



# **SK Holdings Co., Ltd.**

Interim condensed separate financial statements  
for the six months ended June 30, 2017 and 2016  
with the independent auditors' review report

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## Report on review of interim condensed separate financial statements

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

We have reviewed the accompanying interim condensed separate financial statements of SK Holdings Co., Ltd. (the "Company"), which comprise the interim condensed separate statement of financial position as at June 30, 2017, and the related interim condensed separate statements of comprehensive income for the three months and six months ended June 30, 2017 and 2016, interim condensed separate statements of changes in shareholders' equity and interim condensed separate statements of cash flows for the six months ended June 30, 2017 and 2016, all expressed in Korean won, and a summary of significant accounting policies and other explanatory information.

#### Management's responsibility for the separate financial statements

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

#### Auditors' responsibility

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

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

#### Conclusion

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

#### Emphasis of matter

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

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

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

We have performed below reviewing procedures on the key audit matters in forming the conclusion.

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

Further, the Company recognized accounts receivable (unbilled contract revenue) for construction cost to date, net of recognized loss, exceeding billed amounts. As at June 30, 2017, unbilled construction contract amounted to ₩52,362 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 analytic review as to construction contracts with a significant change of the percentage-of-completion
- Review as to reasons for the significant change and recoverability of unbilled construction contract

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

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

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

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

**Other matters**

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

August 14, 2017

*Ernst & Young Han Young*

This review report is effective as at August 14, 2017, the independent auditors' review report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the date of the independent auditors' review report to the time this review report is used. Such events and circumstances could significantly affect the accompanying interim condensed separate financial statements and may result in modifications to this report.

# **SK Holdings Co., Ltd.**

Interim condensed separate financial statements  
for the six months ended June 30, 2017 and 2016

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

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

**SK Holdings Co., Ltd.**  
**Interim condensed separate statements of financial position**  
**as at June 30, 2017 and December 31, 2016**

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

	Notes	Korean won		Translation into U.S. dollar (Note 2)	
		June 30,	December 31,	June 30,	December 31,
		2017	2016	2017	2016
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	4	₩ 529,006	₩ 158,963	\$ 464,203	\$ 139,490
Short-term financial instruments	4, 28	40,220	37,620	35,293	33,012
Trade accounts receivable	4, 5, 25, 28	433,851	465,740	380,705	408,687
Other accounts receivable	4, 25, 28	3,306	1,347	2,901	1,182
Inventories	6	109,018	98,580	95,663	86,504
Other current assets	4, 16, 17, 28	92,585	22,695	81,243	19,915
Assets held for sale	7	51,859	-	45,506	-
Total current assets		<u>1,259,845</u>	<u>784,945</u>	<u>1,105,514</u>	<u>688,790</u>
Non-current assets:					
Available-for-sale financial assets	4, 7, 28	146,959	155,695	128,957	136,622
Investments in subsidiaries	8	14,541,185	14,484,809	12,759,903	12,710,433
Investments in associates and joint ventures	9	191,756	120,229	168,266	105,501
Property, plant and equipment	10, 27	679,051	684,381	595,868	600,545
Investment properties	11	40,387	40,601	35,440	35,627
Intangible assets	12	2,095,716	2,088,725	1,838,993	1,832,858
Other non-current assets	4, 16, 17, 28	20,017	21,423	17,565	18,798
Total non-current assets		<u>17,715,071</u>	<u>17,595,863</u>	<u>15,544,992</u>	<u>15,440,384</u>
<b>Total assets</b>		<u>₩ 18,974,916</u>	<u>₩ 18,380,808</u>	<u>\$ 16,650,506</u>	<u>\$ 16,129,174</u>
<b>Liabilities and equity</b>					
Current liabilities:					
Short-term borrowings	4, 13, 28	₩ -	₩ 280,000	\$ -	\$ 245,700
Trade accounts payable	4, 25, 28	112,814	155,605	98,994	136,544
Other accounts payable	4, 25, 28	42,506	90,042	37,299	79,012
Accrued expenses	4, 25, 28	33,275	41,701	29,199	36,593
Provisions	14	4,895	6,098	4,295	5,351
Current portion of long-term debt	4, 13, 28	780,400	754,262	684,802	661,866
Other current liabilities	4, 16, 17, 28	130,545	105,877	114,553	92,907
Total current liabilities		<u>1,104,435</u>	<u>1,433,585</u>	<u>969,142</u>	<u>1,257,973</u>
Non-current liabilities:					
Bonds payable	4, 13, 28	5,166,944	4,707,396	4,533,998	4,130,744
Retirement benefit obligation	15	60,934	33,067	53,470	29,016
Deferred income tax liabilities		274,957	263,779	241,275	231,466
Other non-current liabilities	4, 16, 17, 28	17,203	17,280	15,096	15,163
Total non-current liabilities		<u>5,520,038</u>	<u>5,021,522</u>	<u>4,843,839</u>	<u>4,406,389</u>
Total liabilities		<u>6,624,473</u>	<u>6,455,107</u>	<u>5,812,981</u>	<u>5,664,362</u>
Equity:					
Issued capital	1, 18	15,385	15,385	13,500	13,500
Other paid-in capital	18	4,719,479	4,719,052	4,141,347	4,140,972
Retained earnings	18	7,592,979	7,183,223	6,662,846	6,303,284
Other capital components	18	22,600	8,041	19,832	7,056
Total equity		<u>12,350,443</u>	<u>11,925,701</u>	<u>10,837,525</u>	<u>10,464,812</u>
<b>Total liabilities and equity</b>		<u>₩ 18,974,916</u>	<u>₩ 18,380,808</u>	<u>\$ 16,650,506</u>	<u>\$ 16,129,174</u>

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

**SK Holdings Co., Ltd.**

**Interim condensed separate statements of comprehensive income  
for the three months and six months ended June 30, 2017 and 2016**

(Korean won in millions except for per share)

	Notes	Korean won			
		June 30, 2017		June 30, 2016	
		Three months	Six months	Three months	Six months
<b>Operating revenue</b>	19, 25	₩ 714,847	₩ 1,952,062	₩ 655,751	₩ 1,774,219
<b>Operating expenses</b>	20, 21, 25	<u>631,904</u>	<u>1,216,841</u>	<u>594,614</u>	<u>1,068,372</u>
<b>Operating income</b>		<b>82,943</b>	<b>735,221</b>	<b>61,137</b>	<b>705,847</b>
Financial income	22	7,014	17,751	2,313	4,572
Financial costs	22	37,986	79,871	38,340	76,289
Other non-operating income	22	345	526	844	3,278
Other non-operating expenses	22	<u>3,683</u>	<u>7,183</u>	<u>8,174</u>	<u>10,070</u>
<b>Income before income tax expense</b>		<b>48,633</b>	<b>666,444</b>	<b>17,780</b>	<b>627,338</b>
Income tax expense	23	<u>16,310</u>	<u>42,804</u>	<u>6,783</u>	<u>37,380</u>
<b>Net income</b>		<b><u>32,323</u></b>	<b><u>623,640</u></b>	<b><u>10,997</u></b>	<b><u>589,958</u></b>
<b>Other comprehensive income:</b>					
Items not to be reclassified to profit or loss in subsequent periods (net of tax):					
Remeasurement loss on defined benefit plans	15	(3,267)	(5,218)	(6,551)	(11,884)
Items to be reclassified to profit or loss in subsequent periods (net of tax):					
Net gain (loss) on available-for-sale financial assets	7	<u>10,434</u>	<u>14,559</u>	<u>(2,548)</u>	<u>(1,568)</u>
		<u>7,167</u>	<u>9,341</u>	<u>(9,099)</u>	<u>(13,452)</u>
<b>Total comprehensive income for the period</b>		<b><u>₩ 39,490</u></b>	<b><u>₩ 632,981</u></b>	<b><u>₩ 1,898</u></b>	<b><u>₩ 576,506</u></b>
<b>Earnings per share (Korean won):</b>					
Basic earnings per share	24	₩ 570	₩ 11,153	₩ 188	₩ 10,551

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**SK Holdings Co., Ltd.**

**Interim condensed separate statements of comprehensive income  
for the three months and six months ended June 30, 2017 and 2016 (cont'd)**

(U.S. dollar in thousands except for per share)

	Notes	Translation into U.S. dollar (Note 2)			
		June 30, 2017		June 30, 2016	
		Three months	Six months	Three months	Six months
<b>Operating revenue</b>	19, 25	\$ 627,279	\$ 1,712,936	\$ 575,422	\$ 1,556,879
<b>Operating expenses</b>	20, 21, 25	<u>554,496</u>	<u>1,067,779</u>	<u>521,774</u>	<u>937,498</u>
<b>Operating income</b>		<b>72,783</b>	<b>645,157</b>	<b>53,648</b>	<b>619,381</b>
Financial income	22	6,155	15,577	2,030	4,012
Financial costs	22	33,333	70,087	33,643	66,944
Other non-operating income	22	303	462	741	2,876
Other non-operating expenses	22	<u>3,232</u>	<u>6,303</u>	<u>7,173</u>	<u>8,836</u>
<b>Income before income tax expense</b>		<b>42,676</b>	<b>584,806</b>	<b>15,603</b>	<b>550,489</b>
Income tax expense	23	<u>14,312</u>	<u>37,562</u>	<u>5,952</u>	<u>32,800</u>
<b>Net income</b>		<b><u>28,364</u></b>	<b><u>547,244</u></b>	<b><u>9,651</u></b>	<b><u>517,689</u></b>
<b>Other comprehensive income:</b>					
Items not to be reclassified to profit or loss in subsequent periods (net of tax):					
Remeasurement loss on defined benefit plans	15	(2,867)	(4,579)	(5,749)	(10,428)
Items to be reclassified to profit or loss in subsequent periods (net of tax):					
Net gain (loss) on available-for-sale financial assets	7	<u>9,156</u>	<u>12,776</u>	<u>(2,236)</u>	<u>(1,376)</u>
		<u>6,289</u>	<u>8,197</u>	<u>(7,985)</u>	<u>(11,804)</u>
<b>Total comprehensive income for the period</b>		<b><u>\$ 34,653</u></b>	<b><u>\$ 555,441</u></b>	<b><u>\$ 1,666</u></b>	<b><u>\$ 505,885</u></b>
<b>Earnings per share (U.S. dollar):</b>					
Basic earnings per share	24	\$ 0.50	\$ 9.79	\$ 0.16	\$ 9.26

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

SK Holdings Co., Ltd.  
Interim condensed separate statements of changes in shareholders' equity  
for the six months ended June 30, 2017 and 2016

(Korean won in millions)

	Issued capital	Other paid-in capital	Retained earnings	Other capital components	Total equity
	₩	₩	₩	₩	₩
<b>As at January 1, 2016</b>	15,385	4,719,052	6,736,539	10,701	11,481,677
Total comprehensive income:					
Net income	-	-	589,958	-	589,958
Remeasurement loss on defined benefits plans	-	-	(11,884)	-	(11,884)
Net loss on available-for-sale financial assets	-	-	-	(1,568)	(1,568)
Dividends	-	-	(191,750)	-	(191,750)
<b>As at June 30, 2016</b>	<b>15,385</b>	<b>4,719,052</b>	<b>7,122,863</b>	<b>9,133</b>	<b>11,866,433</b>
<b>As at January 1, 2017</b>	15,385	4,719,052	7,183,223	8,041	11,925,701
Total comprehensive income:					
Net income	-	-	623,640	-	623,640
Remeasurement loss on defined benefits plans	-	-	(5,218)	-	(5,218)
Net gain on available-for-sale financial assets	-	-	-	14,559	14,559
Dividends	-	-	(208,666)	-	(208,666)
Stock option	-	427	-	-	427
<b>As at June 30, 2017</b>	<b>15,385</b>	<b>4,719,479</b>	<b>7,592,979</b>	<b>22,600</b>	<b>12,350,443</b>

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**SK Holdings Co., Ltd.**  
**Interim condensed separate statements of changes in shareholders' equity**  
**for the six months ended June 30, 2017 and 2016 (cont'd)**

(U.S. dollar in thousands)

	Issued capital	Other paid-in capital	Retained earnings	Other capital components	Total equity
	\$	\$	\$	\$	\$
<b>As at January 1, 2016</b>	13,500	4,140,972	5,911,319	9,390	10,075,181
Total comprehensive income:					
Net income	-	-	517,689	-	517,689
Remeasurement loss on defined benefits plans	-	-	(10,428)	-	(10,428)
Net loss on available-for-sale financial assets	-	-	-	(1,376)	(1,376)
Dividends	-	-	(168,261)	-	(168,261)
<b>As at June 30, 2016</b>	<b>13,500</b>	<b>4,140,972</b>	<b>6,250,319</b>	<b>8,014</b>	<b>10,412,805</b>
<b>As at January 1, 2017</b>	13,500	4,140,972	6,303,284	7,056	10,464,812
Total comprehensive income:					
Net income	-	-	547,244	-	547,244
Remeasurement loss on defined benefits plans	-	-	(4,579)	-	(4,579)
Net gain on available-for-sale financial assets	-	-	-	12,776	12,776
Dividends	-	-	(183,103)	-	(183,103)
Stock option	-	375	-	-	375
<b>As at June 30, 2017</b>	<b>13,500</b>	<b>4,141,347</b>	<b>6,662,846</b>	<b>19,832</b>	<b>10,837,525</b>

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

**SK Holdings Co., Ltd.**  
**Interim condensed separate statements of cash flows**  
**for the six months ended June 30, 2017 and 2016**

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

	Notes	For the six months ended June 30,			
		Korean won		Translation into U.S. dollar (Note 2)	
		2017	2016	2017	2016
<b>Cash flows from operating activities:</b>					
Net income		₩ 623,640	₩ 589,958	\$ 547,244	\$ 517,689
Non-cash adjustments	26	(463,629)	(422,170)	(406,835)	(370,455)
Working capital adjustments	26	(58,438)	(38,015)	(51,279)	(33,358)
Interest received		2,249	1,500	1,973	1,316
Interest paid		(82,836)	(90,670)	(72,688)	(79,563)
Dividends received		620,418	575,826	544,417	505,288
Income taxes paid		(24,434)	(22,799)	(21,441)	(20,006)
<b>Net cash provided by operating activities</b>		<b>616,970</b>	<b>593,630</b>	<b>541,391</b>	<b>520,911</b>
<b>Cash flows from investing activities:</b>					
Net change of short-term and long-term financial instruments		(2,600)	(5,100)	(2,282)	(4,475)
Net change of short-term loans		600	900	527	790
Proceeds from disposal of available-for-sale financial assets		122	770	107	676
Proceeds from disposal of investments in associates		-	10,108	-	8,870
Proceeds from disposal of property, plants and equipments		987	153	866	134
Proceeds from disposal of intangible assets		1,326	3,246	1,164	2,848
Acquisition of available-for-sale financial assets		(24,039)	(7,225)	(21,094)	(6,340)
Acquisition of investments in associates		(71,527)	-	(62,765)	-
Acquisition of investments in subsidiaries		(56,376)	(634,944)	(49,470)	(557,164)
Acquisition of property, plant and equipment		(22,153)	(36,777)	(19,439)	(32,272)
Acquisition of intangible assets		(18,711)	(39,427)	(16,419)	(34,597)
Decrease (Increase) in guarantee deposits, net		572	(111)	502	(97)
Cash flows from other investing activities		(62,000)	181	(54,405)	159
<b>Net cash used in investing activities</b>		<b>(253,799)</b>	<b>(708,226)</b>	<b>(222,708)</b>	<b>(621,468)</b>
<b>Cash flows from financing activities:</b>					
Net change of short-term borrowings		(280,000)	(70,000)	(245,700)	(61,425)
Repayment of current portion of bonds payable		(300,000)	(240,000)	(263,250)	(210,600)
Issuance of bonds		796,725	796,736	699,127	699,137
Payment of dividend		(208,666)	(191,750)	(183,103)	(168,261)
<b>Net cash provided by financing activities</b>		<b>8,059</b>	<b>294,986</b>	<b>7,074</b>	<b>258,851</b>
Net increase in cash and cash equivalents		371,230	180,390	325,757	158,294
Net foreign exchange effects		(1,187)	143	(1,044)	123
Cash and cash equivalents at the beginning of the period		158,963	97,835	139,490	85,850
<b>Cash and cash equivalents at the end of the period</b>		<b>₩ 529,006</b>	<b>₩ 278,368</b>	<b>\$ 464,203</b>	<b>\$ 244,267</b>

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

**SK Holdings Co., Ltd.**  
**Notes to the interim condensed separate financial statements**  
**for the six months ended June 30, 2017 and 2016**

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## **1. Corporate information**

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

Resulting from the acquisition of SK Holdings Co., Ltd. by SK C&C Co., Ltd. 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 June 30, 2017, the issued capital of the Company amounts to ₩15,385 million (including ₩113 million of preferred shares) and major shareholders consist of Tae-won Chey (23.40%), National Pension Service (8.40%) and Ki-won Choi (7.46%).

## **2. Summary of significant accounting policies**

The Company maintains its official accounting records in Korean won and prepares the separate financial statements in conformity with Korean International Financial Reporting Standards ("KIFRS"), in the Korean language. Accordingly, these separate financial statements are intended for use by those who are informed about KIFRS and Korean practices. The accompanying separate financial statements have been restructured and translated into English with certain expanded descriptions from the Korean language financial statements. Certain information included in the Korean language separated financial statements, but not required for a fair presentation of the Company's separate financial position, comprehensive income, changes in shareholders' 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 ₩1,139.60 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 June 30, 2017. Such translations into U.S. dollar should not be construed as representations that the Korean won amounts could be converted into U.S. dollar at that or any other rate.

### **2.1 Basis of preparation**

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

The interim condensed separate financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual financial statements as at December 31, 2016.

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

## **2.2 Significant accounting policies**

The accounting policies adopted in the preparation of the interim condensed separate financial statements are consistent with those followed in the preparation of the Company's annual separate financial statements for the year ended December 31, 2016, except for the adoption of new standards and interpretations effective as of January 1, 2017.

### **2.2.1 New and revised KIFRSs adopted in the current period**

The Company has applied amendments to KIFRS issued that are mandatorily effective for accounting periods beginning on or after January 1, 2017.

#### **Amendments to KIFRS 1007 – *Statement of Cash Flows***

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

#### **Amendments to KIFRS 1012 – *Income Taxes***

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

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

### **2.2.2 New and revised KIFRSs issued, but not yet effective**

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

#### **KIFRS 1109 – *Financial Instruments***

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

#### **KIFRS 1115 – *Revenue from Contracts with Customers***

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

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

### **Amendments to KIFRS 1102 – *Share-based Payment***

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

## **2.2.3 Construction contracts**

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

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

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

## **3. Significant accounting judgments, estimates and assumptions**

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

Those accounting judgments made by management in the preparation of the interim condensed separate financial statements for the six months ended June 30, 2017, are consistent with those followed in the preparation of the separate financial statements for the year ended December 31, 2016.



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**4.2 Financial liabilities**

Details of financial liabilities as at June 30, 2017 and December 31, 2016 are as follows (Korean won in millions):

	June 30, 2017		
	Financial liabilities at FVTPL	Other financial liabilities	Total
<b>Current liabilities:</b>			
Short-term borrowings	₩ -	₩ -	₩ -
Trade accounts payable	-	112,814	112,814
Other accounts payable	-	42,506	42,506
Accrued expenses	-	33,275	33,275
Current portion of long-term debt	-	780,400	780,400
Derivative financial liabilities	312	-	312
	<u>312</u>	<u>968,995</u>	<u>969,307</u>
<b>Non-current liabilities:</b>			
Bonds payable	-	5,166,944	5,166,944
Leasehold deposits received	-	12,240	12,240
Derivative financial liabilities	12	-	12
	<u>12</u>	<u>5,179,184</u>	<u>5,179,196</u>
	<u>₩ 324</u>	<u>₩ 6,148,179</u>	<u>₩ 6,148,503</u>
<b>December 31, 2016</b>			
	Financial liabilities at FVTPL	Other financial liabilities	Total
<b>Current liabilities:</b>			
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>
<b>Non-current liabilities:</b>			
Bonds payable	-	4,707,396	4,707,396
Leasehold deposits received	-	12,223	12,223
Derivative financial liabilities	115	-	115
	<u>115</u>	<u>4,719,619</u>	<u>4,719,734</u>
	<u>₩ 1,656</u>	<u>₩ 6,041,229</u>	<u>₩ 6,042,885</u>

**4.3 Fair values of financial instruments by hierarchy level**

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

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

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

Details of fair value of financial instruments by hierarchy level as at June 30, 2017 and December 31, 2016 are as follows (Korean won in millions):

	June 30, 2017			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets at FVTPL	₩ -	₩ 7,819	₩ -	₩ 7,819
Available-for-sale financial assets (*1)	-	-	2,152	2,152
	<u>₩ -</u>	<u>₩ 7,819</u>	<u>₩ 2,152</u>	<u>₩ 9,971</u>
Financial liabilities:				
Financial liabilities at FVTPL	₩ -	₩ 324	₩ -	₩ 324
	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 June 30, 2017 and December 31, 2016 are as follows (Korean won in millions):

	June 30, 2017	December 31, 2016
Trade accounts receivable:		
Trade accounts receivable	₩ 383,460	₩ 397,204
Unbilled receivable	52,362	70,468
	<u>435,822</u>	<u>467,672</u>
Allowance for doubtful accounts:		
Trade accounts receivable	(1,971)	(1,932)
	<u>₩ 433,851</u>	<u>₩ 465,740</u>

**SK Holdings Co., Ltd.**  
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**6. Inventories**

Details of inventories as at June 30, 2017 and December 31, 2016 are as follows (Korean won in millions):

	June 30, 2017			December 31, 2016		
	Valuation		Book value	Valuation		Book value
	Cost	allowance		Cost	allowance	
Merchandises	₩ 108,888	₩ (111)	₩ 108,777	₩ 98,523	₩ (119)	₩ 98,404
Raw material	226	-	226	157	-	157
Materials in transit	15	-	15	19	-	19
	<u>₩ 109,129</u>	<u>₩ (111)</u>	<u>₩ 109,018</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 June 30, 2017 and December 31, 2016 are as follows (Korean won in millions):

	June 30, 2017		December 31, 2016	
	Cost	Book value	Cost	Book value
Marketable equity instruments	₩ -	₩ -	₩ 45,841	₩ 32,652
Non-marketable instruments	131,389	131,392	122,487	122,490
Debt securities (*1)	15,567	15,567	553	553
	<u>₩ 146,956</u>	<u>₩ 146,959</u>	<u>₩ 168,881</u>	<u>₩ 155,695</u>

(\*1) Represents Mobile TCS Co., Ltd. and SOCAR, Inc.'s convertible bond.

(2) Changes in available-for-sale financial assets for the six months ended June 30, 2017 and 2016 are as follows (Korean won in millions):

	For the six months ended	
	June 30, 2017	June 30, 2016
Beginning balance	₩ 155,695	₩ 148,455
Acquisitions	24,039	7,339
Gain on valuation (*1)	19,207	(2,069)
Disposals	(123)	(657)
Transfer (*2)	(51,859)	-
Ending balance	<u>₩ 146,959</u>	<u>₩ 153,068</u>

(\*1) Excludes the effect of deferred income tax recognized directly to equity (2017: ₩(-)4,648 million, 2016: ₩(-)501 million).

(\*2) The Company decided to sell its interests in SK Securities Co., Ltd., 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*, in the six months ended June 30, 2017. The entire stake of the equity ownership is publicly offered and the investment has been classified as AFS. The stock sale and purchase agreement with Cape Investment & Securities Co., Ltd. in regards to a sale of ordinary shares of SK Securities Co., Ltd. has been approved by the Board of the Directors on August 11, 2017.

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**8. Investments in subsidiaries**

(1) Details of investments in subsidiaries as at June 30, 2017 and December 31, 2016 are as follows (Korean won in millions):

	Domicile	Principal Business activity	Equity ownership (*1)	June 30, 2017		December 31,
				Acquisition cost	Book value	2016
						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	100.00%	2,600,000	2,600,000	2,600,000
SK Maritime Co., Ltd.	Korea	Shipping	99.99%	332,400	332,400	332,400
(formerly, SK Shipping Co., Ltd.) (*3)						
SKC Co., Ltd. (*2)	Korea	Petrochemicals manufacturing	41.00%	548,654	548,654	548,654
SK Materials Co., Ltd. (*2)	Korea	Special-gas manufacturing and sales	49.10%	473,335	473,335	473,335
SKY Property Management Ltd. (*4)	Virgin Island	Investment	5.00%	44,885	44,885	44,885
SK GI Management	Cayman Islands	Investment	100.00%	9,523	9,523	9,523
SK China Company, Ltd. (*5)	Hong Kong	Consulting and investment	80.76%	290,151	290,151	299,352
SK Investment Management Co., Ltd. (*5)	Hong Kong	Investment	80.76%	9,201	9,201	-
SK Biopharmaceuticals Co., Ltd.	Korea	Life science	100.00%	328,702	328,702	328,702
SK BIOTEK Co., Ltd.	Korea	Life science	100.00%	163,818	163,818	163,818
SK Industrial Development China Co., Ltd. (*4)	Hong Kong	Investment	18.00%	69,624	69,624	69,624
SK Technology Innovation Company (*4)	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. (*4)	Netherlands	Investment	11.54%	5,178	5,178	5,178
SK Latin Americas Investment S.A. (*4)	Spain	Investment	11.54%	5,135	5,135	5,135
Gemini Partners Pte. Ltd. (*4)	Singapore	Consulting investment	20.00%	6,018	6,018	6,018
HAPPYNARAE Co., Ltd. (*4)	Korea	E-commerce	5.00%	1,436	1,436	1,436
SK Infosec Co., Ltd.	Korea	Information security services	100.00%	37,905	44,077	44,077
SK C&C Beijing Co., Ltd.	China	Computer system	100.00%	25,481	25,481	25,481
SK C&C India Pvt. Ltd.	India	Computer system	100.00%	3,442	382	382
SK MENA B.V.	Netherlands	Investment	100.00%	11,364	11,364	11,364
SK S.E.Asia Pte. Ltd.	Singapore	Investment	100.00%	25,847	25,847	25,847
S&G Technology	Saudi Arabia	Computer system	51.00%	74	74	74
SK ENCARSALLES.COM., Ltd.	Korea	Online used car retailers	50.01%	13,914	13,914	13,914
Saturn Agriculture Investment Co., Ltd.	Hong Kong	Investment	100.00%	-	-	-
FSK L&S Co., Ltd.	Korea	Conversion logistics business	60.00%	24,157	24,157	7,200
SMCore, Inc. (*2, *6)	Korea	Car materials system manufacturing and sales	26.65%	39,419	39,419	-
SK computer and communication L.L.C. (*2)	UAE	Computer system	49.00%	-	-	-
				<u>₩ 14,538,073</u>	<u>₩ 14,541,185</u>	<u>₩ 14,484,809</u>

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

(\*2) SK Innovation Co., Ltd. and 7 others were classified as investment in subsidiaries as the Company is able to exercise de facto control. Although the Company holds less than the majority of voting shares, the reason why the Company is considered to have de facto control is because the remaining voting rights are widely dispersed.

(\*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%.

(\*4) Classified as investment in subsidiaries as the Company is considered to have control over the investee using indirect equity ownership through the Company's other subsidiaries.

(\*5) During the current reporting period, the Company has been distributed with the 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.

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**8. Investments in subsidiaries (cont'd)**

(\*6) During the current reporting period, the Company acquired 26.65% of SMCORE, Inc. and voting rights of shares (25.57%) of the CEO have been delegated to the Company. Consequently, the Company classified SMCORE, Inc. as its subsidiary.

(2) Fair value of marketable investments in subsidiaries as at June 30, 2017 is as follows (Korean won in millions):

	June 30, 2017	
SK Innovation Co., Ltd.	₩	4,895,080
SK Telecom Co., Ltd.		5,416,678
SK Networks Co., Ltd.		607,143
SKC Co., Ltd.		516,335
SK Materials Co., Ltd.		1,025,350
SMCORE, Inc.		90,072

**9. Investments in associates and joint ventures**

Details of investments in associates and joint ventures as at June 30, 2017 and December 31, 2016 are as follows (Korean won in millions):

	Domicile	Principal business activity	June 30, 2017			December 31, 2016
			Equity ownership	Acquisition cost	Book value	Book value
Investments in associates:						
SBS Golf Co., Ltd.	Korea	Cable broadcast	21.38%	₩ 3,300	₩ 8,554	₩ 8,554
Mobile TCS Co., Ltd.	Korea	Mobile service	41.00%	820	820	820
Daehan Kanggun BcN Co., Ltd. (*1)	Korea	Wired communication	0.67%	58	58	58
FSK Holdings Co., Ltd.	Hong Kong	IT service	30.00%	11,937	11,937	11,937
Mozido Corfire, Inc. (*2)	USA	System consulting	19.94%	6,767	-	-
SOCAR, Inc.	Korea	Rental of cars	28.23%	91,798	91,798	58,860
9352-7281 Quebec Inc. (*3)	Canada	Investment	40.09%	31,558	31,558	-
				<u>146,238</u>	<u>144,725</u>	<u>80,229</u>
Investments in joint ventures:						
Hana Land Chip PEF 33 (*1)	Korea	Real estate	13.51%	40,000	40,000	40,000
Socar Mobility Malaysia, SDN. BHD. (*3)	Malaysia	Rental of cars	60.00%	7,031	7,031	-
				<u>₩ 193,269</u>	<u>₩ 191,756</u>	<u>₩ 120,229</u>

(\*1) The investment in the entity was classified as investments in associates and joint ventures based on the indirect ownership interest of the Company's subsidiary.

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

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

**10. Property, plant and equipment**

(1) Details of property, plant and equipment as at June 30, 2017 and December 31, 2016 are as follows (Korean won in millions):

	June 30, 2017			December 31, 2016		
	Acquisition cost	Accumulated depreciation	Book value	Acquisition cost	Accumulated depreciation	Book value
Land	₩ 173,818	₩ -	₩ 173,818	₩ 173,818	₩ -	₩ 173,818
Buildings	483,169	(100,607)	382,562	483,169	(92,920)	390,249
Structures	7,041	(288)	6,753	7,041	(156)	6,885
Machinery and equipment	440	(389)	51	425	(383)	42
Vehicles	9,024	(2,254)	6,770	7,939	(2,020)	5,919
Furniture and fixtures	315,097	(211,561)	103,536	309,520	(203,943)	105,577
Construction-in-progress	5,561	-	5,561	1,891	-	1,891
	<u>₩ 994,150</u>	<u>₩ (315,099)</u>	<u>₩ 679,051</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 six months ended June 30, 2017 and 2016 are as follows (Korean won in millions):

For the six months ended June 30, 2017						
	Beginning balance	Acquisition	Depreciation	Disposal	Transfer	Ending balance
Land	₩ 173,818	₩ -	₩ -	₩ -	₩ -	₩ 173,818
Buildings	390,249	-	(7,687)	-	-	382,562
Structures	6,885	-	(132)	-	-	6,753
Machinery and equipment	42	19	(10)	-	-	51
Vehicles	5,919	1,243	(352)	(40)	-	6,770
Furniture and fixtures	105,577	14,643	(15,726)	(960)	2	103,536
Construction-in-progress	1,891	3,672	-	-	(2)	5,561
	<u>₩ 684,381</u>	<u>₩ 19,577</u>	<u>₩ (23,907)</u>	<u>₩ (1,000)</u>	<u>₩ -</u>	<u>₩ 679,051</u>

  

For the six months ended June 30, 2016						
	Beginning balance	Acquisition	Depreciation	Disposal	Transfer	Ending balance
Land	₩ 163,134	₩ -	₩ -	₩ -	₩ 4,619	₩ 167,753
Buildings	337,160	-	(7,111)	-	61,389	391,438
Structures	881	-	(22)	-	6,159	7,018
Machinery and equipment	33	19	(9)	-	-	43
Vehicles	6,995	125	(598)	(146)	64	6,440
Furniture and fixtures	85,096	20,581	(14,263)	(33)	3,417	94,798
Construction-in-progress	71,939	16,052	-	(4)	(75,648)	12,339
	<u>₩ 665,238</u>	<u>₩ 36,777</u>	<u>₩ (22,003)</u>	<u>₩ (183)</u>	<u>₩ -</u>	<u>₩ 679,829</u>

**11. Investment property**

(1) Details of investment properties as at June 30, 2017 and December 31, 2016 are as follows (Korean won in millions):

	June 30, 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	(818)	8,992	9,810	(604)	9,206
	<u>₩ 41,205</u>	<u>₩ (818)</u>	<u>₩ 40,387</u>	<u>₩ 41,205</u>	<u>₩ (604)</u>	<u>₩ 40,601</u>

(2) Changes in investment properties for the six months ended June 30, 2017 and 2016 are as follows (Korean won in millions):

For the six months ended June 30, 2017						
	Beginning balance	Acquisition & disposal	Depreciation		Ending balance	
Land	₩ 31,395	₩ -	₩ -	₩ -	₩ 31,395	
Buildings	9,206	-	(214)	-	8,992	
	<u>₩ 40,601</u>	<u>₩ -</u>	<u>₩ (214)</u>	<u>₩ -</u>	<u>₩ 40,387</u>	

  

For the six months ended June 30, 2016						
	Beginning balance	Acquisition & disposal	Depreciation		Ending balance	
Land	₩ 31,395	₩ -	₩ -	₩ -	₩ 31,395	
Buildings	9,632	-	(213)	-	9,419	
	<u>₩ 41,027</u>	<u>₩ -</u>	<u>₩ (213)</u>	<u>₩ -</u>	<u>₩ 40,814</u>	

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**12. Intangible assets**

(1) Details of intangible assets as at June 30, 2017 and December 31, 2016 are as follows (Korean won in millions):

	June 30, 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	₩ 4,639	₩ -	₩ -	₩ 4,639
Development costs	96,047	(45,579)	(2,688)	47,780	87,412	(39,926)	(2,688)	44,798
Memberships	53,041	-	(13,648)	39,393	49,077	-	(13,648)	35,429
Brand contract -related assets	1,975,000	-	-	1,975,000	1,975,000	-	-	1,975,000
Others	30,612	(1,708)	-	28,904	30,447	(1,588)	-	28,859
	<u>₩ 2,159,339</u>	<u>₩ (47,287)</u>	<u>₩ (16,336)</u>	<u>₩ 2,095,716</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 six months ended June 30, 2017 and 2016 are as follows (Korean won in millions):

	For the six months ended June 30, 2017					
	Beginning balance	Acquisition	Depreciation	Impairment	Disposal	Ending balance
Goodwill	₩ 4,639	₩ -	₩ -	₩ -	₩ -	₩ 4,639
Development costs	44,798	8,964	(5,653)	-	(329)	47,780
Memberships (*1)	35,429	4,761	-	-	(797)	39,393
Brand contract -related assets (*1)	1,975,000	-	-	-	-	1,975,000
Others	28,859	165	(120)	-	-	28,904
	<u>₩ 2,088,725</u>	<u>₩ 13,890</u>	<u>₩ (5,773)</u>	<u>₩ -</u>	<u>₩ (1,126)</u>	<u>₩ 2,095,716</u>

  

	For the six months ended June 30, 2016					
	Beginning balance	Acquisition	Depreciation	Impairment	Disposal	Ending balance
Goodwill	₩ 4,639	₩ -	₩ -	₩ -	₩ -	₩ 4,639
Development costs	40,792	8,759	(5,850)	(967)	-	42,734
Memberships (*1)	31,816	7,445	-	-	(3,537)	35,724
Brand contract -related assets (*1)	1,975,000	-	-	-	-	1,975,000
Others	905	23,223	(154)	-	-	23,974
	<u>₩ 2,053,152</u>	<u>₩ 39,427</u>	<u>₩ (6,004)</u>	<u>₩ (967)</u>	<u>₩ (3,537)</u>	<u>₩ 2,082,071</u>

(\*1) Assets related to membership and brand contracts are classified as intangible assets with infinite useful lives and are not amortized.

**13. Borrowings and bonds payable**

(1) Short-term borrowings

Details of short-term borrowings as at June 30, 2017 and December 31, 2016 are as follows (Korean won in millions):

Description	Financial institution	Interest rate (%)	June 30, 2017	December 31, 2016
Working capital loan	KEB Hana Bank	-	₩ -	₩ 10,000
Working capital loan	Shinhan Bank	-	-	50,000
Working capital loan	Woori Bank	-	-	10,000
Working capital loan	Kookmin Bank	-	-	90,000
Commercial paper	Samsung Securities	-	-	60,000
Commercial paper	Korea Investment & Securities	-	-	60,000
			<u>₩ -</u>	<u>₩ 280,000</u>

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

(2) Bonds payable

Details of bonds payable as at June 30, 2017 and December 31, 2016 are as follows (Korean won in millions):

Issuance number	Interest rate (%)	Maturity	Security	June 30, 2017	December 31, 2016
256-2nd	3.78	2017-05-25	Unsecured	₩ -	₩ 200,000
257-1st	3.21	2017-08-27	Unsecured	150,000	150,000
257-2nd	3.36	2019-08-27	Unsecured	100,000	100,000
258-1st	3.21	2017-10-19	Unsecured	100,000	100,000
258-2nd	3.35	2019-10-19	Unsecured	100,000	100,000
259-2nd	3.34	2020-06-03	Unsecured	100,000	100,000
260-1st	3.59	2018-09-06	Unsecured	100,000	100,000
260-2nd	3.84	2020-09-06	Unsecured	100,000	100,000
261-1st	3.77	2018-12-03	Unsecured	150,000	150,000
261-2nd	3.97	2020-12-03	Unsecured	100,000	100,000
262-1st	3.43	2019-02-12	Unsecured	150,000	150,000
262-2nd	3.68	2021-02-12	Unsecured	100,000	100,000
263-1st	3.19	2019-05-30	Unsecured	150,000	150,000
263-2nd	3.36	2021-05-30	Unsecured	100,000	100,000
264-1st	3.04	2019-08-05	Unsecured	80,000	80,000
264-2nd	3.25	2021-08-05	Unsecured	170,000	170,000
265-1st	2.28	2017-12-02	Unsecured	100,000	100,000
265-2nd	2.45	2019-12-02	Unsecured	100,000	100,000
265-3rd	2.66	2021-12-02	Unsecured	100,000	100,000
266-1st	2.26	2020-02-06	Unsecured	150,000	150,000
266-2nd	2.39	2022-02-06	Unsecured	100,000	100,000
269-1st	3.82	2017-06-14	Unsecured	-	100,000
269-2nd	4.12	2019-06-14	Unsecured	150,000	150,000
270-1st	3.19	2017-11-02	Unsecured	100,000	100,000
270-2nd	3.39	2019-11-02	Unsecured	50,000	50,000
270-3rd	3.80	2022-11-02	Unsecured	50,000	50,000
271-1st	3.03	2018-02-27	Unsecured	100,000	100,000
271-2nd	3.34	2020-02-27	Unsecured	100,000	100,000
272-2nd	3.57	2018-08-30	Unsecured	100,000	100,000
272-3rd	3.92	2020-08-30	Unsecured	60,000	60,000
273-1st	3.47	2019-03-25	Unsecured	100,000	100,000
273-2nd	3.79	2021-03-25	Unsecured	100,000	100,000
273-3rd	4.26	2024-03-25	Unsecured	100,000	100,000
274-1st	1.94	2018-09-30	Unsecured	70,000	70,000
274-2nd	2.17	2020-09-30	Unsecured	150,000	150,000
274-3rd	2.34	2022-09-30	Unsecured	80,000	80,000
275-1st	2.27	2018-12-07	Unsecured	120,000	120,000
275-2nd	2.52	2020-12-07	Unsecured	120,000	120,000
275-3rd	2.66	2022-12-07	Unsecured	60,000	60,000
276-1st	1.73	2018-03-07	Unsecured	130,000	130,000
276-2nd	2.02	2021-03-07	Unsecured	120,000	120,000
276-3rd	2.26	2023-03-07	Unsecured	150,000	150,000
277-1st	1.70	2018-06-01	Unsecured	100,000	100,000
277-2nd	1.93	2021-06-01	Unsecured	120,000	120,000
277-3rd	2.16	2023-06-01	Unsecured	120,000	120,000
277-4th	2.43	2026-06-01	Unsecured	60,000	60,000
278-1st	1.49	2018-09-07	Unsecured	180,000	180,000
278-2nd	1.65	2021-09-07	Unsecured	110,000	110,000
278-3rd	1.80	2023-09-07	Unsecured	110,000	110,000
279-1st	1.96	2020-03-06	Unsecured	90,000	-
279-2nd	2.34	2022-03-06	Unsecured	190,000	-
279-3rd	2.58	2024-03-06	Unsecured	120,000	-
280-1st	2.39	2020-06-01	Unsecured	90,000	-
280-2nd	1.99	2022-06-01	Unsecured	200,000	-
280-3rd	2.67	2024-06-01	Unsecured	110,000	-
				<u>5,910,000</u>	<u>5,410,000</u>
				37,344	51,658
				<u>(780,400)</u>	<u>(754,262)</u>
				<u>₩ 5,166,944</u>	<u>₩ 4,707,396</u>

Addition: premium on bonds payable  
Less: current portion

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**13. Borrowings and bonds payable (cont'd)**

(3) The Company's bonds payable repayment schedule as at June 30, 2017 is as follows (Korean won in millions):

Year ending	Amount of repayment
July 1, 2017 ~ June 30, 2018	₩ 780,000
July 1, 2018 ~ June 30, 2019	1,270,000
July 1, 2019 ~ June 30, 2020	960,000
July 1, 2020 ~ June 30, 2021	1,070,000
July 1, 2021 and thereafter	1,830,000
	₩ 5,910,000

**14. Provisions**

Changes in provisions for the six months ended June 30, 2017 and 2016 are as follows (Korean won in millions):

	For the six months ended June 30, 2017			
	Beginning balance	Increase	Decrease	Ending balance
Provision for service warranties	₩ 5,284	₩ 1,372	₩ (2,872)	₩ 3,784
Provision for sale warranties	814	1,417	(1,120)	1,111
	₩ 6,098	₩ 2,789	₩ (3,992)	₩ 4,895
	For the six months ended June 30, 2016			
	Beginning balance	Increase	Decrease	Ending balance
Provision for service warranties	₩ 4,620	₩ 3,332	₩ (3,861)	₩ 4,091
Provision for sale warranties	680	89	-	769
	₩ 5,300	₩ 3,421	₩ (3,861)	₩ 4,860

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 contribution plans recognized for the six months ended June 30, 2017, were ₩7 million.

(2) Defined benefit plans

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

(3) Details of retirement benefit obligation as at June 30, 2017 and December 31, 2016 are as follows (Korean won in millions):

	June 30, 2017	December 31, 2016
Present value of defined benefit obligation	₩ 262,223	₩ 237,311
Fair value of plan assets	(201,289)	(204,244)
	₩ 60,934	₩ 33,067

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

(4) Changes in the retirement benefit obligation for the six months ended June 30, 2017 and 2016 are as follows (Korean won in millions):

	For the six months ended June 30, 2017		
	Present value	Fair value of	Total
	of defined benefit obligation	plan assets	
Beginning balance	₩ 237,311	₩ (204,244)	₩ 33,067
Provision for pension benefits:			
Current service cost	16,821	-	16,821
Net interest expense (income)	2,752	(2,553)	199
Re-measurement:			
Return on plan assets (excluding amounts included in net interest expense)	-	(12)	(12)
Actuarial changes arising from changes in financial assumptions	(1,167)	-	(1,167)
Experience adjustments	8,062	-	8,062
Contributions by employer directly to plan assets	-	(1,000)	(1,000)
Benefit paid	(7,652)	11,908	4,256
Others	6,096	(5,388)	708
Ending balance	<u>₩ 262,223</u>	<u>₩ (201,289)</u>	<u>₩ 60,934</u>

	For the six months ended June 30, 2016		
	Present value	Fair value of	Total
	of defined benefit obligation	plan assets	
Beginning balance	₩ 211,451	₩ (185,030)	₩ 26,421
Provision for pension benefits:			
Current service cost	13,627	-	13,627
Net interest expense (income)	2,233	(2,136)	97
Re-measurement:			
Return on plan assets (excluding amounts included in net interest expense)	-	418	418
Actuarial changes arising from changes in financial assumptions	8,930	-	8,930
Experience adjustments	6,331	-	6,331
Contributions by employer directly to plan assets	-	(514)	(514)
Benefit paid	(3,719)	4,380	661
Others	1,072	(1,110)	(38)
Ending balance	<u>₩ 239,925</u>	<u>₩ (183,992)</u>	<u>₩ 55,933</u>

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**16. Other assets and liabilities**

(1) Details of other assets as at June 30, 2017 and December 31, 2016 are as follows (Korean won in millions):

	<u>June 30, 2017</u>	<u>December 31, 2016</u>
Current assets:		
Short-term loans	₩ -	₩ 600
Accrued income	369	169
Advance payments	70,172	9,287
Prepaid expenses	10,029	7,852
Guarantee deposits	4,157	3,671
Derivative financial assets	7,819	1,094
Others	42	22
	<u>₩ 92,585</u>	<u>₩ 22,695</u>
Non-current assets:		
Long-term financial instruments	₩ 19	₩ 19
Long-term guarantee deposits	15,777	16,763
Others	4,221	4,641
	<u>₩ 20,017</u>	<u>₩ 21,423</u>

(2) Details of other liabilities as at June 30, 2017 and December 31, 2016 are as follows (Korean won in millions):

	<u>June 30, 2017</u>	<u>December 31, 2016</u>
Current liabilities:		
Advance received	₩ 65,547	₩ 55,028
Withholdings	29,717	26,513
Income tax payable	32,895	22,721
Derivative financial liabilities	321	1,541
Others	74	74
	<u>₩ 130,545</u>	<u>₩ 105,877</u>
Non-current liabilities:		
Leasehold deposits received	₩ 12,240	₩ 12,223
Derivative financial liabilities	12	115
Others	4,951	4,942
	<u>₩ 17,203</u>	<u>₩ 17,280</u>

**17. Derivative financial assets and liabilities**

The Company has entered into foreign currency forward contracts to manage fluctuations in currency exchange rates relating to its contracts denominated in foreign currencies. Details of assets and liabilities after valuation as at June 30, 2017 and December 31, 2016 are as follows (Korean won in millions):

	<u>June 30, 2017</u>		<u>December 31, 2016</u>	
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
Forward contract	₩ 174	₩ 324	₩ 1,094	₩ 1,656
Options contracts	7,645	-	-	-
	<u>₩ 7,819</u>	<u>₩ 324</u>	<u>₩ 1,094</u>	<u>₩ 1,656</u>

**SK Holdings Co., Ltd.**  
**Notes to the interim condensed separate financial statements**  
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**18. Equity**

**18.1 Issued capital**

Details of issued capital as at June 30, 2017 and December 31, 2016 are as follows (Korean won in millions):

	<u>June 30, 2017</u>	<u>December 31, 2016</u>
Number of shares authorized for issued	400,000,000	400,000,000
Per share (Korean won)	₩ 200	₩ 200
Number of shares issued:		
Ordinary share	70,360,297	70,360,297
Preferred share	566,135	566,135
Issued capital:		
Ordinary share	₩ 15,272	₩ 15,272
Preferred share	113	113
	<u>₩ 15,385</u>	<u>₩ 15,385</u>

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

**18.2 Other paid-in capital**

Details of other paid-in capital as at June 30, 2017 and December 31, 2016 are as follows (Korean won in millions):

	<u>June 30, 2017</u>	<u>December 31, 2016</u>
Paid-in surplus (*1)	₩ 5,605,831	₩ 5,605,831
Treasury shares (*2)	(904,490)	(904,490)
Stock option	427	-
Others	17,711	17,711
	<u>₩ 4,719,479</u>	<u>₩ 4,719,052</u>

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

(\*2) As at June 30, 2017, treasury stock consists of those acquired to increase the enterprise value and to stabilize share price (3,514,276 ordinary shares), and those acquired from repurchase of shares from dissenting shareholders on business combination and shares arising from odd lot shares (11,021,664 ordinary shares and 1,818 preferred shares) during the merger in 2015. There is no additional acquisition or disposal during the current period.

**SK Holdings Co., Ltd.**  
**Notes to the interim condensed separate financial statements**  
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**18.3 Retained earnings**

Details of retained earnings as at June 30, 2017 and December 31, 2016 are as follows (Korean won in millions):

	<u>June 30, 2017</u>	<u>December 31, 2016</u>
Legal reserve (*1)	₩ 7,693	₩ 7,693
Voluntary reserve	71,563	80,896
Unappropriated retained earnings	<u>7,513,723</u>	<u>7,094,634</u>
	<u>₩ 7,592,979</u>	<u>₩ 7,183,223</u>

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

**18.4 Other capital components**

Details of other capital components as at June 30, 2017 and December 31, 2016 are as follows (Korean won in millions):

	<u>June 30, 2017</u>	<u>December 31, 2016</u>
Gain on available-for-sale financial assets	₩ 22,600	₩ 8,041

**SK Holdings Co., Ltd.**  
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**18.5 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		
Types of shares to be issued	Ordinary shares		
Grant method	Reissue of treasury shares, but if the stock option's exercise price is lower than the stock's real price (evaluated based on exercise date), the Company may settle the difference in cash or with treasury stock equivalent to the difference amount.		
Number of shares (shares)	41,429	41,430	41,431
Exercise price (Korean won)	226,290	224,400	263,950
Contractual life of options	2019.03.25 ~2022.03.24	2020.03.25 ~2023.03.24	2021.03.25 ~2024.03.24
Vesting conditions	2 year service from the grant date	3 year service from the grant date	4 year service from the grant date

Share compensation expense recognized during the current reporting period is ₩427 million and the remaining share compensation expense to be recognized in later periods are ₩3,860 million.

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

	1-1	1-2	1-3
Risk-free interest rate	1.86%	1.95%	2.07%
Option life	5 Years	6 Years	7 Years
Expected price (Closing price on the preceding day in Korean won)	236,000	236,000	236,000
Expected volatility	16.78%	16.78%	16.78%
Rate of returns	1.60%	1.60%	1.60%
Exercise price (Korean won)	226,290	224,400	263,950
Fair value per share (Korean won)	38,317	34,200	30,962

**SK Holdings Co., Ltd.**  
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**19. Operating revenues**

(1) Details of operating revenues for the three months and six months ended June 30, 2017 and 2016 are as follows (Korean won in millions):

	June 30, 2017		June 30, 2016	
	Three months	Six months	Three months	Six months
IT service (*1)	₩ 396,623	₩ 752,573	₩ 382,133	₩ 659,011
Used car distribution	238,463	463,800	219,808	415,355
Dividend income	26,983	620,415	-	574,626
Trademark usage income	41,296	92,324	42,389	101,938
Rental income	11,482	22,950	11,421	23,289
Total	₩ 714,847	₩ 1,952,062	₩ 655,751	₩ 1,774,219

(\*1) Includes contract revenue of ₩195,904 million and ₩167,943 million recognized from construction contract for the six months ended June 30, 2017 and 2016, respectively.

(2) Details of accumulated cost, accumulated profit, unbilled receivables, overbilled receivables related to construction contracts in progress as at June 30, 2017 and December 31, 2016 are as follows (Korean won in millions):

	June 30, 2017	December 31, 2016
Accumulated cost and profit	₩ 283,495	₩ 307,039
Progress billings	255,208	248,995
Unbilled receivables (trade accounts receivable)	52,362	70,468
Overbilled receivables (advance receipts)	24,075	12,424

(3) Details of construction profit variation by changes of accounting estimates related to construction contracts as at June 30, 2017 are as follows (Korean won in millions):

	Change in estimated construction revenue	Change in estimated cost	Impact on current period profit	Impact on future period loss
Construction contracts (*1)	₩ 9,329	₩ 7,396	₩ 1,993	₩ (60)

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

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

(4) There is no construction contract 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.

**SK Holdings Co., Ltd.**  
**Notes to the interim condensed separate financial statements**  
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**20. Operating expenses**

Details of operating expenses for the three months and six months ended June 30, 2017 and 2016 are as follows (Korean won in millions):

	June 30, 2017		June 30, 2016	
	Three months	Six months	Three months	Six months
Material costs	₩ 289,675	₩ 562,152	₩ 280,997	₩ 483,524
Outsourcing costs	152,414	289,211	132,449	245,249
Salaries	86,045	167,568	80,181	151,960
Provision for pension benefits	6,561	17,134	6,500	13,314
Depreciation	11,559	23,030	10,755	20,897
Rents	11,674	23,437	11,775	23,256
Communications	5,655	11,405	5,635	11,374
Employee welfare benefits	13,874	27,170	14,191	27,098
Commissions	7,205	13,100	5,419	14,457
Supplies	764	1,684	814	1,702
Education and training	3,231	6,994	3,628	6,623
Research and development	5,457	10,602	4,205	8,004
Office management	9,133	18,618	8,023	15,396
Travel	3,609	6,856	3,566	6,590
Others	25,048	37,880	26,476	38,928
Total	₩ 631,904	₩ 1,216,841	₩ 594,614	₩ 1,068,372

**21. Expenses classified by nature**

Details of expenses by nature for the three months and six months ended June 30, 2017 and 2016 are as follows (Korean won in millions):

	June 30, 2017		June 30, 2016	
	Three months	Six months	Three months	Six months
Material costs	₩ 289,872	₩ 562,408	₩ 281,075	₩ 483,757
Outsourcing costs	152,783	289,809	132,605	245,632
Salaries	88,308	172,173	81,064	153,356
Provision for pension benefits	6,832	17,836	6,740	13,731
Depreciation and amortization	15,200	29,894	14,260	28,220
Rents	11,675	23,439	11,775	23,257
Communications	5,656	11,406	5,636	11,375
Employee welfare benefits	14,326	28,016	14,563	27,743
Commissions	7,308	13,266	5,555	14,594
Education and training	3,286	7,106	3,699	6,746
Office management	9,132	18,618	8,023	15,396
Travel	3,631	6,904	3,576	6,723
Others	23,895	35,966	26,043	37,842
Total	₩ 631,904	₩ 1,216,841	₩ 594,614	₩ 1,068,372

**SK Holdings Co., Ltd.**  
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**22. Financial income (costs) and other non-operating income (expenses)**

**22.1 Financial income and costs**

Details of financial income and costs for the three months and six months ended June 30, 2017 and 2016 are as follows (Korean won in millions):

	June 30, 2017		June 30, 2016	
	Three months	Six months	Three months	Six months
Financial income:				
Interest income	₩ 1,828	₩ 2,369	₩ 774	₩ 1,529
Gain on foreign currency transactions	850	3,332	843	1,427
Gain on foreign currency translation	156	360	209	338
Gain on valuation of derivative instruments	3,774	9,772	440	1,058
Gain on transactions of derivative instruments	406	1,918	47	220
Total	<u>₩ 7,014</u>	<u>₩ 17,751</u>	<u>₩ 2,313</u>	<u>₩ 4,572</u>
Financial costs:				
Interest expenses	₩ 36,311	₩ 72,121	₩ 36,732	₩ 72,917
Loss on foreign currency transactions	1,166	2,439	861	1,672
Loss (gain) on foreign currency translation	(317)	1,677	(105)	496
Loss on valuation of derivative instruments	367	2,786	576	632
Loss on transactions of derivative instruments	459	848	276	572
Total	<u>₩ 37,986</u>	<u>₩ 79,871</u>	<u>₩ 38,340</u>	<u>₩ 76,289</u>

**22.2 Other non-operating income and expenses**

Details of other non-operating income and expenses for the three months and six months ended June 30, 2017 and 2016 are as follows (Korean won in millions):

	June 30, 2017		June 30, 2016	
	Three months	Six months	Three months	Six months
Other non-operating income:				
Dividends income	₩ -	₩ 3	₩ 726	₩ 1,200
Gain on disposal of available-for-sale financial assets	-	-	-	125
Gain on disposal of investments in associates and subsidiaries	-	-	-	1,320
Gain on disposal of property, plant and equipment	63	109	4	30
Gain on disposal of intangible assets	225	225	-	167
Others	57	189	114	436
Total	<u>₩ 345</u>	<u>₩ 526</u>	<u>₩ 844</u>	<u>₩ 3,278</u>
Other non-operating expenses:				
Loss on disposal of available-for-sale financial assets	₩ -	₩ -	₩ 13	₩ 13
Loss on disposal of property, plant and equipment	1	30	7	60
Loss on disposal of intangible assets	-	25	205	356
Impairment of intangible assets	-	-	-	967
Donations	3,100	6,118	7,457	7,587
Others	582	1,010	492	1,087
Total	<u>₩ 3,683</u>	<u>₩ 7,183</u>	<u>₩ 8,174</u>	<u>₩ 10,070</u>

**SK Holdings Co., Ltd.**  
**Notes to the interim condensed separate financial statements**  
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**23. Income taxes**

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

Effective tax rates for the six months ended June 30, 2017 and 2016 were 6.42% and 5.96%, respectively.

**24. Earnings per share**

(1) Basic earnings per share for the three months and six months ended June 30, 2017 and 2016 are as follows (Korean won in millions, except per share information):

	June 30, 2017		June 30, 2016	
	Three months	Six months	Three months	Six months
Net income	₩ 32,323	₩ 623,640	₩ 10,997	₩ 589,958
Less: Preferred share dividends	(529)	(1,058)	(487)	(973)
Net income attributable to ordinary share owners of the Company	₩ 31,794	₩ 622,582	₩ 10,510	₩ 588,985
Weighted-average number of issued shares outstanding (*1)	55,824,357	55,824,357	55,824,357	55,824,357
Basic earnings per share (Korean won)	570	11,153	188	10,551

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

(2) The weighted-average number of issued shares outstanding for the three months and six months ended June 30, 2017 and 2016 are as follows:

	June 30, 2017		June 30, 2016	
	Three months	Six months	Three months	Six months
Weighted-average number of shares outstanding	70,360,297	70,360,297	70,360,297	70,360,297
Weighted-average number of treasury shares	(14,535,940)	(14,535,940)	(14,535,940)	(14,535,940)
Weighted-average number of issued shares outstanding	55,824,357	55,824,357	55,824,357	55,824,357

**25. Transactions with related parties**

Details of significant transactions with related parties for the six months ended June 30, 2017 and 2016, and significant balances with related parties as at June 30, 2017 and December 31, 2016 are as follows (Korean won in millions):

(1) The subsidiaries of the Company as at June 30, 2017, are as follows:

	Subsidiary
Ultimate controlling party	Tae-won, Chey and related parties
Subsidiary (total 303)	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

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

Subsidiary	Subsidiary
Subsidiary (total 303)	<p>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., FSK L&amp;S (Shanghai) Co., Ltd. (formerly, Shanghai Huayou Internaional Freight Forwarding Co., Ltd.) SK Global Chemical Americas, Inc., SK Global Chemical Japan Co., Ltd., SK Global Chemical Singapore Pte. Ltd., SK Global Chemical Investment Hong Kong Ltd., Ningbo SK Performance Rubber Co., Ltd., SK Incheon Petrochem Co., Ltd., SK Trading International Co., Ltd., SK Energy International Pte. Ltd., SK Energy Europe, Ltd., SK Energy Americas, Inc., SK Terminal B.V., Bergaya International Pte. Ltd., MOKGAM SERVICE, SK Lubricants Co., Ltd., Yubase Manufacturing Asia Corporation, SK Energy Lubricants (Tianjin) Co., Ltd., PT. Patra SK, SK Lubricants &amp; Oils India Private Limited, 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., Moche Energy Company, LLC, SK E&amp;P Company, SK E&amp;P America, Inc., SK Plymouth, LLC, SK Permian, LLC, SK Battery Systems Co., Ltd., SK Primacor Americas LLC, SK Primacor Europe, S.L.U., SK Telecom Co., Ltd., SK Telink Co., Ltd., SK Broadband Co., Ltd., PS&amp;Marketing Corp., Serviceace Co., Ltd., Service Top Co., Ltd., Networkons Co., Ltd., NSOK Co., Ltd., SK techx Co.,Ltd., One store Co., Ltd., HelloNature Co., Ltd., SK Planet Co., Ltd., SK M&amp;SERVICE Co., Ltd., SK Communications Co., Ltd., Stonebridge Cinema Fund, K-Net Culture &amp; Contents Venture Fund, SK Planet Japan, K. K., SK Planet Global Pte. Ltd., SKP America LLC, shopkick Management Company, Inc., shopkick, Inc., SKP Global Holdings Pte. Ltd., SK Telecom China Holding Co., Ltd., SK Global Healthcare Business 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 LIMITED, iriver Inc., iriver Enterprise Ltd., iriver China Co., Ltd., Dongguan iriver Electronics Co., Ltd., Groovers JP Ltd., ENTRIX Co., Ltd., Planet11 E-commerce Solutions India Pvt. Ltd., 11street (Thailand) Co., Ltd., Home&amp;Service Co., Ltd., SK Networks Co., Ltd., SK Networks Service Co., Ltd., SK Pinx Co., Ltd., Car Life Service Co., Ltd., SKN (China) Holdings Co., Ltd., Liaoning SK Networks Real Estate Development Co., Ltd., Shenyang SK Bus Terminal Co., Ltd., 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 Auto Service Hong Kong Co., Ltd., SK (Shenyang) auto rental Co., Ltd., SK (Beijing) auto rental Co., Ltd., SK Rent-A-Car (Qingdao) Co., Ltd., SK Networks Japan Co., Ltd., SK Networks Deutschland GmbH, Daiyang SK Networks SAN. VE TIC. Ltd. STI, SK Networks Resources Australia Pty. Ltd., SK Magic Inc., Magic Service.Co,Ltd., SKC Co., Ltd., SK Telesys Co., Ltd., SKC Hi-Tech&amp;Marketing (formerly, SKC Hass Display Film), SKC Hi-Tech&amp;Marketing (Suzhou) Co., Ltd., SKC Hi-Tech&amp;Marketing Taiwan Co., Ltd., SKC Hi-Tech&amp;Marketing Japan K.K., SKC Hi-Tech&amp;Marketing Polska SP.Z.O.O, SKC Hi-Tech&amp;Marketing USA LLC, SK Airgas Co., Ltd., SKC Solmics Co., Ltd., Solmics Taiwan Co., Ltd., Solmics Shanghai Co., Ltd., SKW Co., Ltd., SKC (Jiangsu) High tech Plastics Co., Ltd., SKC, Inc., SKC Europe GmbH, SK bioland Co., Ltd., Bioland Biotec Co., Ltd., Bioland Haimen Co., Ltd., SE (JIANGSU) Electronic Materials Co., Ltd., Techdream Co., Ltd., SKC INFRA SERVICE Co., Ltd., SK Maritime Co., Ltd. (formerly, SK Shipping Co., Ltd.), BLUESEAOCEAN 1ST L.L.C, BLUESEAOCEAN 2ND L.L.C, With Ocean L.L.C, YUKYUNG 1ST L.L.C, NEPTUNE SOLUTION L.L.C, SK Shipping Hongkong Ltd., SK Shipping Singapore Pte. Ltd., SK B&amp;T Pte. Ltd., Promise Shipholding S.A. and 63 other companies, SK Shipping Europe Plc., SK Shipping Co., Ltd., SK E&amp;S Co., Ltd., Kangwon City Gas Co., Ltd., Yeongnam energy service Co., Ltd., Ko-one energy service Co., Ltd., Narae energy service Co., Ltd., Pusan City Gas Co., Ltd., Jeonbuk Energy Service Co., Ltd., Chonnam City Gas Co., Ltd., Chungcheong energy service Co., Ltd., Paju Energy Service Co., Ltd., Wirye energy service Co., Ltd., SK E&amp;S Hong Kong Co., Ltd., SK E&amp;S Australia Pty. Ltd., SK E&amp;S Americas, Inc., SK E&amp;S LNG, LLC, DewBlaine Energy, LLC, CAILIP Gas Marketing, LLC, Prism Energy International Pte. Ltd. (formerly, SK LNG Trading Pte., Ltd.), PT SK E&amp;S Nusantara, Fajar Energy International Pte. Ltd., SK Engineering &amp; Construction Co., Ltd., Seosuwon Development Company, SK TNS Co.,</p>

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

Subsidiary	Subsidiary
Subsidiary (total 303)	Ltd., SKEC Nanjing Co., Ltd., SKEC (Thai), Ltd., Thai Woo Ree Engineering Co., Ltd., SKEC Anadolu, LLC, SK E&C Betek Corporation, Mesa Verde RE Ventures, LLC, N-Compass Development, LLC, SKEC Consultores Ecquador, S.A., Sunlake Co., Ltd., SK E&C India Pvt. Ltd., SK HOLDCO PTE. LTD., SK Materials Co., Ltd., SK Materials Japan Co., Ltd., SK Materials Taiwan Co., Ltd., SK Materials (Jiangsu) Co., Ltd., SK Materials (Xian) Co., Ltd., SK Tri chem Co., Ltd., SK Infosec Co., Ltd., SK ENCARSALES.COM., Ltd., SK C&C Beijing Co., Ltd., SK C&C Chengdu Co., Ltd., SK C&C India Pvt. Ltd., SK MENA B.V., SK S.E.Asia Pte. Ltd., ESSEN CORE Limited, ISD Technology (ShenZhen) Limited, S&G Technology, SK Biopharmaceuticals Co., Ltd., SK Biotek Co., Ltd., SK Life Science, Inc., SK China Company, Ltd., SK China (Beijing) Co., Ltd., SK Beijing Investment Management Co., Ltd., SKY Property Mgmt (Beijing) Co., Ltd., SK Bio Energy HongKong Co., Ltd., SK Property Investment Management Co., Ltd., SK Industrial Development China Co., Ltd., Shanghai SKY Real Estate Development Co., Ltd., SK International Supply Chain Management Co., Ltd., Ningde Sky Beverage Co., Ltd., SK China Investment Management Co., Ltd., SK International Agro-Products Logistics Development Co., Ltd., SKY Property Management Ltd., SKY Investment Co., Ltd., SK China Real Estate Co., Ltd., SK China Creative Industry Development Co., Ltd., SK Investment Management 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 Americas Investment S.A., SK Technology Innovation Company, HAPPYNARAE Co., Ltd., Suzhou HAPPYNARAE Co., Ltd., SK Forest Co., Ltd., FSK L&S Co., Ltd., Saturn Agriculture Investment Co., Ltd., SMCORE, Inc., PointCode Inc., SMC US, Inc., SK computer and communication L.L.C., Skyline Auto Financial Leasing Co., Ltd. SK Financial Leasing Co., Ltd.

(2) Details of transactions with the related parties for the three months and six months ended June 30, 2017 and 2016 are as follows (Korean won in millions):

Subsidiary	Company name	June 30, 2017			
		Sales (*1)		Purchase (*2)	
		Three months	Six months	Three months	Six months
		₩	₩	₩	₩
SK Innovation Co., Ltd.		18,751	232,251	714	1,397
SK Lubricants Co., Ltd.		2,609	5,823	-	-
SK Energy Co., Ltd.		17,228	37,213	-	-
SK Global Chemical Co., Ltd.		5,982	12,340	-	-
SK Incheon Petrochem Co., Ltd.		3,296	7,449	10	10
SK Trading International Co., Ltd.		1,029	2,093	-	-
SK Biotek Co., Ltd.		700	1,157	-	-
SK USA, Inc.		-	-	499	1,003
SK Engineering & Construction Co., Ltd.		6,281	13,630	-	-
SKC Co., Ltd.		2,634	16,529	-	-
SK E&S Co., Ltd.		3,059	157,927	-	-
SK Infosec Co., Ltd.		1,049	2,021	5,134	9,613
SK ENCARSALES.COM., Ltd.		127	5,476	238	459
SK C&C Beijing Co., Ltd.		144	181	2,501	4,143
ESSEN CORE Limited		998	1,735	-	-
SK Networks Co., Ltd.		13,646	35,370	4,578	9,690
HAPPYNARAE Co., Ltd.		282	403	1,032	2,044
SK Pinx Co., Ltd.		26	35	105	1,478
SK Maritime Co., Ltd. (formerly, SK Shipping Co., Ltd.)		-	1,589	-	-
SK Shipping Co., Ltd.		1,317	1,317	-	-
SK Telecom Co., Ltd.		100,745	375,740	2,950	5,630
SK Telink Co., Ltd.		1,015	2,135	32	68
SK techx Co., Ltd.		3,580	8,129	-	-
SK Broadband Co., Ltd.		47,195	104,766	2,695	5,202
PS&Marketing Corp.		671	1,371	1,038	1,209
SK Planet Co., Ltd.		7,961	17,984	422	540
SK Matrics Co., Ltd.		1,507	21,194	-	-
Others		4,812	8,876	1,507	2,802

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**25. Transactions with related parties (cont'd)**

		June 30, 2017			
		Sales (*1)		Purchase (*2)	
	Company name	Three months	Six months	Three months	Six months
Others	Hana Land Chip PEF 33	₩ -	₩ 1,629	₩ 8,226	₩ 16,452
	SK Securities Co., Ltd.	8,228	13,951	-	-
	SK Gas Co., Ltd.	2,118	4,028	4	4
	SK Chemicals Co., Ltd.	1,269	2,433	-	-
	SK hynix Inc.	66,899	128,557	46	108
	SK hynix Semiconductor (China) Ltd.	812	1,440	144	443
	Others	1,883	4,360	927	1,135
Total		<u>₩ 327,853</u>	<u>₩ 1,231,132</u>	<u>₩ 32,802</u>	<u>₩ 63,430</u>

		June 30, 2016			
		Sales (*1)		Purchase (*2)	
	Company name	Three months	Six months	Three months	Six months
Subsidiary	SK Innovation Co., Ltd.	₩ 18,143	₩ 180,849	₩ 2,392	₩ 2,879
	SK Lubricants Co., Ltd.	2,245	5,140	-	-
	SK Energy Co., Ltd.	15,204	40,911	-	-
	SK Global Chemical Co., Ltd.	4,962	12,508	-	-
	SK Incheon Petrochem Co., Ltd.	4,303	8,399	-	-
	SK Trading International Co., Ltd.	1,001	1,585	-	-
	SK Biotek Co., Ltd.	314	479	-	-
	SK USA, Inc.	-	-	320	581
	SK Engineering & Construction Co., Ltd.	7,606	14,982	1	1
	SKC Co., Ltd.	2,236	15,955	-	-
	SK E&S Co., Ltd.	4,230	224,407	-	-
	SK Infosec Co., Ltd.	964	1,854	2,789	5,091
	SK ENCARSALES.COM., Ltd.	96	4,162	359	742
	SK C&C Beijing Co., Ltd.	76	549	2,087	3,565
	ESSENCORE Limited	547	1,085	-	-
	SK Networks Co., Ltd.	12,617	34,649	4,154	9,060
	HAPPYNARAE Co., Ltd.	85	132	330	642
	SK Pinx Co., Ltd	8	17	607	1,238
	SK Maritime Co., Ltd. (formerly, SK Shipping Co., Ltd.)	1,360	3,062	-	-
	SK Telecom Co., Ltd.	108,881	383,641	2,493	5,385
	SK Telink Co., Ltd.	1,034	1,910	96	216
	SK techx Co., Ltd.	8,545	13,559	-	-
	SK Broadband Co., Ltd.	41,716	63,312	2,282	4,485
	PS&Marketing Corp.	632	1,581	82	132
	SK Planet Co., Ltd.	16,658	31,651	933	991
	Others	4,308	8,525	1,170	2,134
Others	Hana Land Chip PEF 33	-	1,728	8,226	16,855
	SK Securities Co., Ltd.	5,898	10,927	-	-
	SK Gas Co., Ltd.	1,478	3,923	-	-
	SK Chemicals Co., Ltd.	1,175	2,749	-	-
	SK hynix Inc.	53,333	95,162	18	41
	SK hynix Semiconductor (China) Ltd.	15,527	15,527	-	-
	Others	2,298	4,419	255	839
Total		<u>₩ 337,480</u>	<u>₩ 1,189,339</u>	<u>₩ 28,594</u>	<u>₩ 54,877</u>

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

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

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**25. Transactions with related parties (cont'd)**

(3) Details of outstanding balances of receivables and payables with the related parties as at June 30, 2017 and December 31, 2016 are as follows (Korean won in millions):

		June 30, 2017					
		Receivables			Payables		
		Trade	Other	Total	Trade	Other	Total
Subsidiary	Company name	receivables	receivables		payables	payables	
	SK Innovation Co., Ltd.	₩ 23,803	₩ 800	₩ 24,603	₩ -	₩ 9,164	₩ 9,164
	SK Lubricants Co., Ltd.	803	-	803	-	1,968	1,968
	SK Energy Co., Ltd.	5,572	-	5,572	-	7,281	7,281
	SK Global Chemical Co., Ltd.	1,931	-	1,931	-	3,368	3,368
	SK Incheon Petrochem Co., Ltd.	1,003	-	1,003	-	2,237	2,237
	SK Trading International Co., Ltd.	453	-	453	-	1,437	1,437
	SK USA, Inc.	-	-	-	-	488	488
	SK Engineering & Construction Co., Ltd.	4,468	-	4,468	-	-	-
	SKC Co., Ltd.	1,346	-	1,346	-	394	394
	SK E&S Co., Ltd.	2,055	-	2,055	-	-	-
	SK Infosec Co., Ltd.	1,081	-	1,081	2,175	1,882	4,057
	SK ENCARSALES.COM., Ltd.	-	4,726	4,726	-	14	14
	SK C&C Beijing Co., Ltd.	-	-	-	-	5	5
	ESSEN CORE Limited	1,355	-	1,355	-	9	9
	SK Networks Co., Ltd.	7,801	2	7,803	2	95	97
	HAPPYNARAE Co., Ltd.	236	-	236	236	341	577
	SK Telecom Co., Ltd.	78,861	-	78,861	318	4,845	5,163
	SK Telink Co., Ltd.	281	-	281	2	30	32
	SK Broadband Co., Ltd.	64,217	-	64,217	564	5,428	5,992
	PS&Marketing Corp.	259	-	259	16	-	16
	SK Planet Co., Ltd.	7,309	-	7,309	-	56	56
	SK techx Co., Ltd.	4,126	-	4,126	-	14	14
	SK Materials Co., Ltd.	1,050	-	1,050	-	39	39
	Others	1,759	290	2,049	102	1,046	1,148
Others	Hana Land Chip PEF 33	-	7,356	7,356	-	-	-
	SK Securities Co., Ltd.	3,564	-	3,564	-	-	-
	SK Gas Co., Ltd.	563	-	563	-	-	-
	SK Chemicals Co., Ltd.	1,146	-	1,146	-	-	-
	SK hynix Inc.	116,611	-	116,611	-	27,582	27,582
	SK hynix Semiconductor (China) Ltd.	502	-	502	-	286	286
	Others	2,121	148	2,269	109	1,430	1,539
		<u>₩ 334,276</u>	<u>₩ 13,322</u>	<u>₩ 347,598</u>	<u>₩ 3,524</u>	<u>₩ 69,439</u>	<u>₩ 72,963</u>

		December 31, 2016					
		Receivables			Payables		
		Trade	Other	Total	Trade	Other	Total
Subsidiary	Company name	receivables	receivables		payables	payables	
	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
	ESSEN CORE Limited	1,142	-	1,142	-	34	34
	SK Networks Co., Ltd.	7,129	72	7,201	2	170	172
	HAPPYNARAE Co., Ltd.	133	-	133	827	175	1,002
	SK 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 Holdings Co., Ltd.**  
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**25. Transactions with related parties (cont'd)**

		December 31, 2016					
		Receivables			Payables		
		Trade	Other	Total	Trade	Other	Total
	Company name	receivables	receivables		payables	payables	
Subsidiary	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>

(4) During the current reporting period, there were additional investment transactions for subsidiaries, associates and joint ventures. (see Note 8 'Investments in subsidiaries' and Note 9 'Investments in associates and joint ventures').

(5) Compensation for key management personnel of the Company for the three months and six months ended June 30, 2017 and 2016 are as follows (Korean won in millions):

	June 30, 2017		June 30, 2016	
	Three months	Six months	Three months	Six months
Salaries	₩ 1,404	₩ 2,573	₩ 964	₩ 1,504
Provision for pension benefits	259	1,361	48	254
Share compensation expense	396	427	-	-
Total	<u>₩ 2,059</u>	<u>₩ 4,361</u>	<u>₩ 1,012</u>	<u>₩ 1,758</u>

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

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

**SK Holdings Co., Ltd.**  
**Notes to the interim condensed separate financial statements**  
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**26. Cash flow information**

(1) Details of non-cash adjustments for the six months ended June 30, 2017 and 2016 are as follows (Korean won in millions):

	For the six months ended	
	June 30, 2017	June 30, 2016
Provision for pension benefits	₩ 17,020	₩ 13,724
Depreciation	23,907	22,003
Depreciation of investment property	214	213
Amortization	5,773	6,004
Bad debt expenses	172	157
Outsourcing fees (provision for service warranties)	2,789	3,421
Interest expenses	72,121	72,917
Loss on foreign currency translation	1,677	496
Loss on valuation of derivative instruments	2,786	632
Loss on disposal of available-for-sale financial assets	-	13
Loss on disposal of property, plant and equipment	30	60
Loss on disposal of intangible assets	25	356
Loss on impairment of intangible assets	-	967
Share compensation expense	427	-
Income tax expense	42,804	37,380
Reversal of service warranties	(146)	(227)
Dividends income	(620,418)	(575,826)
Interest income	(2,369)	(1,529)
Gain on foreign currency translation	(360)	(338)
Gain on valuation of derivative instruments	(9,772)	(1,058)
Gain on disposal of available-for-sale financial assets	-	(125)
Gain on disposal of investments in associates	-	(1,320)
Gain on disposal of property, plant and equipment	(109)	(30)
Gain on disposal of intangible assets	(225)	(167)
Others	25	107
	₩ (463,629)	₩ (422,170)

(2) Details of working capital adjustments for the six months ended June 30, 2017 and 2016 are as follows (Korean won in millions):

	For the six months ended	
	June 30, 2017	June 30, 2016
Trade accounts receivable	₩ 31,442	₩ (5,327)
Other accounts receivable	(1,860)	233
Accrued income	(77)	(5)
Inventories	(10,429)	(26,770)
Advance payments	1,115	(1,164)
Prepaid expenses	(1,827)	(1,072)
Trade accounts payable	(42,703)	53,792
Advance received	12,520	(8,536)
Withholdings	3,203	1,097
Other accounts payable	(40,091)	(38,963)
Accrued expenses	(8,750)	(8,506)
Leasehold deposits received	17	(71)
Provision for service warranties	(3,846)	(3,634)
Retirement benefit obligation	(1,556)	(2,647)
Plan assets	5,520	2,756
Others	(1,116)	802
	₩ (58,438)	₩ (38,015)

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**26. Cash flow information (cont'd)**

(3) Details of significant non-cash transactions for the six months ended June 30, 2017 and 2016 are as follows (Korean won in millions):

	For the six months ended	
	June 30, 2017	June 30, 2016
Write-off of trade accounts receivable and others	₩ 138	₩ 515
Acquisitions of available-for-sale financial assets	-	114
Transfer of available-for-sale financial assets to assets held for sale	51,859	-
Acquisition of investments in associates	-	58,860
Transfer of long-term bonds payable to current-portion	179,605	-
Accounts payable regarding the acquisition of property, plant and equipment and intangible assets	(7,397)	-

**27. Commitments and contingencies**

(1) Guarantees provided by others for the Company's obligations and indebtedness as at June 30, 2017 and December 31, 2016 are as follows (Korean won in millions, and USD and VND in thousands):

	Currency	June 30, 2017	December 31, 2016
Seoul Guarantee Insurance	KRW	1,996	1,943
Korea Software Financial Cooperative	KRW	242,626	355,006
The Export-Import Bank of Korea	USD	2,659	2,659
Korea Trade Insurance Corporation	USD	6,587	6,587
Korea Trade Insurance Corporation	VND	90,113,661	90,113,661

(2) Pending litigation

Details of significant pending litigations as at June 30, 2017 is as follows (Korean won in millions, US Dollar in thousands):

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

As at June 30, 2017, the Company is unable to determine the ultimate outcomes of the above litigations.

(3) The assets pledged as collateral for the Company's guarantee of implementation of the agreement as at June 30, 2017 are as follows (Korean won in millions):

	Book value	Collateralized amount	Reason for collateral	Collateral beneficiary
Land and buildings	₩ 9,430	₩ 1,700	Guarantee of implementation of the agreement	RCI Financial Service Korea

**27. Commitments and contingencies (cont'd)**

(4) Significant commitments

- 1) 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 <sup>st</sup> Fund	Corporate Turnaround 1 <sup>st</sup> 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.	

- 2) The Company entered into a contract to lease the headquarters building from National Agricultural Cooperative Federation ("NACF"), the trustee of Hana Asset Management Co., Ltd. Under the terms of the lease, the lease period is until March 28, 2021, and the Company has the preemptive right to purchase the building at the fair value when the lessor elects to dispose of the property.
- 3) SK E&S LNG, LLC, one of the subsidiaries, is scheduled to be provided with liquefaction service amounting to 115 million MMBtu per year for 20 years from FLNG Liquefaction 3, LLC, which plans to operate natural gas liquefaction plants in Texas starting from 2019. As at June 30, 2017, 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.
- 4) The Company, SK Innovation Co., Ltd., SK Energy Co., Ltd., SK Global Chemical Co., Ltd., SK Lubricants Co., Ltd., SK Incheon Petrochem Co., Ltd. and SK Trading International Co., Ltd., are collectively responsible for obligations of the Company arising before the spin-off on July 1, 2007. The Company and SK Biopharmaceuticals Co., Ltd. are collectively responsible for obligations of the Company that occurred before the spin-off on April 1, 2011.
- 5) The Company provided performance guarantee to SK Maritime Co., Ltd. (formerly, SK Shipping Co., Ltd.), a subsidiary. The amount of guarantee provided to SK Maritime Co., Ltd. by the Company was calculated as the lower of ₩0 or other guarantee of ₩69,780 million, less the estimated value of ships owned by SK Maritime Co., Ltd.
- 6) The Company holds IT outsourcing and IT system maintenance agreements with subsidiaries of the parent company to provide hardware and information systems maintenance, and development service.

## **27. Commitments and contingencies (cont'd)**

- 7) The Company entered into a contract with Gyeonggi province on May 31, 2011 to purchase land located in Pangyo Land Development District. The total agreement amount is ₩82,964 million (the Company's portion: ₩45,536 million (54.9%)), which will be used for the construction of urban infrastructure facilities ("designated purpose" of the land). The contract includes requirements to be complied with and restrictions in transfer of ownership of the land. Should there be non-compliance, the contract may be terminated or cancelled.
- (5) The Company has provided 7 blank checks and 12 blank notes as collateral in relation to sales and other transactions as at June 30, 2017.

## **28. Financial risk management**

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

### **28.1 Market risk**

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

#### **28.1.1 Interest rate risk**

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

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**28.1.2 Foreign currency risk**

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

Significant monetary assets and liabilities denominated in foreign currencies as at June 30, 2017 and December 31, 2016 are as follows (Korean won in millions, and USD, EUR and Others in thousands):

	Currency	June 30, 2017		December 31, 2016	
		Foreign currencies	Korea won equivalent	Foreign currencies	Korea won equivalent
Assets	USD	14,124	₩ 16,095	12,542	₩ 15,157
	EUR	1,255	1,636	213	270
	Others		3,905		4,085
			₩ 21,636		₩ 19,512
Liabilities	USD	3,532	₩ 4,026	7,585	₩ 9,167
	Others		156		653
			₩ 4,182		₩ 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 six months ended		For the year ended	
	June 30, 2017		December 31, 2016	
	Increase by 10%	Decrease by 10%	Increase by 10%	Decrease by 10%
Increase (decrease) in income before tax expense	₩ 1,745	₩ (1,745)	₩ 969	₩ (969)

**28.1.3 Other price risk**

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

**28.2 Credit risk**

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

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk as at June 30, 2017 and December 31, 2016 is as follows and for cash and cash equivalents, credit risk exposure is low (Korean won in millions):

	June 30, 2017	December 31, 2016
Short-term and long-term financial instruments	₩ 40,239	₩ 37,639
Trade accounts receivable	381,489	395,272
Other accounts receivable	3,306	1,347
Accrued income	366	169
Available-for-sale financial assets	15,567	553
Short-term and long-term guarantee deposits	19,934	20,434
Short-term and long-term loan	-	600
	₩ 460,901	₩ 456,014

### 28.2.1 Trade and other accounts receivable

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

Maximum exposure to credit risk at the reporting date is the book value of each class of financial assets. The requirement for impairment is analyzed at each reporting date on an individual basis for major clients. Additionally, a large number of minor receivables are companied into homogenous Companies and looked for impairment collectively. The calculation is based on actually incurred historical data.

### 28.2.2 Other financial assets

Credit risk arising from other financial assets consists of long-term and short-term financial instruments, and is due to the bankruptcy of the counterparties. 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, is judged to have limited impact on the credit risk of the financial institutions of the Company as the Company deals with financial institutions with sound credit ratings.

### 28.3 Liquidity risk

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

The contractual maturity of financial liabilities as at June 30, 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
Bonds payable	₩ 5,947,344	₩ 6,117,008	₩ 150,776	₩ 632,371	₩ 4,350,424	₩ 983,437
Financial derivatives liabilities	324	324	216	96	12	-
Trade accounts payable	112,814	112,814	112,814	-	-	-
Other liabilities	88,021	89,015	65,299	11,476	12,240	-
	<u>₩ 6,148,503</u>	<u>₩ 6,319,161</u>	<u>₩ 329,105</u>	<u>₩ 643,943</u>	<u>₩ 4,362,676</u>	<u>₩ 983,437</u>

## **28.4 Capital management**

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

The Company maintains a debt ratio of 53.64% as at June 30, 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 June 30, 2017 and December 31, 2016 is as follows (Korean won in millions):

	<u>June 30, 2017</u>	<u>December 31, 2016</u>
Total liabilities	₩ 6,624,473	₩ 6,455,107
Total equity	12,350,443	11,925,701
Debt ratio	53.64%	54.13%

## **29. Subsequent events**

### **29.1 ESR Cayman Limited**

In accordance with a resolution of the Board of Directors on July 25, 2017, the Company will acquire 261,930,955 shares (11.8%) of ESR Cayman Limited to enter into China-based logistics business, for consideration of USD 333 million.

### **29.2 SK China Company, Ltd.**

In accordance with the resolution by the Board of Directors on July 25, 2017, the Company has decided to transfer 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.