69,624
SK Technology Innovation Company	1,876	-	-	1,876
SK Forest Co., Ltd.	61,387	-	-	61,387
SK MENA Investment B.V.	5,178	-	-	5,178
SK Latin Americas Investment S.A.	5,135	-	-	5,135
Gemini Partners Pte. Ltd.	6,018	-	-	6,018
Fitech Sector Limited Partnership IV	3,741	-	(3,741)	-
Happynarae Co., Ltd.	1,436	-	-	1,436
Fitech Focus Limited Partnership II	4,978	-	(4,978)	-
SK Infosec Co., Ltd.	43,752	325	-	44,077
SK C&C Beijing Co., Ltd.	25,481	-	-	25,481
SK C&C India Pvt. Ltd.	382	-	-	382
SK MENA B.V.	11,364	-	-	11,364
SK S.E. Asia Pte. Ltd.	25,847	-	-	25,847
S&G Technology	74	-	-	74
SK Encarsales.com., Ltd.	13,914	-	-	13,914
SK Materials Co., Ltd.	-	473,335	-	473,335
Saturn Agriculture Investment Co., Ltd.	-	-	-	-
FSK L&S Co., Ltd.	-	7,200	-	7,200
	<u>₩ 13,848,850</u>	<u>₩ 644,678</u>	<u>₩ (8,719)</u>	<u>₩ 14,484,809</u>

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

	December 31, 2017
SK Innovation Co., Ltd.	₩ 6,315,735
SK Telecom Co., Ltd.	5,437,042
SK Networks Co., Ltd.	646,000
SKC Co., Ltd.	723,330
SK Materials Co., Ltd.	932,136

(4) Gain and loss on investments in subsidiaries for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	For the years ended	
	December 31, 2017	December 31, 2016
Dividends incomes from investment in subsidiaries (*1)	₩ 688,564	₩ 593,262

(*1) Includes dividends income from SK Encarsales.com., Ltd., which is classified as non-current assets held for sale.

(5) Impairment test of investments in subsidiaries

The Company performs impairment tests of investment in subsidiaries on an annual basis. If any indication of impairment exists, the recoverable amount of the investment is estimated. There is no indication of impairment of investments in subsidiaries, as a result of impairment test.

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9. Investments in associates and joint ventures

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

	Domicile	Principal business activity	December 31, 2017			December 31, 2016
			Equity ownership	Acquisition cost	Book value	Book value
Investments in associates:						
SBS Golf Co., Ltd. (*1)	Korea	Cable broadcast	-	₩ -	₩ -	8,554
Mobile TCS Co., Ltd.	Korea	Mobile service	41.00%	820	820	820
Daehan Kanggun BcN Co., Ltd. (*2)	Korea	Wired communication	0.67%	58	58	58
FSK Holdings Co., Ltd.	Hong Kong	IT service	30.00%	11,937	11,937	11,937
Mozido Corfire, Inc. (*3)	America	System consulting	19.94%	6,767	-	-
Socar, Inc.	Korea	Rental of cars	28.23%	91,800	91,800	58,860
9352-7281 Quebec Inc. (*4)	Canada	Investment	40.09%	31,558	31,558	-
Turo Inc. (*3, 4)	America	Rental of cars	5.11%	39,762	39,762	-
ESR Cayman Limited (*3, 4)	Cayman Island	Investment	11.22%	378,427	378,427	-
SMCore Inc. (*4, 5)	Korea	Manufacturing and sales of automated logistics system	26.65%	<u>39,419</u>	<u>39,419</u>	-
				<u>600,548</u>	<u>593,781</u>	<u>80,229</u>
Investments in joint ventures:						
Hana Land Chip PEF 33 (*2)	Korea	Real estate	13.51%	₩ 40,000	₩ 40,000	₩ 40,000
Socar Mobility Malaysia, SDN BHD. (*4)	Malaysia	Rental of cars	60.00%	<u>14,189</u>	<u>14,189</u>	-
				<u>54,189</u>	<u>54,189</u>	<u>40,000</u>
				<u>₩ 654,737</u>	<u>₩ 649,970</u>	<u>₩ 120,229</u>

(*1) During the current reporting period, the Company exercised the right to buy stocks to object the merger between SBS Golf Co., Ltd. and SBS Plus Co., Ltd. and recognized loss on disposal of ₩3,553 million.

(*2) 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.

(*3) 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.

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

(*5) During the current reporting period, the Company acquired 26.65% equity ownership of SM Core, Inc. and voting rights of shares (16.93%) owned by the CEO have been delegated to the Company. Consequently, the Company classified SM Core, Inc. as its subsidiary. However, as the delegation expired, the Company is unable to exercise de facto control so the Company classified SM Core, Inc. as its investments in associates and joint ventures.

10. Property, plant and equipment

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

	December 31, 2017			December 31, 2016		
	Acquisition cost	Accumulated depreciation	Book value	Acquisition cost	Accumulated depreciation	Book value
Land	₩ 169,505	₩ -	₩ 169,505	₩ 173,818	₩ -	₩ 173,818
Buildings	475,190	(106,449)	368,741	483,169	(92,920)	390,249
Structures	7,796	(439)	7,357	7,041	(156)	6,885
Machinery and equipment	-	-	-	425	(383)	42
Vehicles	7,504	(2,120)	5,384	7,939	(2,020)	5,919
Furniture and fixtures	322,264	(214,380)	107,884	309,520	(203,943)	105,577
Construction-in-progress	<u>12,787</u>	-	<u>12,787</u>	<u>1,891</u>	-	<u>1,891</u>
	<u>₩ 995,046</u>	<u>₩ (323,388)</u>	<u>₩ 671,658</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 years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	For the year ended December 31, 2017						Ending balance
	Beginning balance	Acquisition	Depreciation	Disposal	Transfer	Held for sale (*1)	
Land	₩ 173,818	₩ -	₩ -	₩ -	₩ 2,195	₩ (6,508)	₩ 169,505
Buildings	390,249	-	(15,383)	-	1,074	(7,199)	368,741
Structures	6,885	-	(284)	-	756	-	7,357
Machinery and equipment	42	73	(22)	-	-	(93)	-
Vehicles	5,919	1,513	(683)	(47)	-	(1,318)	5,384
Furniture and fixtures	105,577	40,488	(32,149)	(1,120)	131	(5,043)	107,884
Construction-in-progress	1,891	15,052	-	-	(4,156)	-	12,787
	<u>₩ 684,381</u>	<u>₩ 57,126</u>	<u>₩ (48,521)</u>	<u>₩ (1,167)</u>	<u>₩ -</u>	<u>₩ (20,161)</u>	<u>₩ 671,658</u>

(*1) The amounts were transferred to non-current assets held for sale during the current reporting period (see Note 28).

	For the year ended December 31, 2016						Ending balance
	Beginning balance	Acquisition	Depreciation	Disposal	Transfer		
Land	₩ 163,134	₩ 4	₩ -	₩ -	₩ 10,680	₩ -	₩ 173,818
Buildings	337,160	9	(14,744)	-	67,824	-	390,249
Structures	881	-	(155)	-	6,159	-	6,885
Machinery and equipment	33	26	(17)	-	-	-	42
Vehicles	6,995	213	(1,189)	(163)	63	-	5,919
Furniture and fixtures	85,096	45,504	(29,576)	(188)	4,741	-	105,577
Construction-in-progress	71,939	19,427	-	-	(89,475)	-	1,891
	<u>₩ 665,238</u>	<u>₩ 65,183</u>	<u>₩ (45,681)</u>	<u>₩ (351)</u>	<u>₩ (8)</u>	<u>₩ -</u>	<u>₩ 684,381</u>

11. Investment property

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

	December 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	(1,031)	8,779	9,810	(604)	9,206
	<u>₩ 41,205</u>	<u>₩ (1,031)</u>	<u>₩ 40,174</u>	<u>₩ 41,205</u>	<u>₩ (604)</u>	<u>₩ 40,601</u>

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

	For the year ended December 31, 2017		
	Beginning balance	Depreciation	Ending balance
Land	₩ 31,395	₩ -	₩ 31,395
Buildings	9,206	(427)	8,779
	<u>₩ 40,601</u>	<u>₩ (427)</u>	<u>₩ 40,174</u>

	For the year ended December 31, 2016		
	Beginning balance	Depreciation	Ending balance
Land	₩ 31,395	₩ -	₩ 31,395
Buildings	9,632	(426)	9,206
	<u>₩ 41,027</u>	<u>₩ (426)</u>	<u>₩ 40,601</u>

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11. Investment property (cont'd)

(3) Details of gains and losses related to investment property for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	For the years ended	
	December 31, 2017	December 31, 2016
Rental income	₩ 2,275	₩ 2,246
Depreciation	(427)	(426)
	<u>₩ 1,848</u>	<u>₩ 1,820</u>

Operating expenses related with rental income were not recognized separately.

(4) The fair value of land and building classified as investment property was ₩31,395 million and ₩9,810 million as at December 31, 2017, respectively.

12. Intangible assets

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

	December 31, 2017				December 31, 2016			
	Acquisition cost	Accumulated amortization	Accumulated impairment	Book value	Acquisition cost	Accumulated amortization	Accumulated impairment	Book value
Goodwill	₩ -	₩ -	₩ -	₩ -	₩ 4,639	₩ -	₩ -	₩ 4,639
Development costs	101,530	(50,445)	(2,688)	48,397	87,412	(39,926)	(2,688)	44,798
Memberships	52,438	-	(13,648)	38,790	49,077	-	(13,648)	35,429
Brand-related assets	1,975,000	-	-	1,975,000	1,975,000	-	-	1,975,000
Others	29,731	(1,619)	-	28,112	30,447	(1,588)	-	28,859
	<u>₩ 2,158,699</u>	<u>₩ (52,064)</u>	<u>₩ (16,336)</u>	<u>₩ 2,090,299</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 years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	For the year ended December 31, 2017						
	Beginning balance	Acquisition	Depreciation	Disposal	Held for sale (*1)	Ending balance	
Goodwill	₩ 4,639	₩ -	₩ -	₩ -	₩ (4,639)	₩ -	
Development costs	44,798	19,562	(11,665)	(329)	(3,969)	48,397	
Memberships	35,429	6,094	-	(2,473)	(260)	38,790	
Brand-related assets	1,975,000	-	-	-	-	1,975,000	
Others	28,859	1,766	(1,672)	(48)	(793)	28,112	
	<u>₩ 2,088,725</u>	<u>₩ 27,422</u>	<u>₩ (13,337)</u>	<u>₩ (2,850)</u>	<u>₩ (9,661)</u>	<u>₩ 2,090,299</u>	

(*1) The amounts were transferred to assets held for sale during the current reporting period (see Note 28).

	For the year ended December 31, 2016						
	Beginning balance	Acquisition	Depreciation	Impairment	Disposal	Ending balance	
Goodwill	₩ 4,639	₩ -	₩ -	₩ -	₩ -	₩ 4,639	
Development costs	40,792	18,426	(11,732)	(2,688)	-	44,798	
Memberships	31,816	8,039	-	-	(4,426)	35,429	
Brand-related assets	1,975,000	-	-	-	-	1,975,000	
Others	905	28,282	(328)	-	-	28,859	
	<u>₩ 2,053,152</u>	<u>₩ 54,747</u>	<u>₩ (12,060)</u>	<u>₩ (2,688)</u>	<u>₩ (4,426)</u>	<u>₩ 2,088,725</u>	

12. Intangible assets (cont'd)

(3) Impairment testing of brand contract-related assets

The Company measured the recoverable amount of intangible assets with an indefinite useful life related to brand. Major assumptions used in the calculation reflected the management's assessment of the future trends in each reporting segment using the brand, based on the historical information.

Significant assumptions used in impairment testing of brand-related assets as at December 31, 2017 are as follows:

Recoverable amounts	Growth rate (*1)	Discount rate (*2)
Usage value	1.0%	13.3%

(*1) Future cash flows for additional periods after the estimated period are estimated using a fixed growth rate.

(*2) The discount rate was estimated by adding risk premium to weighted average cost of capital.

As a result of impairment test of brand contract-related assets, the carrying amount does not exceed the recoverable amount, so there is no impairment loss recognized during the current reporting period.

13. Borrowings and bonds payable

(1) Short-term borrowings

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

Description	Financial institution	Interest rate (%)	December 31, 2017	December 31, 2016
Working capital loan	KEB Hana Bank	2.49	₩ 50,000	₩ 10,000
Working capital loan	Shinhan Bank	2.29 ~ 2.71	220,000	50,000
Working capital loan	Woori Bank	2.49 ~ 2.51	250,000	10,000
Working capital loan	Kookmin Bank	-	-	90,000
Working capital loan	NH Bank	2.66	10,000	-
Commercial paper	Samsung Securities	-	-	60,000
Commercial paper	Korea Investment & Securities	1.93 ~ 1.94	250,000	60,000
			<u>₩ 780,000</u>	<u>₩ 280,000</u>

(2) Bonds payable

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

Issuance number	Interest rate (%)	Maturity	Security	December 31, 2017	December 31, 2016
256-2nd	3.78	2017-05-25	Unsecured	₩ -	₩ 200,000
257-1st	3.21	2017-08-27	Unsecured	-	150,000
257-2nd	3.43	2019-08-27	Unsecured	100,000	100,000
258-1st	3.21	2017-10-19	Unsecured	-	100,000
258-2nd	3.41	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

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13. Borrowings and bonds payable (cont'd)

Issuance number	Interest rate (%)	Maturity	Security	December 31,	December 31,
				2017	2016
264-2nd	3.25	2021-08-05	Unsecured	₩ 170,000	₩ 170,000
265-1st	2.28	2017-12-02	Unsecured	-	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
269-2nd	4.12	2019-06-14	Unsecured	150,000	150,000
270-1st	3.19	2017-11-02	Unsecured	-	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	2.11	2020-03-06	Unsecured	90,000	-
279-2nd	2.42	2022-03-06	Unsecured	190,000	-
279-3rd	2.64	2024-03-06	Unsecured	120,000	-
280-1st	2.13	2020-06-01	Unsecured	90,000	-
280-2nd	2.46	2022-06-01	Unsecured	200,000	-
280-3rd	2.73	2024-06-01	Unsecured	110,000	-
281-1st	2.09	2019-08-04	Unsecured	100,000	-
281-2nd	2.48	2022-08-04	Unsecured	130,000	-
281-3rd	2.67	2024-08-04	Unsecured	70,000	-
282-1st	2.59	2020-10-25	Unsecured	70,000	-
282-2nd	2.87	2020-10-25	Unsecured	150,000	-
282-3rd	2.91	2024-10-25	Unsecured	80,000	-
				6,060,000	5,410,000
				26,788	51,658
				(1,052,733)	(754,262)
				<u>₩ 5,034,055</u>	<u>₩ 4,707,396</u>

Addition: premium on bonds payable
Less: current portion

13. Borrowings and bonds payable (cont'd)

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

Year ending	Amount of repayment
December 31, 2018	₩ 1,050,000
December 31, 2019	1,080,000
December 31, 2020	1,280,000
December 31, 2021	920,000
December 31, 2022 and thereafter	1,730,000
	₩ 6,060,000

14. Provisions

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

	For the year ended December 31, 2017				
	Beginning Balance	Increase	Decrease	Held for sale (*1)	Ending balance
Provision for service warranties	₩ 5,284	₩ 5,360	₩ (5,656)	₩ -	₩ 4,988
Provision for sale warranties	814	5,975	(5,288)	(1,501)	-
Others	-	2,961	-	-	2,961
	₩ 6,098	₩ 14,296	₩ (10,944)	₩ (1,501)	₩ 7,949

(*1) The amounts were transferred to liabilities held for sale during the current reporting period (see Note 28).

	For the year ended December 31, 2016			
	Beginning balance	Increase	Decrease	Ending balance
Provision for service warranties	₩ 4,620	₩ 7,406	₩ (6,742)	₩ 5,284
Provision for sale warranties	680	134	-	814
	₩ 5,300	₩ 7,540	₩ (6,742)	₩ 6,098

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 year ended December 31, 2017, were ₩14 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.

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15. Retirement benefit obligation (cont'd)

(3) Details of retirement benefit obligation as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017	December 31, 2016
Present value of defined benefit obligation	₩ 254,398	₩ 237,311
Fair value of plan assets	(215,599)	(204,244)
	<u>₩ 38,799</u>	<u>₩ 33,067</u>

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

	For the year ended December 31, 2017		
	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	30,296	-	30,296
Net interest expense (income)	5,782	(5,173)	609
Remeasurement:			
Return on plan assets (excluding amounts included in net interest expense)	-	1,074	1,074
Actuarial changes arising from changes in demographic assumptions	4,688	-	4,688
Actuarial changes arising from changes in financial assumptions	(9,374)	-	(9,374)
Experience adjustments	5,047	-	5,047
Contributions by employer directly to plan assets	-	(29,700)	(29,700)
Benefit paid	(14,389)	14,433	44
Others	8,311	(5,555)	2,756
Transfer to liabilities held for sale (*1)	(13,274)	13,566	292
Ending balance	<u>₩ 254,398</u>	<u>₩ (215,599)</u>	<u>₩ 38,799</u>

(*1) The amounts were transferred to liabilities held for sale during the current reporting period (see Note 28).

	For the year ended December 31, 2016		
	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	27,901	-	27,901
Net interest expense (income)	4,251	(3,900)	351
Remeasurement:			
Return on plan assets (excluding amounts included in net interest expense)	-	859	859
Actuarial changes arising from changes in demographic assumptions	-	-	-
Actuarial changes arising from changes in financial assumptions	(1,082)	-	(1,082)
Experience adjustments	4,524	-	4,524
Contributions by employer directly to plan assets	-	(21,537)	(21,537)
Benefit paid	(14,552)	6,571	(7,981)
Others	4,818	(1,207)	3,611
Ending balance	<u>₩ 237,311</u>	<u>₩ (204,244)</u>	<u>₩ 33,067</u>

15. Retirement benefit obligation (cont'd)

(5) The components of plan assets as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Debt instruments	₩ 29,629	₩ 44,518
Deposits and others	185,970	159,726
	<u>₩ 215,599</u>	<u>₩ 204,244</u>

(6) Principal actuarial assumptions

The principal assumptions used in actuarial calculation as at December 31, 2017 and 2016 are as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Discount rate for defined benefit obligations	3.16% ~ 3.17%	2.55% ~ 2.68%
Expected rate of salary increase	3.24% ~ 4.00%	3.00% ~ 4.00%

(7) The sensitivity analysis for significant actuarial assumptions as at December 31, 2017, is as follows (Korean won in millions):

	<u>Impact on the defined benefit obligation</u>		
	<u>Sensitivity level</u>	<u>Increase</u>	<u>Decrease</u>
Discount rate	0.5%	₩ (10,947)	₩ 11,764
Expected rate of salary increase	0.5%	11,650	(10,948)

The sensitivity analysis above has been done under the assumption that all other variables remain unchanged. However, actual results may change through the interaction among other variables.

16. Other assets and liabilities

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

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Current assets:		
Short-term loans	₩ -	₩ 600
Accrued income	112	169
Advance payments	1,572	9,287
Prepaid expenses	11,300	7,852
Guarantee deposits	1	3,671
Derivative financial assets	599	1,094
Others	19	22
	<u>₩ 13,603</u>	<u>₩ 22,695</u>
Non-current assets:		
Long-term financial instruments	₩ 19	₩ 19
Long-term loans	397	-
Long-term guarantee deposits	10,829	16,763
Derivative financial assets	3,015	-
Others	125	4,641
	<u>₩ 14,385</u>	<u>₩ 21,423</u>

16. Other assets and liabilities (cont'd)

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

	<u>December 31, 2017</u>		<u>December 31, 2016</u>	
Current liabilities:				
Advance received	₩	88,807	₩	55,028
Withholdings		23,600		26,513
Income tax payable		22,824		22,721
Derivative financial liabilities		51		1,541
Others		-		74
	₩	<u>135,282</u>	₩	<u>105,877</u>
Non-current liabilities:				
Leasehold deposits received	₩	11,775	₩	12,223
Derivative financial liabilities		2,685		115
Others (*1)		6,720		4,942
	₩	<u>21,180</u>	₩	<u>17,280</u>

(*1) Includes long-term employee benefits amounting to ₩6,720 million (2016: ₩4,941 million).

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 December 31, 2017 and 2016 are as follows (Korean won in millions):

	<u>December 31, 2017</u>		<u>December 31, 2016</u>	
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
Forward contract	₩ 599	₩ 51	₩ 1,094	₩ 1,656
Embedded derivative	2,538	-	-	-
Shareholders' agreement (see Note 30)	477	2,685	-	-
	₩ <u>3,614</u>	₩ <u>2,736</u>	₩ <u>1,094</u>	₩ <u>1,656</u>

18. Equity

18.1 Issued capital

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

	<u>December 31, 2017</u>		<u>December 31, 2016</u>	
Number of shares authorized for issued		400,000,000		400,000,000
Par value 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>

18.1 Issued capital (cont'd)

The Company retired 6,000,000 shares of its treasury stock (par value: ₩1,200 million) 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 December 31, 2017 and 2016 are as follows (Korean won in millions):

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Paid-in surplus (*1)	₩ 5,605,831	₩ 5,605,831
Treasury stock (*2)	(904,491)	(904,490)
Stock option	1,220	-
Others	17,711	17,711
	<u>₩ 4,720,271</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 December 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 (11,021,669 ordinary shares and 1,818 preferred shares) during the previous reporting period. Out of those shares, 5 ordinary shares are acquired during the current reporting period.

18.3 Retained earnings

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

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Legal reserve (*1)	₩ 7,693	₩ 7,693
Voluntary reserve	71,563	80,896
Unappropriated retained earnings	7,506,334	7,094,634
	<u>₩ 7,585,590</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.

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18.4 Statements of appropriation of retained earnings

The statements of appropriation of retained earnings for the years ended December 31, 2017 and 2016, are as follows (Korean won in millions):

	For the years ended	
	December 31, 2017	December 31, 2016
I. Unappropriated retained earnings	₩ 7,506,334	₩ 7,094,634
Unappropriated retained earnings carried over from prior years	6,895,301	6,456,200
Net income	612,121	641,694
Remeasurement loss on defined benefit plans	(1,088)	(3,260)
II. Transfer from voluntary reserves	6,334	9,333
III. Appropriation of retained earnings	225,583	208,666
Dividends	225,583	208,666
Legal reserve	-	-
IV. Unappropriated retained earnings to be carried forward to the next year	₩ 7,287,085	₩ 6,895,301

18.5 Other capital components

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

	December 31, 2017	December 31, 2016
Gain on available-for-sale financial assets	₩ 11,455	₩ 8,041

18.6 Stock option

Upon resolution by the shareholders and the 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 stock options granted under the share option program are as follows:

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

Share compensation expense recognized during the current reporting period is ₩1,220 million and the remaining share compensation expense to be recognized in later periods are ₩3,067 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:

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18.6 Stock option (cont'd)

		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	₩	244,400	₩	263,950
Fair value per share (Korean won)	₩	38,317	₩	34,200	₩	30,962

19. Dividends

(1) Details of dividends proposed for approval at the annual ordinary shareholders' meeting for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	For the years ended			
	December 31, 2017		December 31, 2016	
	Ordinary share	Preferred share	Ordinary share	Preferred share
Number of shares (*1)	55,824,352	564,317	55,824,357	564,317
Par value per share (Korean won)	₩ 200	₩ 200	₩ 200	₩ 200
Dividend rate	2,000%	2,025%	1,850%	1,875%
Dividends	₩ 223,297	₩ 2,286	₩ 206,550	₩ 2,116

(*1) Total issued shares, less the number of treasury shares.

(2) Details of calculation of dividend payout ratio for the years ended December 31, 2017 and 2016, are as follows (Korean won in millions):

	For the years ended	
	December 31, 2017	December 31, 2016
Dividends	₩ 225,583	₩ 208,666
Net income	612,121	641,694
Dividend payout ratio	36.85%	32.52%

(3) Details of calculation of dividend yield ratio for the years ended December 31, 2017 and 2016, are as follows (Korean won):

	For the years ended			
	December 31, 2017		December 31, 2016	
	Ordinary share	Preferred share	Ordinary share	Preferred share
Dividend per share	₩ 4,000	₩ 4,050	₩ 3,700	₩ 3,750
Last price	283,000	163,500	229,500	137,000
Dividend yield ratio	1.41%	2.48%	1.61%	2.74%

20. Operating revenues

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

	For the years ended	
	December 31, 2017	December 31, 2016
IT Service (*1)	₩ 1,554,465	₩ 1,452,176
Dividend income	691,837	596,622
Trademark usage income	185,305	203,664
Rental income	46,233	46,370
	<u>₩ 2,477,840</u>	<u>₩ 2,298,832</u>

(*1) Includes contract revenue of ₩432,442 million and ₩404,160 million recognized from construction contract for the years ended December 31, 2017 and 2016, respectively.

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

	December 31, 2017	December 31, 2016
Accumulated cost and profit	₩ 277,259	₩ 307,039
Progress billings	235,568	248,995
Unbilled receivables (trade accounts receivable)	63,331	70,468
Overbilled receivables (advance receipts)	21,640	12,424

(3) Details of construction profit variation by changes of accounting estimates related to construction contracts as at December 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)	₩ 4,287	₩ (13,914)	₩ 14,861	₩ 3,340

(*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.

21. Operating expenses

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

	For the years ended	
	December 31, 2017	December 31, 2016
Material costs	₩ 267,466	₩ 251,694
Outsourcing costs	624,583	561,234
Salaries	344,038	297,387
Provision for pension benefits	28,184	25,266
Depreciation	44,954	43,225
Amortization	7,528	5,772
Rents	39,774	39,606
Communications	21,586	22,063
Employee welfare benefits	49,216	47,605
Commissions	28,493	24,681
Advertising	40,966	40,219
Education and training	17,311	15,478
Research and development	21,039	22,785
Office management	38,861	32,073
Travel	13,390	12,840
Others	20,985	21,132
	<u>₩ 1,608,374</u>	<u>₩ 1,463,060</u>

22. Expenses classified based on nature of expense

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

	For the years ended	
	December 31, 2017	December 31, 2016
Material costs	₩ 267,989	₩ 252,686
Outsourcing costs	625,527	563,797
Salaries	353,078	305,865
Provision for pension benefits	29,432	26,238
Depreciation and amortization	59,083	55,978
Rents	39,778	39,835
Communications	21,619	22,066
Employee welfare benefits	50,979	49,090
Commissions	28,903	25,052
Education and training	17,579	15,779
Office management	38,861	32,080
Travel	13,490	13,062
Others	62,056	61,532
	<u>₩ 1,608,374</u>	<u>₩ 1,463,060</u>

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24. Income taxes

(1) Components of income tax expense for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	For the years ended	
	December 31, 2017	December 31, 2016
Current income tax	₩ 46,633	₩ 44,990
Deferred income tax	(4,146)	(4,626)
Deferred tax charged directly to the equity:		
Net gain on available-for-sale financial assets	(1,090)	849
Remeasurement loss on defined benefits plans	347	1,041
Income tax expense	<u>₩ 41,744</u>	<u>₩ 42,254</u>

(2) A reconciliation of income before income tax at the Korea statutory tax rate to income tax expense at the effective income tax rate of the Company for the years ended December 31, 2017 and 2016 is as follows (Korean won in millions):

	For the years ended	
	December 31, 2017	December 31, 2016
Income before income tax expense	₩ 653,865	₩ 683,948
Income from continuing operations before income tax expense	643,236	673,300
Income from discontinued operations before income tax expense	10,629	10,648
Income tax at statutory income tax rate (*1)	157,769	165,049
Adjustments:		
Non-taxable revenue	(125,595)	(114,572)
Non-deductible expenses	5,059	2,158
Tax credit	(550)	(404)
Unrecognized deferred income tax	27,468	(2,468)
Tax effects of the consolidated tax return	(23,663)	(8,226)
Adjustments in respect of current income tax of prior year	1,390	577
Others	(134)	140
	<u>(116,025)</u>	<u>(122,795)</u>
Income tax expense	<u>₩ 41,744</u>	<u>₩ 42,254</u>
Income tax expense from continuing operations	39,133	40,048
Income tax benefits from discontinued operations	2,611	2,206
Effective tax rate	6.26%	5.95%

(*1) The Company is subject to corporate income taxes (at the aggregate rates of 10% on taxable income of up to ₩200 million, 20% on taxable income in the range of ₩200 million to ₩20,000 million and 22% on taxable income in excess of ₩ 20,000 million) and local income tax (10% of corporate income tax).

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24. Income taxes (cont'd)

(3) Changes in deferred income tax assets (liabilities) for the years ended December 31, 2017 and 2016, are as follows (Korean won in millions):

	For the year ended December 31, 2017				
	Beginning balance	Recognized in profit or loss	Recognized directly in equity	Assets held for sale (*1)	Ending balance
Provisions	₩ 1,571	₩ 95	₩ -	₩ 459	₩ 2,125
Investments in associates and subsidiaries	32,873	(18,352)	-	-	14,521
Advanced depreciation provision	(17,833)	-	-	-	(17,833)
R&D reserve	(2,097)	1,532	-	-	(565)
Available-for-sale financial assets	3,467	21,969	(1,090)	-	24,346
Depreciation	(1,875)	(8)	-	1	(1,882)
Deemed cost of land and buildings	(26,926)	545	-	-	(26,381)
Accrued bonuses and others	12,468	3,325	-	487	16,280
Retirement benefit obligation	639	(870)	347	30	146
Treasury shares	171,092	-	-	-	171,092
Intangible assets	(477,935)	-	-	-	(477,935)
Bonds payable	24,832	(3,954)	-	-	20,878
Others	15,945	607	-	1,316	17,868
	<u>₩ (263,779)</u>	<u>₩ 4,889</u>	<u>₩ (743)</u>	<u>₩ 2,293</u>	<u>₩ (257,340)</u>

(*1) It is the amount transferred to liabilities held for sale during the current reporting period (see Note 28).

	For the year ended December 31, 2016				
	Beginning balance	Recognized in profit or loss	Recognized directly in equity		Ending balance
Provisions	₩ 1,378	₩ 193	₩ -	₩ -	₩ 1,571
Investments in associates and subsidiaries	33,160	(287)	-	-	32,873
Advanced depreciation provision	(17,833)	-	-	-	(17,833)
R&D reserve	(4,356)	2,259	-	-	(2,097)
Available-for-sale financial assets	3,428	(810)	849	-	3,467
Depreciation	(1,799)	(76)	-	-	(1,875)
Deemed cost of land and buildings	(27,471)	545	-	-	(26,926)
Accrued bonuses and others	12,614	(146)	-	-	12,468
Retirement benefit obligation	1,429	(1,831)	1,041	-	639
Treasury shares	171,092	-	-	-	171,092
Intangible assets	(476,902)	(1,033)	-	-	(477,935)
Bonds payable	28,689	(3,857)	-	-	24,832
Others	8,166	7,779	-	-	15,945
	<u>₩ (268,405)</u>	<u>₩ 2,736</u>	<u>₩ 1,890</u>	<u>₩ -</u>	<u>₩ (263,779)</u>

(4) Details of temporary differences for which no deferred tax assets (liabilities) were recognized as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	December 31, 2017	December 31, 2016
Taxable temporary differences:		
Investments in subsidiaries and others	₩ 5,157,187	₩ 5,185,937
Gain on transfer for investment in kind	90,687	90,687
Goodwill	4,639	4,639
Deductible temporary difference:		
Investments in subsidiaries and others	(756,972)	(671,884)
	<u>₩ 4,495,541</u>	<u>₩ 4,609,379</u>

25. Earnings per share

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

	For the years ended	
	December 31, 2017	December 31, 2016
Net income	₩ 612,121	₩ 641,694
Less: preferred share dividends	(2,286)	(2,116)
Net income attributable to ordinary share owners of the Company	₩ 609,835	₩ 639,578
Weighted-average number of issued shares outstanding (*1)	55,824,357	55,824,357
Basic earnings per share (Korean won)	₩ 10,924	₩ 11,457

(*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 years ended December 31, 2017 and 2016 are as follows:

	For the years ended	
	December 31, 2017	December 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

(3) Basic earnings per share from continuing operations

	For the years ended	
	December 31, 2017	December 31, 2016
Net income attributable to ordinary shares	₩ 609,835	₩ 639,578
Less: gain from discontinued operations	(8,018)	(8,442)
Gain from continuing operations attributable to ordinary shares	₩ 601,817	₩ 631,136
Weighted-average number of issued shares outstanding	55,824,357	55,824,357
Basic earnings per share from continuing operations (Korean won)	₩ 10,781	₩ 11,306

(4) Basic earnings per share from discontinued operations

	For the years ended	
	December 31, 2017	December 31, 2016
Gain from discontinued operations	₩ 8,018	₩ 8,442
Weighted-average number of issued shares outstanding	55,824,357	55,824,357
Basic earnings per share from discontinued operations (Korean won)	₩ 144	₩ 152

26. Transactions with related parties

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

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

Ultimate controlling party	Subsidiary
Tae-won, Chey and related parties	
Subsidiary (total 309)	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., SK Global Chemical Americas, Inc., SK Primacor Americas LLC, SK Primacor Europe, S.L.U., 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., SK Lubricants Co., Ltd., Yubase Manufacturing Asia Corporation, SK Energy Lubricants (Tianjin) Co., Ltd., PT. Patra SK, SK Lubricants & Oils India Pte. Ltd., SK Lubricants Americas, Inc., SK Lubricants Europe B.V., SK Lubricants Japan Co., Ltd., Iberian Lube Base Oils, S.A., SK Lubricants Russia LLC, SK Mobile Energy Co., Ltd., SK Innovation Insurance (Bermuda), Ltd., SK USA, Inc., SK E&P Company, SK E&P America, Inc., SK Plymouth, LLC, SK Permian, LLC, SK Battery Systems Co., Ltd., SK Battery China Holdings Co., Ltd., SK Battery Hungary Kft., SK Saran Americas LLC, SK Telecom Co., Ltd., SK Telink Co., Ltd., NSOK Co., Ltd. (formerly, Neos Networks Co., Ltd.), SK Broadband Co., Ltd., Home&Service Co., Ltd., PS&Marketing Corp., Serviceace Co., Ltd., Service Top Co., Ltd., Network O&S Co., Ltd., SK techx Co., Ltd., K-Net Culture & Contents Venture Fund, One store Co., Ltd., SK Communications Co., Ltd., SK Planet Co., Ltd., SK M & Service Co., Ltd., Hello Nature Co., Ltd., 11street (Thailand) Co., Ltd., SK Planet Japan, K.K., SK Planet Global Pte. Ltd., SKP Global Holdings Pte. Ltd., SKP America, LLC, shopkick Management Company, Inc., shopkick, Inc., SK Telecom China Holdings Co., Ltd., SK Global Healthcare Business Group, Ltd., SKT Vietnam Pte. Ltd., SKT Americas Inc., YTK Investment Ltd., Atlas Investment Ltd., SK Telecom Innovation Fund, L.P., SK Telecom China Fund I L.P., iriver Co., Ltd., iriver Inc., iriver Enterprise Ltd., iriver China Co., Ltd., Dongguan iriver Electronics Co., Ltd., groovers Japan Co., Ltd., S.M.Life Design Company Japan Inc., S.M. Mobile Communications Japan Inc., SK stoa Co.Ltd., SK Networks Co., Ltd., SK Networks Service Co., Ltd., SK Pinx Co., Ltd., Car Life Service Co., Ltd., SK Magic Co., Ltd., SK Magic Service Co., Ltd., Mokgam Service, SKN (China) Holdings Co., Ltd., Liaoning SK Networks Real Estate Development Co., Ltd., Shenyang SK Bus Terminal Co., Ltd., SK Networks (Liaoning) Logistics Co., Ltd., SK Networks (Dandong) Energy Co., Ltd., Shenyang SK Networks Energy Co., Ltd., SK (GZ FreeZone) Co., Ltd., SK Networks (Shanghai) Co., Ltd., POSK (Pinghu) Steel Processing Center Co., Ltd., SK Networks Hong Kong Ltd., SK (Guangzhou) Metal Co., Ltd., SK Networks (Xiamen) Steel Processing Center Co., Ltd., SK Networks Japan Co., Ltd., SK Networks Deutschland GmbH, Daiyang SK Networks SAN. VE TIC. Ltd. STI, SK Networks Resources Australia Pty. Ltd., SK Networks Middle East FZE, SK Brasil LTDA, SK Networks Trading Malaysia Sdn Bhd, SKC Co., Ltd., SK Telesys Co., Ltd., SE (Jiangsu) Electronic Materials Co., Ltd., Techdream Co., Ltd., SKC Infra Service 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., SKC Hi-Tech&Marketing Co., Ltd., (formerly, SKC Haas Display Film Co., Ltd.), SKC Hi-Tech&Marketing (Suzhou) Co., Ltd., SKC Hi-Tech&Marketing Taiwan Co., Ltd., SKC Hi-Tech&Marketing Japan K.K., SKC Hi-Tech&Marketing Polska SP.Z.O.O, SKC Hi-

26. Transactions with related parties (cont'd)

Subsidiary (total 309)	Subsidiary
	Tech&Marketing USA LLC, SKC PU Specialty Co., Ltd., SKC-ENF Electronic Materials Subsidiary Co., Ltd., SKC (Nantong) PU Specialty Co., Ltd, SKC(Nantong) Semiconductor total 309)Materials Technology, Co., Ltd., SK Maritime Co., Ltd. (formerly, SK Shipping Co., Ltd), SK Shipping Co., Ltd., Blueseaocean 1st LLC, Blueseaocean 2nd LLC, Blueseaocean 3rd LLC, With Ocean LLC, Yukyungjiju 1ST LLC, Neptune Solution LLC, SK Shipping Hong Kong Ltd., SK Shipping Singapore Pte. Ltd., SK B&T Pte. Ltd., Promise Shipholding S.A. and 56 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., 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 Ameriacas, Inc., SK E&S LNG, LLC, DewBlaine Energy, LLC, CAILIP Gas Marketing, LLC, Prism Energy International Pte. Ltd. (formerly, SK LNG Trading Pte. Ltd.), Fajar Energy International Pte. Ltd., PT SK E&S Nusantara, SK Engineering & Construction Co., Ltd., Seosuwon Development Company, SK TNS Co., Ltd., SKEC Nanjing Co., Ltd., SKEC (Thai), Ltd., Thai Woo Ree Engineering Co., Ltd., SKEC Anadolu, LLC, SK E&C Betek Corporation, Mesa Verde RE Ventures, LLC, SKEC Consultores 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 Airgas Co., Ltd., SK Tri Chem Co., Ltd., SK Siltron Co., Ltd., SK Siltron America, Inc., SK Siltron Japan, Inc., 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 S.E.Asia Pte. Ltd., Essencore Limited, ISD Techology (ShenZhen) Limited, S&G Technology, FSK L&S Co., Ltd., FSK L&S (Shanghai) Co., Ltd. (formerly, Shanghai Huayou International Freight. Forwarding Co., Ltd.), Saturn Agriculture Investment Co., Limited, SK Biopharmaceuticals Co., Ltd., SK Biotek Co., Ltd., SK Life Science, Inc., SK Investment Management Co., Ltd., SK computer and communication LLC, SK China Company, Ltd., SK China (Beijing) Co., Ltd., SK Beijing Investment Management Ltd., SKY Property Mgmt (Beijing) Co., Ltd., SK Bio Energy Hong Kong Co., Ltd., SK Property Investment Management Co., Ltd., SK Industrial Development China Co., Ltd., Shanghai SKY Real Estate Development Co., Ltd., SK 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., SK Auto Service Hong Kong Co., Ltd., SK (Shenyang) auto rental Co., Ltd., SK (Beijing) auto rental Co., Ltd., SK Rent-A-Car (Qingdao) Co., Ltd., Skyline Auto Financial Leasing Co., Ltd., SK Financial Leasing Co., Ltd., SKY Property Management Ltd., SKY Investment Co., Ltd., 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 America Investment S.A., Plutus Capital NY, Inc., Hudson Energy NY, LLC, Plutus Fashion NY, Inc., Wonderland NY, LLC, SK Biotek Ireland Limited, SK Technology Innovation Company, Happynarae Co., Ltd., Suzhou Happynarae Co., Ltd., SK Forest Co., Ltd.

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

Subsidiary	Company name	Sales (*1)		Purchase (*2)	
		For the years ended December 31,		For the years ended December 31,	
		2017	2016	2017	2016
	SK Innovation Co., Ltd.	₩ 323,721	₩ 212,757	₩ 3,378	₩ 4,074
	SK Lubricants Co., Ltd.	12,446	14,918	-	-
	SK Energy Co., Ltd.	83,201	83,690	15	2
	SK Global Chemical Co., Ltd.	27,284	26,905	-	-
	SK Incheon Petrochem Co., Ltd.	16,245	17,813	21	-
	SK Trading International Co., Ltd.	4,637	4,736	-	-
	SK Biotek Co., Ltd.	4,051	1,118	-	-
	SK USA, Inc.	-	-	2,084	1,360

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26. Transactions with related parties (cont'd)

Subsidiary	Company name	Sales (*1)		Purchase (*2)	
		For the years ended December 31,		For the years ended December 31,	
		2017	2016	2017	2016
	SK Engineering & Construction Co., Ltd.	₩ 28,914	₩ 32,475	₩ 92	₩ 53
	SKC Co., Ltd.	23,323	21,035	-	-
	SK E&S Co., Ltd.	165,479	231,483	-	-
	SK Infosec Co., Ltd.	4,849	4,760	21,284	16,304
	SK Encarsales.com., Ltd.	5,620	4,302	1,729	1,342
	SK C&C Beijing Co., Ltd.	460	940	10,797	7,753
	Essencore Limited	4,144	2,535	-	-
	SK Networks Co., Ltd.	61,644	65,951	30,634	16,727
	Happynarae Co., Ltd.	646	426	5,813	3,351
	SK Pinx Co., Ltd.	80	55	1,630	1,405
	SK Maritime Co., Ltd.	1,589	6,349	-	-
	(formerly, SK Shipping Co., Ltd.)				
	SK Shipping Co., Ltd.	4,850	-	-	-
	SK Telecom Co., Ltd.	597,322	646,817	13,039	11,670
	SK Telink Co., Ltd.	4,726	4,033	176	325
	SK techx Co., Ltd.	18,332	27,571	65	6
	SK Broadband Co., Ltd.	193,846	139,774	10,213	9,100
	PS&Marketing Corp.	3,649	3,535	1,809	1,007
	SK Planet Co., Ltd.	27,385	61,325	2,293	1,626
	SK Materials Co., Ltd.	23,582	3,199	-	-
	Others	29,166	20,205	6,584	7,063
Others	Hana Land Chip PEF 33	3,273	3,360	33,996	34,377
	SK Securities Co., Ltd.	25,023	23,116	19	10
	SK Gas Co., Ltd.	8,868	8,238	4	6
	SK Chemicals Co., Ltd.	5,103	5,817	-	-
	SK hynix Inc.	295,608	234,228	218	270
	SK hynix Semiconductor (China) Ltd.	3,330	28,233	443	72
	Others	8,308	9,260	2,474	1,272
		<u>₩ 2,021,164</u>	<u>₩ 1,950,959</u>	<u>₩ 148,810</u>	<u>₩ 119,175</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 December 31, 2017 and 2016 are as follows (Korean won in millions):

Subsidiary	Company name	December 31, 2017					
		Receivables			Payables		
		Trade receivables	Other receivables	Total	Trade payables	Other payables	Total
	SK Innovation Co., Ltd.	₩ 15,456	₩ 914	₩ 16,370	₩ -	₩ 8,836	₩ 8,836
	SK Lubricants Co., Ltd.	1,166	-	1,166	-	1,876	1,876
	SK Energy Co., Ltd.	6,042	-	6,042	-	4,097	4,097
	SK Global Chemical Co., Ltd.	2,404	-	2,404	-	1,870	1,870
	SK Incheon Petrochem Co., Ltd.	1,010	-	1,010	-	2,180	2,180
	SK Trading International Co., Ltd.	559	-	559	-	1,282	1,282
	SK USA, Inc.	-	-	-	-	497	497
	SK Engineering & Construction Co., Ltd.	5,215	-	5,215	-	1	1
	SKC Co., Ltd.	2,193	-	2,193	-	11	11
	SK E&S Co., Ltd.	2,336	-	2,336	-	76	76
	SK Infosec Co., Ltd.	928	-	928	1,773	2,471	4,244
	SK Encarsales.com., Ltd.	8	4,376	4,384	-	-	-
	SK C&C Beijing Co., Ltd.	120	-	120	477	201	678
	Essencore Limited	1,868	-	1,868	-	47	47
	SK Networks Co., Ltd.	6,624	72	6,696	45	395	440
	Happynarae Co., Ltd.	176	-	176	201	607	808
	SK Maritime Co., Ltd.	225	-	225	-	-	-
	(formerly, SK Shipping Co., Ltd.)						
	SK Telecom Co., Ltd.	85,708	348	86,056	688	8,547	9,235
	SK Telink Co., Ltd.	276	-	276	8	8	16

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26. Transactions with related parties (cont'd)

		December 31, 2017					
		Receivables			Payables		
Company name		Trade receivables	Other receivables	Total	Trade payables	Other payables	Total
Subsidiary	SK Broadband Co., Ltd.	₩ 133,328	₩ -	₩133,328	₩ 621	₩ 8,967	₩ 9,588
	PS&Marketing Corp.	617	-	617	-	-	-
	SK Planet Co., Ltd.	3,805	-	3,805	-	47	47
	SK techx Co., Ltd.	4,703	-	4,703	72	165	237
	SK Materials Co., Ltd.	1,538	-	1,538	-	232	232
Others	Others	5,980	290	6,270	448	988	1,436
	Hana Land Chip PEF 33	-	5,983	5,983	-	-	-
	SK Securities Co., Ltd.	2,923	-	2,923	-	-	-
	SK Gas Co., Ltd.	1,101	-	1,101	-	4	4
	SK Chemicals Co., Ltd.	1,530	-	1,530	-	-	-
	SK hynix Inc.	132,492	-	132,492	-	10,557	10,557
	SK hynix Semiconductor (China) Ltd.	1,843	-	1,843	-	-	-
	Others	1,156	148	1,304	100	1,137	1,237
		<u>₩ 423,330</u>	<u>₩ 12,131</u>	<u>₩435,461</u>	<u>₩ 4,433</u>	<u>₩ 55,099</u>	<u>₩ 59,532</u>

		December 31, 2016					
		Receivables			Payables		
Company name		Trade receivables	Other receivables	Total	Trade payables	Other payables	Total
Subsidiary	SK Innovation Co., Ltd.	₩ 19,472	₩ 199	₩ 19,671	₩ 5	₩ 5,155	₩ 5,160
	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
	SKC Co., Ltd.	1,451	-	1,451	-	3	3
	SK E&S Co., Ltd.	1,817	-	1,817	-	-	-
	SK Infosec Co., Ltd.	2,031	23	2,054	3,855	4,114	7,969
	SK Encarsales.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
	Happyarae Co., Ltd.	133	-	133	827	175	1,002
	SK Maritime Co., Ltd.	628	-	628	-	-	-
	(formerly, SK Shipping Co., Ltd.)						
	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	-	-	-
	SK Planet Co., Ltd.	15,716	-	15,716	9	124	133
	SK techx Co., Ltd.	6,437	-	6,437	-	423	423
	SK Materials Co., Ltd.	1,039	-	1,039	-	3	3
	Others	2,873	290	3,163	1,164	1,289	2,453
	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	-	-	-
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	57	2,503	2,560
	<u>₩ 373,988</u>	<u>₩ 11,875</u>	<u>₩ 385,863</u>	<u>₩ 7,563</u>	<u>₩ 53,833</u>	<u>₩ 61,396</u>	

26. Transactions with related parties (cont'd)

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

	For the years ended	
	December 31, 2017	December 31, 2016
Salaries	₩ 5,339	₩ 4,610
Provision for pension benefits	1,821	475
Share compensation expense	1,220	-
	<u>₩ 8,380</u>	<u>₩ 5,085</u>

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

(5) Details of significant transactions with related parties in relation to the investments for the year ended December 31, 2017 are as follows (Korean won in millions, USD in thousands):

	Currency	Amount	Transactions
SK Biotek Co., Ltd.	KRW	172,500	Share capital increase
SK China Company, Ltd.(*1)	USD	100,000	Share capital increase

(*1) During the current reporting period, the Company contributed all of its ordinary shares in SKY Property Management Ltd. and SK Industrial Development China Co., Ltd. to SK China Company, Ltd.

(6) Guarantees provided to related parties are described in Note 30.

27. Discontinued operations

(1) Details of discontinued operations

In accordance with a resolution of the Board of Directors on November 17, 2017, the Company elected to sell Encar used car sales business, and the sale is expected to be completed within a year from the end of the reporting period. As at December 31, 2017, Encar used car sales business is classified as disposal groups and discontinued operations.

(2) Income and expenses from the discontinued operation for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	<u>For the years ended December 31, 2017</u>	
	<u>Encar used car sales business</u>	
Revenues	₩	931,416
Costs		920,787
Income before income tax expense		10,629
Income tax expenses		2,611
Gain from discontinued operations		8,018

	<u>For the years ended December 31, 2016</u>	
	<u>Encar used car sales business</u>	
Revenues	₩	815,295
Costs		804,647
Income before income tax expense		10,648
Income tax expenses		2,206
Gain from discontinued operations		8,442

(3) Details of cash flows relating to discontinued operation for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	<u>For the years ended December 31, 2017</u>	
	<u>Encar used car sales business</u>	
Cash flows from operating activities	₩	3,848
Cash flows from investing activities		(10,968)
Cash flows from financing activities		47

	<u>For the years ended December 31, 2016</u>	
	<u>Encar used car sales business</u>	
Cash flows from operating activities	₩	9,346
Cash flows from investing activities		(3,827)
Cash flows from financing activities		(10,005)

28. Non-current assets and non-current liabilities classified as held for sale

Assets and liabilities held for sale as at December 31, 2017 is as follows (Korean won in millions):

		<u>Assets</u>	<u>Liabilities</u>
Available-for-sale financial assets	SK Security Co., Ltd. (*1)	₩ 36,813	₩ -
Investments in subsidiaries	SK Encarsales.com., Ltd. (*2)	13,914	-
Business segment	Encar used car sales business segment (*3)	<u>174,215</u>	<u>16,582</u>
		<u>₩ 224,942</u>	<u>₩ 16,582</u>

(*1) During the current reporting period, the Company decided to sell all of the shares of SK Securities Co., Ltd., which is classified as available-for-sale financial asset, and classified it as assets held for sale. The amount includes valuation loss of assets held for sale of ₩15,045 million.

(*2) The Company elected to sell all the shares of SK Encarsales.com., Ltd. to close down non-core business and to focus on its core business. The Company classified it to non-current assets held for sale and measured it at the lower of the net fair value and the book value. In addition, the sale of related investments in subsidiaries was completed as at January 19, 2018 (see Note 32).

(*3) The Company elected to sell Encar used car sales business to close down non-core business and focus on its core business. The Company classified it to assets and liabilities held for sale and measured it at the lower of the net fair value and the book value (see Note 27).

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29. Cash flow information

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

	For the years ended	
	December 31, 2017	December 31, 2016
Provision for pension benefits	₩ 30,905	₩ 28,252
Depreciation	48,521	45,681
Depreciation of investment property	427	426
Valuation loss on inventories	94	15
Amortization	13,337	12,060
Bad debt expenses	400	966
Outsourcing fees (provisions transferred in)	11,335	7,540
Other non-operating expense (provision transferred in)	2,961	-
Interest expenses	152,787	145,932
Loss on foreign currency translation	2,250	1,056
Loss on valuation of derivative instruments	6,102	6,138
Loss on disposal of available-for-sale financial assets	158	13
Loss on impairment of available-for-sale financial assets	90,790	-
Loss on disposal of investments in subsidiaries	456	2,579
Loss on disposal of investments in associates	3,553	-
Loss on disposal of property, plant and equipment	62	154
Loss on disposal of intangible assets	45	464
Loss on impairment of intangible assets	-	2,688
Share compensation expense	1,220	-
Income tax expense	41,744	42,254
Reversal of provision for service warranties	(345)	(717)
Dividends income	(691,840)	(597,822)
Interest income	(4,724)	(3,851)
Gain on foreign currency translation	(1,003)	(1,453)
Gain on valuation of derivative instruments	(4,092)	(6,224)
Gain on disposal of available-for-sale financial assets	(241)	(131)
Gain on disposal of investments in associates	-	(1,320)
Gain on disposal of investments in subsidiaries	(38,791)	(306)
Gain on disposal of property, plant and equipment	(198)	(43)
Gain on disposal of intangible assets	(225)	(198)
Others	311	54
	₩ (334,001)	₩ (315,793)

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29. Cash flow information (cont'd)

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

	For the years ended	
	December 31, 2017	December 31, 2016
Trade accounts receivable	₩ (785)	₩ (50,452)
Other accounts receivable	(1,567)	1,735
Accrued income	166	(7)
Inventories	(26,204)	(15,397)
Advance payments	6,500	(6,614)
Prepaid expenses	(3,639)	2,116
Trade accounts payable	(29,753)	46,215
Other accounts payable	22,864	8,328
Accrued expenses	14,837	901
Advance received	36,325	(4,000)
Withholdings	425	(2,735)
Leasehold deposits received	(626)	(202)
Provision for service warranties	(10,599)	(6,024)
Retirement benefit obligation	(6,078)	(9,734)
Plan assets	(20,822)	(16,173)
Others	601	789
	<u>₩ (18,355)</u>	<u>₩ (51,254)</u>

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

	For the years ended	
	December 31, 2017	December 31, 2016
Transfer of construction-in-progress to depreciable assets	₩ 4,156	₩ 89,475
Transfer of long-term bonds payable to current-portion	1,050,132	758,139
Reclassification of investments in subsidiaries	-	215
Acquisitions of available-for-sale financial assets	-	114
Transfer of advance payments to investments in associates	-	58,860
Accounts payable regarding the acquisition of property, plant and equipment and intangible assets	(8,656)	8,654
Transfer of available-for-sale financial assets to assets held for sale	36,813	-
Transfer of investments in subsidiaries to assets held for sale	13,914	-
Transfer of discontinued operations to assets held for sale	174,215	-
Transfer of discontinued operations to liabilities held for sale	16,582	-

(4) Details of changes in liabilities arising from financing activities for the year ended December 31, 2017 are as follows (Korean won in millions):

	For the year ended December 31, 2017			
	Beginning balance	Financial cash flow	Others	Ending balance
Short-term borrowings	₩ 280,000	₩ 500,000	₩ -	₩ 780,000
Bonds payable	5,461,658	644,481	(19,351)	6,086,788
Unpaid dividends	156	(208,666)	208,665	155
	<u>₩ 5,741,814</u>	<u>₩ 935,815</u>	<u>₩ 189,314</u>	<u>₩ 6,866,943</u>

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30. Commitments and contingencies

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

Financial institutions	Type	Commitments		Use	
		Currency	Amount	Currency	Amount
Industrial and commercial bank of China	General loan	KRW	100,000	KRW	100,000
KEB Hana Bank	Line of credit	USD	4,000	USD	-
	Other guarantee of foreign currency management (*1)	USD	15,000	USD	2,228
				AED	4,900
				VND	17,659,108
	General loan	KRW	150,000	KRW	50,000
	Bank overdraft	KRW	1,000	-	-
Shinhan Bank	General loan	KRW	300,000	KRW	220,000
	Note discount	KRW	90,000	-	-
	Guarantee of foreign currency payment	USD	2,000	-	-
	Line of credit	USD	10,000	-	-
NH Bank	General loan	KRW	65,000	-	-
Woori Bank	General loan	KRW	269,000	KRW	250,000
	Guarantee of foreign currency payment	USD	27,000	USD	26,984
Korea Development Bank	General loan	KRW	10,000	-	-
Kookmin Bank	General loan	KRW	280,000	KRW	-
Mitsubishi Bank	General loan	KRW	50,000	-	-

(*1) The committed limit above is comprehensive limit.

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

	Currency	December 31, 2017	December 31, 2016
Seoul Guarantee Insurance	KRW	2,477	1,943
Korea Software Financial Cooperative	KRW	238,871	355,006
The Export-Import Bank of Korea	USD	1,225	2,659
Korea Trade Insurance Corporation	USD	1,077	6,587
Korea Trade Insurance Corporation	VND	-	90,113,661

(3) Pending litigation

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

Defendant	Plaintiff	Defendant	Description	Claim		Current status
				amount		
	Samsung Card Co., Ltd.	Company	Claim for damages	KRW	3,450	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 December 31, 2017, the Company is unable to determine the ultimate outcomes of the above litigations.

30. Commitments and contingencies (cont'd)

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

	<u>Book value</u>	<u>Collateralized amount</u>	<u>Reason for collateral</u>	<u>Collateral beneficiary</u>
Land and buildings (*1) ₩	9,351	₩ 1,700	Guarantee of implementation of the agreement	RCI Financial Service Korea

(*1) It is the amount transferred to assets held for sale during the current reporting period (see Note 28).

(5) Deposits restricted for the use as at December 31, 2017 and 2016 are as follows (Korean won in millions):

	<u>December 31, 2017</u>	<u>December 31, 2016</u>	<u>Reason for restriction</u>
Short-term financial instruments ₩	13,320	₩ 13,320	Refund guarantee and others
Available-for-sale financial assets (Equity investment of Korea Software Financial Cooperation)	2,152	2,152	Refund guarantee and others
Long-term financial instruments	19	19	Collateral for bank overdraft

(6) Significant commitments

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

30. Commitments and contingencies (cont'd)

- 5) The Company entered into shareholder agreement regarding the issuance of ordinary shares of SK Shipping Co., Ltd., one of the subsidiaries, and sale of old shares. The details are as follows.

	Subscription of new shares	Sale of existing shares
Investor	Special Situation 1 st Fund	Corporate Turnaround 1 st Fund
Number of shares	6,548,672	4,808,259
Contract date	April 11, 2017	May 11, 2017
Expiry date	April 10, 2022	May 10, 2022
Settlement	The Company and the investors settle the amount that deducts the issue price from the net selling price in cash. If the amount is positive, the investor shall pay to the Company, and if the amount is negative, the Company shall pay to the investor. In case where the sale is not complete, the selling price of the shares is considered to be 0.	
Premium	The Company shall pay to the investors the amount equivalent to 3.14% of the total shares held by investors annually. When the investor receives dividends on the shares held, the amount shall be paid to the Company.	
Call option	The Company has the right to purchase the shares held by the investors at the issued price of the ordinary shares with certain level of additional charges.	

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

	Shareholder agreement
Investor	Warmachine Sixth Co., Ltd. and others
Number of shares	13,143,330
Contract date	August 25, 2017
Expiry date	August 24, 2022
Settlement	The Company and the investors settle the amount that deducts the issue price from the net selling price in cash. If the amount is positive, the investor shall pay to the Company, and if the amount is negative, the Company shall pay to the investor. In case where the sale is not complete, the selling price of the shares is considered to be 0.
Premium	The Company shall pay 0.5% of the initial contract amount on the closing date of the transaction and shall pay to the investors the amount equivalent to 3.20% of the total shares held by investors annually. When the investor receives dividends on the shares held, the amount shall be paid to the Company.
Call option	On a three-month basis from the closing date of sale (“the quarterly payment day”), the Company has the right to purchase the shares held by the investors at the initial contract price of the ordinary shares with certain level of additional charges.

30. Commitments and contingencies (cont'd)

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

	Shareholder agreement
Investor	MD Prime 1st Co., Ltd. and others
Number of shares	4,640,199
Contract date	November 14, 2017
Expiry date	November 13, 2022
Settlement	The Company and the investors settle the amount that deducts the issue price from the net selling price in cash. If the amount is positive, the investor shall pay to the Company, and if the amount is negative, the Company shall pay to the investor. In case where the sale is not complete, the selling price of the shares is considered to be 0.
Premium	The Company shall pay to the investors the amount equivalent to 3.07% of the total shares held by investors annually. When the investor receives dividends on the shares held, the amount shall be paid to the Company.
Call option	On the premium payment date and on a three-month basis between the date on which the resolution is made by the Board of Directors with regards to designation of IPO supervisor and the submission date of demand of preliminary assessment for listing ("the quarterly payment day"), the Company has the right to purchase the shares held by the investors at the initial contract price of the ordinary shares with certain level of additional charges.

- 8) As at September 28, 2017, the Company entered into a cash deficiency support agreement with Hudson Energy NY, LLC, a subsidiary of Plutus Capital NY, Inc., to lend funds for the shortfall of payment for loans and credit limit of USD 226,000 thousand.
- 9) SK E&S LNG, LLC, one of the subsidiaries, is scheduled to be provided with liquefaction service amounting to 115 million MMBtu per year for 20 years from FLNG Liquefaction 3, LLC, Which plans to operate natural gas liquefaction plants in Texas starting from 2019. As at December 31, 2015, SK E&S Co., Ltd., one of the subsidiaries, is responsible for performance guarantee in case of SK E&S LNG, LLC's inability to make payments for service or for claims against breach of obligation. In regard to this, the Company provides performance guarantee for SK E&S Co., Ltd.'s guarantee.
- 10) 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 ₩59,842 million, and contingent liabilities less the estimated value of ships owned by SK Shipping Co., Ltd. was ₩0.
- 11) The Company offers guarantee of debt amounting to USD 6,000,000 for SK Computer and Communication LLC, one of its subsidiaries.
- (7) The Company has provided 7 blank checks and 12 blank notes as collateral in relation to sales and other transactions as at December 31, 2017.

31. 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. The Company's financial assets and liabilities are exposed to mainly market risk, credit risk and liquidity risk. The Company's key management is responsible for the Company's financial risk-taking activities, and that such activities are governed by appropriate policies and procedures.

31.1 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.

31.1.1 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.

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

	Currency	December 31, 2017		December 31, 2016	
		Foreign currencies	Korea won equivalent	Foreign currencies	Korea won equivalent
Assets	USD	9,374	₩ 10,044	12,542	₩ 15,157
	EUR	707	904	213	270
	Others		2,009		4,085
			₩ 12,957		₩ 19,512
Liabilities	USD	4,226	₩ 4,528	7,585	₩ 9,167
	Others		1,157		653
			₩ 5,685		₩ 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 years ended			
	December 31, 2017		December 31, 2016	
	Increase by 10%	Decrease by 10%	Increase by 10%	Decrease by 10%
Increase (decrease) in income before tax expense	₩ 727	₩ (727)	₩ 969	₩ (969)

31.1.3 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.

31.2 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 December 31, 2017 and 2016 is as follows and for cash and cash equivalents, credit risk exposure is low (Korean won in millions):

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Short-term and long-term financial instruments	₩ 43,534	₩ 37,639
Trade accounts receivable	399,748	395,272
Other accounts receivable	1,767	1,347
Accrued income	112	169
Available-for-sale financial assets	13,486	553
Short-term and long-term guarantee deposits	10,830	20,434
Short-term and long-term loan	397	600
	<u>₩ 469,874</u>	<u>₩ 456,014</u>

31.2.1 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.

As at December 31, 2017 and 2016, the aging of trade receivables and others for which an allowance for doubtful accounts has not been made, as the allowance is deemed to be recoverable from a customer or counterparty later although the amount is past due, are as follows (Korean won in millions):

	<u>December 31, 2017</u>		<u>December 31, 2016</u>	
	<u>Trade accounts receivable</u>	<u>Other receivables</u>	<u>Trade accounts receivable</u>	<u>Other receivables</u>
Less than one month	₩ 2,905	₩ 2,011	₩ 4,810	₩ 934
One-three months	638	48	3,467	-
Three-six months	1,952	3	63	-
More than six months	7,189	332	1,698	148
	<u>₩ 12,684</u>	<u>₩ 2,394</u>	<u>₩ 10,038</u>	<u>₩ 1,082</u>

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31.2.1 Trade and other accounts receivable (cont'd)

Changes in the allowance for doubtful accounts for the years ended December 31, 2017 and 2016 are as follows (Korean won in millions):

	For the years ended	
	December 31, 2017	December 31, 2016
Beginning balance	₩ 4,389	₩ 4,512
Bad debt expenses	400	966
Write-off	(138)	(1,089)
Assets held for sale (*1)	(1,695)	-
Ending balance	₩ 2,956	₩ 4,389

(*1) It is the amount transferred to assets held for sale during the current reporting period (see Note 28).

31.2.2 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.

31.3 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 December 31, 2017 is as follows. Amounts include interests paid and presented at gross amounts (Korean won in millions):

	Book value	Contractual cash flow	Less than 3 months	3-12 months	1-5 years	More than 5 years
Short-term borrowings	₩ 780,000	₩ 783,930	₩ 563,164	₩ 220,766	₩ -	₩ -
Bonds payable	6,086,788	6,253,640	230,427	829,361	4,190,516	1,003,336
Financial derivatives liabilities	2,736	2,736	16	35	2,685	-
Trade accounts payable	125,590	125,590	125,590	-	-	-
Other liabilities	168,625	168,625	129,165	27,685	11,775	-
	₩ 7,163,739	₩ 7,334,521	₩ 1,048,362	₩ 1,077,847	₩ 4,204,976	₩ 1,003,336

31.4 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 61.84% as at December 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 December 31, 2017 and 2016 is as follows (Korean won in millions):

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Total liabilities	₩ 7,626,360	₩ 6,455,107
Total equity	12,332,701	11,925,701
Debt ratio	61.84%	54.13%

32. Subsequent events

32.1 Disposal of shares of SK Encarsales.com., Ltd.

As at January 19, 2018, the Company sold all of its shares (ordinary share: 250,001 shares, equity ownership: 50.01%) of SK Encarsales.com., Ltd. to Carsales Holding Pty, Ltd. Consequently, SK Encarsales.com., Ltd. was excluded from the subsidiaries.

32.2 Merger of SK Maritime Co., Ltd. (formerly, SK Shipping Co., Ltd.)

The Company entered into business combination with SK Maritime Co., Ltd. (formerly, SK Shipping Co., Ltd.), one of its subsidiaries, effective on March 1, 2018 for management efficiency. Details of significant information related to the merger are as follows:

	<u>Details</u>
Existing company after the acquisition	SK Holdings Co., Ltd.
Extinct company after the acquisition	SK Maritime Co., Ltd. (formerly, SK Shipping Co., Ltd.)
Effective date	March 1, 2018
Registration date	March 5, 2018
Ratio of acquisition	Ordinary shares of SK Holdings Co., Ltd. : ordinary shares of SK Maritime Co., Ltd. (formerly, SK Shipping Co., Ltd.) = 1.0000000:0.0000000

32.3 Capital increase of SK Biopharmaceuticals Co., Ltd.

In accordance with a resolution of the Board of Directors on March 5, 2018, the Company participated in capital increase of SK Biopharmaceuticals Co., Ltd. and additionally acquired 15,000,000 ordinary shares amounting to ₩150,000 million on March 9, 2018.

Independent auditors' review report on internal control over financial reporting

Chief Executive Officer
SK Holdings Co., Ltd.

We have reviewed the accompanying management's report on the operations of the internal control over financial reporting ("ICFR") of SK Holdings Co., Ltd. (the "Company") as at December 31, 2017. The Company's management is responsible for the design and operations of its ICFR, including the reporting of its operations. Our responsibility is to review management's ICFR report and issue a report based on our review. Management's report on the operations of the ICFR of the Company states that "based on the assessment of the operations of the ICFR, the Company's ICFR has been effectively designed and has operated as at December 31, 2017 in all material respects, in accordance with the ICFR standard."

We conducted our review in accordance with the ICFR review standards established by the Korean Institute of Certified Public Accountants. These standards require that we plan and perform our review to obtain less assurance than an audit as to management's report on the operations of the ICFR. A review includes the procedures of obtaining an understanding of the ICFR, inquiring as to management's report on the operations of the ICFR and performing a review of related documentation within limited scope, if necessary.

A company's ICFR consists of an establishment of related policies and organization to ensure that it is designed to provide reasonable assurance on the reliability of financial reporting and the preparation of financial statements for external financial reporting purposes in accordance with KIFRS. However, because of its inherent limitations, the ICFR may not prevent or detect material misstatements of the financial statements. Also, projections of any assessment of the ICFR on future periods are subject to the risk that ICFR may become inadequate due to the changes in conditions, or that the degree of compliance with the policies or procedures may be significantly reduced.

Based on our review of management's report on the operations of the ICFR, nothing has come to our attention that causes us to believe that management's report referred to above is not presented fairly, in all material respects, in accordance with the ICFR standards.

We conducted our review of the ICFR in existence as at December 31, 2017 and we did not review the ICFR subsequent to December 31, 2017. This report has been prepared for Korean regulatory purposes pursuant to the Corporate External Audit Law, and may not be appropriate for other purposes or for other users.



March 9, 2018

This report is annexed in relation to the audit of the separate financial statements as at December 31, 2017 and the review of internal control over financial reporting pursuant to Article 2-3 of the Act on External Audit of Stock Companies of the Republic of Korea.