



SK HOLDINGS CO., LTD.

**SEPARATE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
WITH THE INDEPENDENT AUDITORS' REPORT**

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Independent auditors' report

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

We have audited the accompanying separate financial statements of SK Holdings Co., Ltd. (the "Company"), which comprise the separate statements of financial position as at December 31, 2016 and 2015, and the related separate statements of comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the separate financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the separate financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2016 and 2015, and the results of its financial performance and cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

Emphasis of matter

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

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

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

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

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

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

Further, the Company recognized accounts receivable (unbilled contract revenue) for construction cost to date, net of recognized loss, exceeding billed amounts. As at December 31, unbilled construction contract amounted to ₩70,468 million and if such amount is uncollected, the Company is exposed to risks in relation to asset measurement.

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

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

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

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

We performed the following audit procedures for the key audit matters, selected on the basis of auditors' professional judgment, in relation to uncertainties in estimating the total contract costs and 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 reviewed the translation of the separate financial statements mentioned above into United States dollar amounts on the basis described in Note 2 to the accompanying separate financial statements. In our opinion, such statements have been properly translated on such basis.

Ernst & Young Han Young

March 9, 2017

This audit report is effective as at March 9, 2017, the independent auditors' report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the date of the independent auditors' report to the time this report is used. Such events and circumstances could significantly affect the accompanying separate financial statements and may result in modifications to this report.

SK HOLDINGS CO., LTD.

Separate financial statements
for the years ended December 31, 2016 and 2015

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

Chey, Tae-won, Cho, Daesik and Park, Jung Ho
Chief Executive Officers
SK Holdings Co., Ltd.

SK HOLDINGS CO., LTD.
Separate statements of financial position
as at December 31, 2016 and 2015

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

	Notes	Korean won		Translation into U.S. dollar (Note 2)	
		2016	2015	2016	2015
Assets					
Current assets:					
Cash and cash equivalents	4	₩ 158,963	₩ 97,835	\$ 131,537	\$ 80,956
Short-term financial instruments	4,28,29	37,620	67,200	31,129	55,606
Trade accounts receivable	4,5,26,29	465,740	415,835	385,387	344,092
Other accounts receivable	4,26,29	1,347	1,369	1,115	1,133
Inventories	6	98,580	83,198	81,572	68,844
Other current assets	4,16,17,26,29	22,695	75,633	18,779	62,583
Total current assets		<u>784,945</u>	<u>741,070</u>	<u>649,519</u>	<u>613,214</u>
Non-current assets:					
Available-for-sale financial assets	4,7,28	155,695	148,455	128,833	122,842
Investments in subsidiaries	8	14,484,809	13,848,850	11,985,775	11,459,537
Investments in associates and joint ventures	9	120,229	70,157	99,486	58,053
Property, plant and equipment	10,28	684,381	665,238	566,306	550,466
Investment property	11	40,601	41,027	33,596	33,949
Intangible assets	12	2,088,725	2,053,152	1,728,362	1,698,926
Other non-current assets	4,16,17,26,28,29	21,423	25,134	17,728	20,796
Total non-current assets		<u>17,595,863</u>	<u>16,852,013</u>	<u>14,560,086</u>	<u>13,944,569</u>
Total assets		<u>₩ 18,380,808</u>	<u>₩ 17,593,083</u>	<u>\$ 15,209,605</u>	<u>\$ 14,557,783</u>
Liabilities					
Current liabilities:					
Short-term borrowings	4,13,29	₩ 280,000	₩ 250,000	\$ 231,692	\$ 206,868
Trade accounts payable	4,26,29	155,605	109,400	128,759	90,525
Other accounts payable	4,26,29	90,042	73,036	74,507	60,435
Accrued expenses	4,29	41,701	42,940	34,506	35,532
Provisions	14	6,098	5,300	5,046	4,386
Current portion of long-term debt	4,13,29	754,262	918,835	624,131	760,310
Other current liabilities	4,16,17,26,29	105,877	110,126	87,610	91,126
Total current liabilities		<u>1,433,585</u>	<u>1,509,637</u>	<u>1,186,251</u>	<u>1,249,182</u>
Non-current liabilities:					
Bonds payable	4,13,29	4,707,396	4,289,918	3,895,239	3,549,787
Retirement benefit obligation	15	33,067	26,421	27,362	21,863
Deferred income tax liabilities	24	263,779	268,405	218,270	222,098
Other non-current liabilities	4,16,17,26,29	17,280	17,025	14,299	14,088
Total non-current liabilities		<u>5,021,522</u>	<u>4,601,769</u>	<u>4,155,170</u>	<u>3,807,836</u>
Total liabilities		<u>6,455,107</u>	<u>6,111,406</u>	<u>5,341,421</u>	<u>5,057,018</u>
Equity:					
Issued capital	1,18	15,385	15,385	12,731	12,731
Other paid-in capital	18	4,719,052	4,719,052	3,904,884	3,904,884
Retained earnings	18	7,183,223	6,736,539	5,943,916	5,574,298
Other capital components	18	8,041	10,701	6,653	8,852
Total equity		<u>11,925,701</u>	<u>11,481,677</u>	<u>9,868,184</u>	<u>9,500,765</u>
Total liabilities and equity		<u>₩ 18,380,808</u>	<u>₩ 17,593,083</u>	<u>\$ 15,209,605</u>	<u>\$ 14,557,783</u>

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

SK HOLDINGS CO., LTD.

**Separate statements of comprehensive income
for the years ended December 31, 2016 and 2015**

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

	Notes	Korean won		Translation into U.S. dollar (Note 2)	
		2016	2015	2016	2015
Operation revenue	20,26	₩ 3,113,719	₩ 2,065,032	\$ 2,576,516	\$ 1,708,756
Operation expenses	21,22,26	2,267,346	1,812,314	1,876,166	1,499,639
Operating income		846,373	252,718	700,350	209,117
Financial income	4,23	17,542	9,295	14,516	7,691
Financial costs	4,23	160,567	98,239	132,865	81,290
Other non-operating income	23,30	4,107	6,309,426	3,398	5,220,874
Other non-operating expenses	23	23,507	122,217	19,451	101,131
Income before income tax expense		683,948	6,350,983	565,948	5,255,261
Income tax expense	24	42,254	529,919	34,964	438,493
Net income		641,694	5,821,064	530,984	4,816,768
Other comprehensive income:					
<i>Items not to be reclassified to profit or loss in subsequent periods:</i>					
<i>Re-measurement loss on defined benefit plans</i>	15	(3,260)	(3,391)	(2,698)	(2,806)
<i>Items to be reclassified to profit or loss in subsequent periods:</i>					
<i>Net loss on available-for-sale financial assets</i>	7	(2,660)	(19,204)	(2,201)	(15,891)
		(5,920)	(22,595)	(4,899)	(18,697)
Total comprehensive income		₩ 635,774	₩ 5,798,469	\$ 526,085	\$ 4,798,071
Earnings per share (Korean won and U.S. dollar):					
Basic earnings per share	25	₩ 11,457	₩ 117,516	\$ 9.48	\$ 97.24

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

SK HOLDINGS CO., LTD.

**Separate statements of changes in shareholders' equity
for the years ended December 31, 2016 and 2015**

(Korean won in millions)

	Issued capital	Other paid-in capital	Retained earnings	Other capital components	Total equity
As at January 1, 2015	₩ 10,000	₩ (618,299)	₩ 1,642,876	₩ 29,905	₩ 1,064,482
Total comprehensive income:					
Net income	-	-	5,821,064	-	5,821,064
Re-measurement loss on defined benefits plans	-	-	(3,391)	-	(3,391)
Net loss on available-for-sale financial assets	-	-	-	(19,204)	(19,204)
Dividends	-	-	(88,000)	-	(88,000)
Issuance of new shares from business combination	5,385	5,605,831	-	-	5,611,216
Retirement of treasury shares	-	636,010	(636,010)	-	-
Acquisition of treasury shares	-	(904,490)	-	-	(904,490)
As at December 31, 2015	₩ 15,385	₩ 4,719,052	₩ 6,736,539	₩ 10,701	₩ 11,481,677
As at January 1, 2016	₩ 15,385	₩ 4,719,052	₩ 6,736,539	₩ 10,701	₩ 11,481,677
Total comprehensive income:					
Net income	-	-	641,694	-	641,694
Re-measurement loss on defined benefits plans	-	-	(3,260)	-	(3,260)
Net loss on available-for-sale financial assets	-	-	-	(2,660)	(2,660)
Dividends	-	-	(191,750)	-	(191,750)
As at December 31, 2016	₩ 15,385	₩ 4,719,052	₩ 7,183,223	₩ 8,041	₩ 11,925,701

(Continued)

SK HOLDINGS CO., LTD.
Separate statements of changes in shareholders' equity
for the years ended December 31, 2016 and 2015 (cont'd)

(U.S. dollar in thousands)

	Issued capital	Other paid-in capital	Retained earnings	Other capital components	Total equity
As at January 1, 2015	\$ 8,275	\$ (511,625)	\$ 1,359,434	\$ 24,746	\$ 880,830
Total comprehensive income:					
Net income	-	-	4,816,768	-	4,816,768
Re-measurement loss on defined benefits plans	-	-	(2,806)	-	(2,806)
Net loss on available-for-sale financial assets	-	-	-	(15,891)	(15,891)
Dividends	-	-	(72,818)	-	(72,818)
Issuance of new shares from business combination	4,456	4,638,669	-	-	4,643,125
Retirement of treasury shares	-	526,281	(526,281)	-	-
Acquisition of treasury shares	-	(748,440)	-	-	(748,440)
As at December 31, 2015	\$ 12,731	\$ 3,904,885	\$ 5,574,297	\$ 8,855	\$ 9,500,768
As at January 1, 2016	\$ 12,731	\$ 3,904,885	\$ 5,574,297	\$ 8,855	\$ 9,500,768
Total comprehensive income:					
Net income	-	-	530,984	-	530,984
Re-measurement loss on defined benefits plans	-	-	(2,698)	-	(2,698)
Net loss on available-for-sale financial assets	-	-	-	(2,201)	(2,201)
Dividends	-	-	(158,668)	-	(158,668)
As at December 31, 2016	\$ 12,731	\$ 3,904,885	\$ 5,943,915	\$ 6,654	\$ 9,868,185

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

SK HOLDINGS CO., LTD.
Separate statements of cash flows
for the years ended December 31, 2016 and 2015
(Korean won in millions and U.S. dollar in thousands)

	Notes	Korean won		Translation into U.S. dollar (Note 2)	
		2016	2015	2016	2015
Cash flows from operating activities:					
Net income		₩ 641,694	₩ 5,821,064	\$ 530,984	\$ 4,816,768
Non-cash adjustments	27	(315,793)	(5,494,558)	(261,310)	(4,546,593)
Working capital adjustments	27	(51,254)	(122,383)	(42,411)	(101,269)
Interest received		3,900	4,356	3,227	3,604
Interest paid		(180,429)	(116,079)	(149,300)	(96,052)
Dividends received		596,190	81,479	493,331	67,422
Income taxes paid		(43,879)	(104,555)	(36,309)	(86,516)
Net cash provided by operating activities		650,429	69,324	538,212	57,364
Cash flows from investing activities:					
Decrease (increase) in short-term and long-term financial instruments, net		29,580	(34,845)	24,477	(28,833)
Decrease in short-term loans		1,000	-	827	-
Acquisition of available-for-sale financial assets		(12,260)	(3,997)	(10,145)	(3,307)
Acquisition of investments in subsidiaries		(644,678)	(5,983)	(533,453)	(4,951)
Acquisition of investments in associates		-	(20,725)	-	(17,149)
Acquisition of property, plant and equipment		(61,352)	(59,624)	(50,767)	(49,337)
Acquisition of intangible assets		(49,924)	(19,687)	(41,311)	(16,290)
Proceeds from disposal of available-for-sale financial assets		1,743	1,077	1,442	891
Proceeds from disposal of investments in subsidiaries		6,231	-	5,156	-
Proceeds from disposal of investments in associates		10,108	-	8,364	-
Proceeds from disposal of property, plant and equipment		244	462	202	382
Proceeds from disposal of intangible assets		4,057	9,065	3,357	7,501
Decrease in guarantee deposits, net		2,234	4,773	1,849	3,950
Increase in cash from business combination		-	657,059	-	543,698
Others, net		81	399	67	330
Net cash provided by investing activities		(712,936)	527,974	(589,935)	436,885
Cash flows from financing activities:					
Increase in short-term borrowings, net		30,000	200,000	24,824	165,494
Issuance of bonds payable		1,195,262	597,671	989,046	494,556
Repayment of current portion of long-term debt		(910,000)	(450,000)	(753,000)	(372,362)
Payment of dividends		(191,750)	(88,000)	(158,668)	(72,818)
Acquisition of treasury shares		-	(904,490)	-	(748,440)
Net cash used in financing activities		123,512	(644,819)	102,202	(533,570)
Net increase (decrease) in cash and cash equivalents		61,005	(47,521)	50,480	(39,322)
Net foreign exchange effects		123	146	101	121
Cash and cash equivalents at the beginning of the year		97,835	145,210	80,956	120,157
Cash and cash equivalents at the end of the year		₩ 158,963	₩ 97,835	\$ 131,537	\$ 80,956

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

1. Corporate information

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

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

As at December 31, 2016, the issued capital of the Company amounts to ₩15,385 million (including ₩113 million of preferred shares) and major shareholders and their equity ownership are Tae-won Chey (23.40%), National Pension Service (8.33%) and Ki-won Choi (7.46%).

2. Summary of significant accounting policies

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

The accompanying separate financial statements are stated in Korean won, the currency of the country in which the Company is incorporated and operates. The translation of Korean won amounts into U.S. dollar amounts is included solely for the convenience of readers of the separate financial statements and has been made at the rate of ₩1,208.50 to USD 1.00, the basic exchange rate in the Seoul Money Brokerage Service for cable transfers in Korean won on the last business day of the year ended December 31, 2016. Such translations into U.S. dollar should not be construed as representations that the Korean won amounts could be converted into U.S. dollar at that or any other rate.

2.1 Basis of preparation

The Company has prepared the statutory separate financial statements in accordance with KIFRS. This financial statement is the separate financial statements by K-IFRS 1027.

The significant accounting policies used for the preparation of the accompanying separate financial statements as at and for the year ended December 31, 2016, are the same as the accounting policies adopted for the preparation of separate financial statements as at and for the year ended December 31, 2015, except for adoption of new and revised KIFRSs applied in the current period, which are summarized below.

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

The accompanying separate financial statements were approved at the Company's Board of Directors' meeting on February 9, 2017.

2.1 Basis of preparation (cont'd)

The principal accounting policies are set out below:

2.1.1 New and revised KIFRSs adopted in the current period

The Company has applied amendments to KIFRS issued that are mandatorily effective for accounting periods beginning on or after January 1, 2016.

Amendments to KIFRS 1001 – *Presentation of Financial Statements*

The amendments clarify materiality and aggregation, and the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss, the order presenting the notes to the financial statements, and the presentation of other comprehensive income (“OCI”) of associates and joint ventures accounted for using the equity method.

Amendments to KIFRS 1016 – *Property and Equipment*

The amendments clarify the principle in KIFRS 1016 that the revenue-based depreciation method cannot be used to depreciate property and equipment.

Amendments to KIFRS 1038 – *Intangible Assets*

The amendments clarify the principle in KIFRS 1038 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method may only be used in very limited circumstances to amortize intangible assets.

Amendments to KIFRS 1111 – *Joint Arrangements: Accounting for Acquisitions of Interests*

The amendments to KIFRS 1111 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant KIFRS 1103 *Business Combinations* principles for business combination accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation if joint control is retained.

Amendments to KIFRS 1027 – *Equity Method in Separate Financial Statements*

The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying KIFRS and electing to change to the equity method in their separate financial statements have to apply that change retrospectively. These amendments do not have any impact on the Company’s separate financial statements.

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

2.1.2 New and revised KIFRSs issued, but not yet effective:

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

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.

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

The effective implementation of the standard will likely require analyses on financial effects, establishment of accounting policies, development of an accounting system, and stabilization of the system. The effect on the financial statements for the first-time adoption of the standard may differ depending on the selection and judgment of accounting policies in accordance with the standard, as well as the Company's financial instruments and economic conditions during the period.

The Company plans to make changes to its internal control procedures or the accounting system related to reporting financial instruments upon the adoption of the standard. Also, the Company plans to complete an analysis of the effect of the standard on its consolidated financial statements by December 31, 2017; however, the general effects of the standard, by major items, on the financial statements are as follows:

2.1.2.1 Classification and measurement of financial assets

KIFRS 1109 requires the Group to classify financial instruments as subsequently measured at amortized cost, fair value through other comprehensive income (FVOCI), or fair value through profit or loss (FVTPL), on the basis of the holder's business model and instrument's contractual cash flow characteristics. Hybrid contracts with hosts that are assets, are classified in their entirety instead of bifurcating the embedded derivatives.

The requirements for classifying the financial assets as measured at amortized cost or FVOCI under KIFRS 1109 are more stringent than the requirements of the current KIFRS 1039; as a result, the increase in proportion of financial assets subject to FVTPL measurement may increase the volatility in profit or loss upon adoption of KIFRS 1109.

As at December 31, 2016, the Company has loans and receivables of ₩614,424 million, available-for-sale financial assets of ₩155,695 million and financial assets at FVTPL of ₩1,094 million.

2.1.2.2 Classification and measurement of financial liabilities

Based on the new KIFRS 1109, changes in the fair value of a financial liability designated as measured at FVTPL that arise from changes in the liability's credit risk are presented in other comprehensive income, instead of profit or loss. The changes in the liability's credit risk are recognized in profit or loss if the changes create or enlarge an accounting mismatch had it been presented in other comprehensive income.

Some of the changes in the fair value of financial liabilities designated as at FVTPL, which were recognized in profit or loss under the current KIFRS 1039, are presented in other comprehensive income; therefore, gains and losses on valuation of financial liabilities may decrease.

As at December 31, 2016, the Company has financial liabilities that are carried at cost of ₩6,041,229 million and financial liabilities at FVTPL of ₩1,656 million.

2.1.2.3 Impairment: financial assets and contract assets

Under the current KIFRS 1039, impairment losses are recognized when there is objective evidence of impairment based on an incurred loss model; however, under KIFRS 1109, impairment losses are recognized on debt instruments, lease receivables, contract assets, loan commitment, and financial guarantee contracts that were accounted for at amortized cost, or FVOCI, based on an expected credit loss impairment model.

KIFRS 1109 outlines a three-stage model for 12-month expected credit losses, or lifetime expected credit losses based on changes in credit risk since initial recognition of financial assets; as a result, credit losses can be recognized earlier than the current KIFRS 1039.

2.1.2.3 Impairment: financial assets and contract assets (cont'd)

As at December 31, 2016, the Company has ₩422,211 million of loans and receivables measured at amortized cost, nil of available-for-sales financial assets, and ₩4,389 million as loss allowances for these assets.

2.1.2.4 Hedge accounting

KIFRS 1109 applies mechanics of hedge accounting (fair value hedge accounting, cash flow hedge, foreign entities net investment hedge) specified in the current KIFRS 1039; however, the Company changed from the complex and rule-based hedge accounting requirements of KIFRS 1039 to the principle-based approach which focuses on the risk management activities. Requirements for application of hedge accounting are relaxed by enlarging items designated as hedges and hedging instruments, evaluating the high risk avoidance effects, and eliminating the quantitative criteria (80 ~ 125%).

Upon application of hedge accounting of KIFRS 1109, some transactions that do not meet the criteria for hedge accounting of the current KIFRS 1039 may be accounted for using the hedge accounting; therefore, volatility in profit or loss may be reduced.

As at December 31, 2016, the Company does not own derivative financial assets and liabilities designated as hedging instruments. Meanwhile, the Company owns derivative financial assets and liabilities not designated as hedging instruments, amounting to ₩1,094 million and ₩1,656 million, respectively.

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

As at December 31, 2016, the Company plans to make changes to its internal control procedures or the accounting system related to the adoption of KIFRS 1115 and to complete an analysis of the effect of KIFRS 1115 on its consolidated financial statements are as follows. However, they do not include all of the possible effects of the standard can be changed upon completion of the analysis:

a) Identification of the separate performance obligations in the contract

The Company is engaged in providing consulting IT services and the investment business to its existing operations for the purpose of holding securities of its subsidiaries. The revenue from IT services amounted to ₩1,452,177 million and these revenue are consisted 47% of total revenue for the year ended December 31, 2016.

IT services should be accounted for separately. The Company should allocate the transaction price to each performance obligation in a contract in proportion to its stand-alone selling price.

2.1.2.4 Hedge accounting (cont'd)

b) Allocation of the transaction price to the separate performance obligations

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

Amendments to KIFRS 1007 – Statement of Cash Flows

The amendments to KIFRS 1007 Statement of Cash Flows 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. These amendments are effective for annual periods beginning on or after 1 January 2017.

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. These amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted

Amendments to KIFRS 1102 – Share-based Payment

The IASB issued amendments to KIFRS 1102 *Share-based Payment* that address as 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 or after 1 January 2018, with early application permitted.

The Company is currently assessing the impact of adoption of the above standards and interpretation.

2.2 Business combinations

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

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

2.2 Business combinations (cont'd)

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

2.3 Current versus non-current classification

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

An asset is current when it is:

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

All other assets are classified as non-current.

A liability is current when:

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

The Company classifies all other liabilities as non-current.

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

2.4 Foreign currencies

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

In preparing the separate financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

2.4 Foreign currencies (cont'd)

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

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

2.5 Cash and cash equivalents

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

2.6 Financial assets

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

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

2.6.1 Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL. A financial asset is classified as held for trading if it has been acquired principally for the purpose of selling in the near term or it is a derivative or embedded derivative separated from contracts that is not designated and effective as a hedging instrument. Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss.

2.6.2 Held-to-maturity investments

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

2.6.3 AFS financial assets

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL. They are subsequently measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS financial assets are recognized in OCI (as gain or loss on valuation of AFS financial assets). When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in OCI is reclassified to profit or loss.

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

2.6.3 AFS financial assets (cont'd)

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

2.6.4 Loans and receivables

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

2.6.5 Impairment of financial assets

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

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

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

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

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

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

2.6.6 Derecognition of financial assets

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

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

2.7 Inventories

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

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

2.8 Investments in subsidiaries, associates and joint ventures

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

2.9 Property, plant and equipment

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

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

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

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

2.9 Property, plant and equipment (cont'd)

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

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

2.10 Intangible assets

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

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

Description	Useful lives (years)
Development cost	3 ~ 10
Others	3 ~ 20

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

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

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

2.11 Impairment of tangible and intangible assets

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

2.11 Impairment of tangible and intangible assets (cont'd)

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

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

2.12 Investment property

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

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

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

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

2.13 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings, pending their expenditure on qualifying assets, is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

2.14 Non-current assets held for sale and discontinued operations

Non-current assets and disposal Companies are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal Company) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current assets (and disposal Companies) classified as held for sale are measured at the lower of their previous carrying amount or fair value, less costs to sell.

2.15 Discount (premium) on bonds

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

2.16 Lease

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

2.17 Financial liabilities and equity instruments

2.17.1 Classification as debt or equity

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

2.17.2 Equity instruments

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

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

2.17.3 Financial liabilities

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

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

2.17.3.1 Financial liabilities at FVTPL

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

2.17.3.2 Other financial liabilities

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

2.17.4 Financial guarantee contracts

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

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

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

2.17.5 Derecognition of financial liabilities

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

2.18 Retirement benefit costs

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

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

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

2.19 Derivative financial instruments

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

2.19.1 Fair value hedges

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

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

2.19.2 Cash flow hedges

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

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

2.20 Provision

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

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

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

2.21 Revenue recognition

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

2.21.1 Dividends income

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

2.21.2 Trademark usage income

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

2.21.3 Rendering of services

Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract.

To use the methods which measure services performed to date reliably, the Company determines the stage of completion by using the methods which reliably measure services performed to date, depending on the nature of the transaction.

2.21.4 Sale of goods

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

2.21.5 Construction contracts

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

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

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

2.22 Income tax

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

2.22.1 Current tax

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

2.22.2 Deferred tax

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

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

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

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

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

2.22.3 Current tax and deferred tax for the year

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

2.23 Earnings per share

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

2.24 Fair value

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

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

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

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

2.25 Operating segment

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

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

3. Significant accounting judgements, estimates and assumptions

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

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

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

3.1 Impairment of non-financial assets

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

3.2 Valuation of financial instruments

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

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

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

3.4 Measurement and useful lives of tangible and intangible assets

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

3.5 Defined benefit plan

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

3.6 Deferred tax assets

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

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4. Financial instruments

4.1 Financial assets

Details of financial assets as at December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016			
	Financial assets at FVTPL	Loans and receivables	Available-for-sale financial assets	Total
Current assets:				
Cash and cash equivalents	₩ -	₩ 158,963	₩ -	₩ 158,963
Short-term financial instruments	-	37,620	-	37,620
Trade accounts receivable (*1)	-	395,272	-	395,272
Other accounts receivable	-	1,347	-	1,347
Accrued income	-	169	-	169
Short-term loans	-	600	-	600
Guarantee deposits	-	3,671	-	3,671
Derivative financial assets	1,094	-	-	1,094
	<u>1,094</u>	<u>597,642</u>	<u>-</u>	<u>598,736</u>
Non-current assets:				
Long-term financial instruments	-	19	-	19
Long-term loans	-	-	-	-
Available-for-sale financial assets	-	-	155,695	155,695
Guarantee deposits	-	16,763	-	16,763
	<u>-</u>	<u>16,782</u>	<u>155,695</u>	<u>172,477</u>
	<u>₩ 1,094</u>	<u>₩ 614,424</u>	<u>₩ 155,695</u>	<u>₩ 771,213</u>
December 31, 2015				
	Financial assets at FVTPL	Loans and receivables	Available-for-sale financial assets	Total
Current assets:				
Cash and cash equivalents	₩ -	₩ 97,835	₩ -	₩ 97,835
Short-term financial instruments	-	67,200	-	67,200
Trade accounts receivable (*1)	-	378,597	-	378,597
Other accounts receivable	-	1,369	-	1,369
Accrued income	-	203	-	203
Short-term loans	-	1,500	-	1,500
Guarantee deposits	-	3,084	-	3,084
Derivative financial assets	42	-	-	42
	<u>42</u>	<u>549,788</u>	<u>-</u>	<u>549,830</u>
Non-current assets:				
Long-term financial instruments	-	19	-	19
Long-term loans	-	181	-	181
Available-for-sale financial assets	-	-	148,455	148,455
Guarantee deposits	-	19,449	-	19,449
	<u>-</u>	<u>19,649</u>	<u>148,455</u>	<u>168,104</u>
	<u>₩ 42</u>	<u>₩ 569,437</u>	<u>₩ 148,455</u>	<u>₩ 717,934</u>

(*1) Unbilled receivables amounting to ₩70,468 million and ₩37,238 million as at December 31, 2016 and 2015, respectively, are not included in the financial instruments.

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4.2 Financial liabilities

Details of financial liabilities as at December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016		
	Financial liabilities at FVTPL	Other financial liabilities	Total
Current liabilities:			
Short-term borrowings	₩ -	₩ 280,000	₩ 280,000
Trade accounts payable	-	155,605	155,605
Other accounts payable	-	90,042	90,042
Accrued expenses	-	41,701	41,701
Current portion of long-term debt	-	754,262	754,262
Derivative financial liabilities	1,541	-	1,541
	<u>1,541</u>	<u>1,321,610</u>	<u>1,323,151</u>
Non-current liabilities:			
Bonds payable	-	4,707,396	4,707,396
Leasehold deposits received	-	12,223	12,223
Derivative financial liabilities	115	-	115
	<u>115</u>	<u>4,719,619</u>	<u>4,719,734</u>
	<u>₩ 1,656</u>	<u>₩ 6,041,229</u>	<u>₩ 6,042,885</u>

	December 31, 2015		
	Financial liabilities at FVTPL	Other financial liabilities	Total
Current liabilities:			
Short-term borrowings	₩ -	₩ 250,000	₩ 250,000
Trade accounts payable	-	109,400	109,400
Other accounts payable	-	73,036	73,036
Accrued expenses	-	42,940	42,940
Current portion of long-term debt	-	918,835	918,835
Derivative financial liabilities	241	-	241
	<u>241</u>	<u>1,394,211</u>	<u>1,394,452</u>
Non-current liabilities:			
Bonds payable	-	4,289,918	4,289,918
Leasehold deposits received	-	12,425	12,425
Derivative financial liabilities	3	-	3
	<u>3</u>	<u>4,302,343</u>	<u>4,302,346</u>
	<u>₩ 244</u>	<u>₩ 5,696,554</u>	<u>₩ 5,696,798</u>

4.3 Gain and loss by category of financial instruments

Details of gain and loss by category of financial instruments for the years ended in December 31, 2016 and 2015 are as follows (Korean won in millions):

	For the year ended December 31, 2016						
	Dividends income	Interest income	Interest expense	Gain (loss) on foreign currency	Gain (loss) on derivatives instruments	Reversal (impairment) and gain (loss) on disposals	Total
Financial assets at FVTPL	₩ -	₩ -	₩ -	₩ -	₩ 1,079	₩ -	₩ 1,079
Loans and receivables	-	3,851	-	(707)	-	(966)	2,178
Available-for-sale financial assets	1,200	-	-	-	-	118	1,318
Financial liabilities at FVTPL	-	-	-	-	(1,440)	-	(1,440)
Other financial liabilities	-	-	(145,932)	124	-	-	(145,808)
	<u>₩ 1,200</u>	<u>₩ 3,851</u>	<u>₩ (145,932)</u>	<u>₩ (583)</u>	<u>₩ (361)</u>	<u>₩ (848)</u>	<u>₩ (142,673)</u>
	For the year ended December 31, 2015						
	Dividends income	Interest income	Interest expense	Gain (loss) on foreign currency	Gain (loss) on derivatives instruments	Reversal (impairment) and gain (loss) on disposals	Total
Financial assets at FVTPL	₩ -	₩ -	₩ -	₩ (5)	₩ 1,964	₩ -	₩ 1,959
Loans and receivables	-	4,064	-	(990)	-	(1,019)	2,055
Available-for-sale financial assets	22,859	-	-	-	-	(104,842)	(81,983)
Financial liabilities at FVTPL	-	-	-	-	(2,083)	-	(2,083)
Other financial liabilities	-	-	(92,096)	202	-	-	(91,894)
	<u>₩ 22,859</u>	<u>₩ 4,064</u>	<u>₩ (92,096)</u>	<u>₩ (793)</u>	<u>₩ (119)</u>	<u>₩ (105,861)</u>	<u>₩ (171,946)</u>

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4.4 Fair values of financial instruments by hierarchy level

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

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

Details of fair value of financial instruments by hierarchy level as at December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets at FVTPL	₩ -	₩ 1,094	₩ -	₩ 1,094
Available-for-sale financial assets (*1)	<u>32,652</u>	<u>-</u>	<u>2,152</u>	<u>34,804</u>
	<u>₩ 32,652</u>	<u>₩ 1,094</u>	<u>₩ 2,152</u>	<u>₩ 35,898</u>
Financial liabilities:				
Financial liabilities at FVTPL	₩ -	₩ 1,656	₩ -	₩ 1,656
	December 31, 2015			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets at FVTPL	₩ -	₩ 42	₩ -	₩ 42
Available-for-sale financial assets (*1)	<u>36,814</u>	<u>-</u>	<u>-</u>	<u>36,814</u>
	<u>₩ 36,814</u>	<u>₩ 42</u>	<u>₩ -</u>	<u>₩ 36,856</u>
Financial liabilities:				
Financial liabilities at FVTPL	₩ -	₩ 244	₩ -	₩ 244

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

5. Trade accounts receivable

Details of trade accounts receivable as at December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016	December 31, 2015
Trade accounts receivable:		
Trade accounts receivable	₩ 397,204	₩ 380,532
Unbilled receivable	<u>70,468</u>	<u>37,238</u>
	<u>467,672</u>	<u>417,770</u>
Allowance for doubtful accounts:		
Trade accounts receivable	<u>(1,932)</u>	<u>(1,935)</u>
	<u>₩ 465,740</u>	<u>₩ 415,835</u>

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6. Inventories

Details of inventories as at December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016			December 31, 2015		
	Cost	Valuation allowance	Book value	Cost	Valuation allowance	Book value
Merchandises	₩ 98,523	₩ (119)	₩ 98,404	₩ 83,123	₩ (104)	₩ 83,019
Raw material	157	-	157	128	-	128
Materials in transit	19	-	19	51	-	51
	<u>₩ 98,699</u>	<u>₩ (119)</u>	<u>₩ 98,580</u>	<u>₩ 83,302</u>	<u>₩ (104)</u>	<u>₩ 83,198</u>

7. Available-for-sale financial assets

(1) Details of available-for-sale financial assets as at December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016		December 31, 2015	
	Cost	Book value	Cost	Book value
Marketable equity instruments	₩ 45,841	₩ 32,652	₩ 45,841	₩ 36,814
Non-marketable equity instruments	122,487	122,490	114,597	111,100
Debt securities (*1)	553	553	541	541
	<u>₩ 168,881</u>	<u>₩ 155,695</u>	<u>₩ 160,979</u>	<u>₩ 148,455</u>

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

(2) Details of marketable equity instruments as at December 31, 2016 and 2015 are as follows (Korean won in millions):

	Equity ownership	December 31, 2016		December 31, 2015	
		Acquisition cost	Book value	Acquisition cost	Book value
SK Security Co., Ltd.	10.00%	₩ 45,841	₩ 32,652	₩ 45,841	₩ 36,814

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7. Available-for-sale financial assets (cont'd)

(3) Details of non-marketable equity instruments as at December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016			December 31, 2015		
	Equity ownership	Acquisition cost	Book value	Acquisition cost	Book value	
Ilshin Leisure Co., Ltd	0.13%	₩ 1	₩ 1	₩ 1	₩ 1	
Intellectual Discovery Co., Ltd.	1.34%	500	500	500	500	
Ultra Robot Land Co., Ltd.	8.39%	417	417	417	417	
Ultra Robot Land Assets Management Co., Ltd.	8.39%	25	25	25	25	
nDosa Technologies(*2)	20.00%	649	-	649	-	
Taihan Industrial System	0.01%	-	-	-	-	
Mozido (C-3 Preferred share) (*4)	1.98%	90,790	90,790	90,790	90,790	
Prostar Global Natural Resources Fund I L.P. (*3)	-	-	-	2,848	-	
Prostar Asia-Pacific Energy InfrastructureFund I L.P. (formerly, Prostar Global Energy Infrastructure Fund L.P.) (*2)	24.75%	5,589	5,589	4,887	4,887	
Dogus-SK Private Equity Investment Company(*2)	42.16%	7,472	7,472	6,280	6,280	
CFC-SK El Dorado LATAM Fund L.P. (*2)	24.75%	3,892	3,892	713	713	
Hermed Capital Health Care Fund L.P. (*2)	33.00%	11,173	11,173	4,641	4,641	
Engineering Guarantee Insurance	0.01%	16	16	16	16	
Information & Communication Financial Cooperative	0.05%	107	107	107	107	
Korea Software Financial Cooperative	0.70%	1,500	2,152	1,500	1,500	
Fire Guarantee	0.02%	20	20	20	20	
Korea Specialty Contractor Financial Cooperative	-	-	-	280	280	
Plant & Mechanical Contractors Financial Cooperative of Korea	-	-	-	45	45	
IBK-SKS No.3	4.75%	176	176	176	176	
IBK-SKS Private Equity Fund No.4	2.49%	160	160	702	702	
		<u>₩ 122,487</u>	<u>₩ 122,490</u>	<u>₩ 114,597</u>	<u>₩ 111,100</u>	

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

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

(*3) During the current reporting period, Prostar Global Natural Resource Fund I L.P has been liquidated, and the impairment loss amounting to ₩2,848 has been accounted during the previous reporting period. Therefore, the unrealized losses that had been other comprehensive income has been reclassified to realized losses during the previous reporting period.

(*4) The equity ownership is based on ordinary and preferred shares.

(4) Changes in available-for-sale financial assets for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	For the years ended	
	December 31, 2016	December 31, 2015
Beginning balance	₩ 148,455	₩ 367,193
Business combination	-	15,386
Acquisitions	12,374	94,787
Gain on valuation (*1)	(3,509)	8,547
Disposals (*2)	(1,625)	(334,610)
Impairment loss	-	(2,848)
Ending balance	<u>₩ 155,695</u>	<u>₩ 148,455</u>

(*1) Excludes the effect of deferred income tax recognized directly to equity (2016: ₩849 million, 2015: ₩(-)2,068 million).

(*2) Investments, which amounts to ₩333,624 million, in SK Holdings Co., Ltd. have been reclassified from investments in equity securities to investments in subsidiaries as the entity was acquired during the previous reporting period.

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8. Investments in subsidiaries

(1) Details of investments in subsidiaries as at December 31, 2016 and 2015 are as follows (Korean won in millions):

	Domicile	Principal Business activity	Equity ownership (*1)	December 31, 2016		December 31, 2015
				Acquisition cost	Book value	Book value
SK Innovation Co., Ltd. (*2)	Korea	Resource development	33.40%	₩ 3,072,937	₩ 3,072,937	₩ 3,072,937
SK Telecom Co., Ltd. (*2)	Korea	Mobile				
		Tele-communication	25.22%	5,080,681	5,080,681	5,080,681
SK Networks Co., Ltd. (*2)	Korea	Trading and distribution	39.14%	706,229	706,229	706,229
SK Engineering & Construction Co., Ltd. (*2)	Korea	Construction	44.48%	545,300	545,300	545,300
SK E&S Co., Ltd.	Korea	City gas business	100.00%	2,600,000	2,600,000	2,600,000
SK Shipping Co., Ltd.	Korea	Shipping	83.08%	332,400	332,400	332,400
SKC Co., Ltd. (*2, 4)	Korea	Petrochemicals manufacturing	41.00%	548,654	548,654	548,654
SKY Property Management Ltd. (*3)	Virgin Island	Investment	5.00%	44,885	44,885	44,885
SK GI Management	Cayman Islands	Investment	100.00%	9,523	9,523	9,523
SK China Company, Ltd.	Hong Kong	Consulting and investment	80.76%	299,352	299,352	299,352
SK Biopharmaceuticals Co., Ltd.	Korea	Life science	100.00%	328,702	328,702	328,702
SK BIOTEK Co., Ltd. (*5)	Korea	Life science	100.00%	163,818	163,818	-
SK Industrial Development China Co., Ltd. (*3)	Hong Kong	Investment	18.00%	69,624	69,624	69,624
SK Technology Innovation Company (*3)	Cayman Islands	Research and development	2.12%	1,876	1,876	1,876
SK Forest Co., Ltd.	Korea	Landscape construction	100.00%	61,387	61,387	61,387
SK MENA Investment B.V. (*3)	Netherlands	Investment	11.54%	5,178	5,178	5,178
SK Latin Americas Investment S.A. (*3)	Spain	Investment	11.54%	5,135	5,135	5,135
Gemini Partners Pte. Ltd. (*3)	Singapore	Consulting investment	20.00%	6,018	6,018	6,018
Fitech Sector Limited Partnership IV (*6)	Korea	Investment support	-	-	-	3,741
HAPPYNARAE Co., Ltd. (*3)	Korea	E-commerce	5.00%	1,436	1,436	1,436
Fitech Focus Limited Partnership II (*6)	Korea	Investment support	-	-	-	4,978
SK Infosec Co., Ltd.	Korea	Information Security services	100.00%	37,905	44,077	43,752
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
SK Materials Co., Ltd. (*2, 7)	Korea	Special-gas manufacturing and sales	49.10%	473,335	473,335	-
Saturn Agriculture Investment Co., Ltd. (*8)	Hong Kong	Investment	100.00%	-	-	-
FSK L&S Co., Ltd. (*8)	Korea	Conversion Logistics business	60.00%	7,200	7,200	-
				<u>₩ 14,481,697</u>	<u>₩ 14,484,809</u>	<u>₩ 13,848,850</u>

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

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

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

(*4) The equity interest decreased from 41.82% to 41.00% due to exercise of warrants by the third party during the current reporting period.

(*5) During the current reporting period, the Company acquired 100% common shares of SK BIOTEK Co., Ltd. held by SK Biopharmaceuticals Co., Ltd., one of the subsidiaries and additionally acquired shares on March, 2016 for consideration of ₩40,000 million through the participation of share capital increase.

(*6) Liquidated during the current reporting period.

(*7) The Company acquired 49.10% of voting shares of SK Materials Co., Ltd. for a consideration of ₩473,335 million (including transaction cost ₩470 million).

(*8) Acquired during the current reporting period.

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8. Investments in subsidiaries (cont'd)

(2) Changes in subsidiaries for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

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

	For the year ended December 31, 2015				
	Beginning balance	Business combination	Acquisitions	Transfer	Ending balance
SK Innovation Co., Ltd.	₩ 3,072,937	₩ -	₩ -	₩ -	₩ 3,072,937
SK Networks Co., Ltd.	-	706,229	-	-	706,229
SK Engineering & Construction Co., Ltd.	-	545,300	-	-	545,300
SK E&S Co., Ltd. (*1)	-	2,447,500	-	152,500	2,600,000
SK Shipping Co., Ltd.	-	332,400	-	-	332,400
SKC Co., Ltd.	-	548,654	-	-	548,654
SKY Property Management Ltd.	-	44,885	-	-	44,885
SK GI Management	-	9,523	-	-	9,523
SK China Company, Ltd. (*1)	-	272,540	-	26,812	299,352
SK Biopharmaceuticals Co., Ltd.	-	328,702	-	-	328,702
SK Industrial Development China Co., Ltd. (*1)	-	58,392	-	11,232	69,624
SK Technology Innovation Company (*1)	-	-	-	1,876	1,876
SK Forest Co., Ltd.	-	61,387	-	-	61,387
SK MENA Investment B.V.	-	5,178	-	-	5,178
SK Latin Americas Investment S.A.	-	5,135	-	-	5,135
Gemini Partners Pte. Ltd.	-	35	5,983	-	6,018
Fitech Sector Limited Partnership IV (*1)	-	-	-	3,741	3,741
HAPPYNARAE Co., Ltd. (*1)	-	-	-	1,436	1,436
Fitech Focus Limited Partnership II (*2)	-	-	-	4,978	4,978
SK Infosec Co., Ltd.	14,368	-	-	29,384	43,752
SK C&C Beijing Co., Ltd.	25,481	-	-	-	25,481
SK C&C India Pvt. Ltd.	382	-	-	-	382
SK MENA B.V.	11,364	-	-	-	11,364
SK S.E.Asia Pte. Ltd.	25,847	-	-	-	25,847
S&G Technology	74	-	-	-	74
SK ENCARSALES.COM., Ltd.	13,914	-	-	-	13,914
BIZEN Co., Ltd.	29,384	-	-	(29,384)	-
	<u>₩ 120,814</u>	<u>₩ 13,519,478</u>	<u>₩ 5,983</u>	<u>₩ 202,575</u>	<u>₩ 13,848,850</u>

(*1) Transferred to investments in subsidiaries from available-for-sales financial assets as SK Holdings Co., Ltd. was acquired by the Company.

(*2) Transferred to investments in subsidiaries from investments in associates as SK Holdings Co., Ltd. was acquired by the Company.

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8. Investments in subsidiaries (cont'd)

(3) Fair value of marketable investments in subsidiaries as at December 31, 2016 is as follows (Korean won in millions):

	<u>December 31, 2016</u>	
SK Innovation Co., Ltd.	₩	4,524,475
SK Telecom Co., Ltd.		4,561,413
SK Networks Co., Ltd.		672,229
SKC Co., Ltd.		507,870
SK Materials Co., Ltd.		929,029

(4) Gain and loss on investments in subsidiaries for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	<u>For the years ended</u>	
	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Dividends incomes from investment in subsidiaries	₩ 593,262	₩ 2,233

(5) Impairment test of investments in subsidiaries

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

9. Investments in associates and joint ventures

Details of investments in associates and joint ventures as at December 31, 2016 and 2015 are as follows (Korean won in millions):

	Domicile	Principal business activity	Equity ownership	<u>December 31, 2016</u>			<u>December 31, 2015</u>
				Acquisition cost	Book value	Book value	
Investments in associates:							
SBS Golf Co., Ltd.	Korea	Cable broadcast	21.38%	₩ 3,300	₩ 8,554	₩ 8,554	₩ 8,554
Mobile TCS Co., Ltd.	Korea	Mobile service	41.00%	820	820	820	820
Daehan Kanggun BcN Co., Ltd. (*1)	Korea	Wired communication	0.20%	58	58	58	58
FSK Holdings Co., Ltd. (*2)	Hong Kong	IT service	30.00%	11,937	11,937	20,725	20,725
Mozido Corfire, Inc. (*3)	America	System consulting	19.94%	6,767	-	-	-
SOCAR, Inc. (*4)	Korea	Rental of cars	20.00%	58,860	58,860	-	-
				<u>81,742</u>	<u>80,229</u>	<u>30,157</u>	<u>30,157</u>
Investments in joint ventures:							
Hana Land Chip PEF 33 (*1)	Korea	Real estate	13.51%	₩ 40,000	₩ 40,000	₩ 40,000	₩ 40,000
				<u>₩ 121,742</u>	<u>₩ 120,229</u>	<u>₩ 70,157</u>	<u>₩ 70,157</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) The book value has been decreased by the equally-proportioned retirement of stocks.

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

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

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10. Property, plant and equipment

(1) Details of property, plant and equipment as at December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016			December 31, 2015		
	Acquisition cost	Accumulated depreciation	Book value	Acquisition cost	Accumulated depreciation	Book value
Land	₩ 173,818	₩ -	₩ 173,818	₩ 163,134	₩ -	₩ 163,134
Buildings	483,169	(92,920)	390,249	415,336	(78,176)	337,160
Structures	7,041	(156)	6,885	882	(1)	881
Machinery and equipment	425	(383)	42	399	(366)	33
Vehicles	7,939	(2,020)	5,919	7,987	(992)	6,995
Furniture and fixtures	309,520	(203,943)	105,577	270,939	(185,843)	85,096
Construction-in-progress	1,891	-	1,891	71,939	-	71,939
	<u>₩ 983,803</u>	<u>₩ (299,422)</u>	<u>₩ 684,381</u>	<u>₩ 930,616</u>	<u>₩ (265,378)</u>	<u>₩ 665,238</u>

(2) Details of changes in property, plant and equipment for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	For the year ended December 31, 2016					
	Beginning balance	Acquisition	Depreciation	Disposal	Transfer	Ending balance
Land	₩ 163,134	₩ 4	₩ -	₩ -	₩ 10,680	₩ 173,818
Buildings	337,160	9	(14,744)	-	67,824	390,249
Structures	881	-	(155)	-	6,159	6,885
Machinery and equipment	33	26	(17)	-	-	42
Vehicles	6,995	133	(1,189)	(163)	63	5,919
Furniture and fixtures	85,096	45,504	(29,576)	(188)	4,741	105,577
Construction-in-progress	71,939	19,427	-	-	(89,475)	1,891
	<u>₩ 665,238</u>	<u>₩ 65,183</u>	<u>₩ (45,681)</u>	<u>₩ (351)</u>	<u>₩ (8)</u>	<u>₩ 684,381</u>

	For the year ended December 31, 2015						
	Beginning balance	Business combination	Acquisitions	Depreciation	Disposal	Transfer	Ending balance
Land	₩ 147,205	₩ 15,593	₩ 336	₩ -	₩ -	₩ -	₩ 163,134
Buildings	336,132	13,578	1,266	(13,816)	-	-	337,160
Structures	-	882	-	(1)	-	-	881
Machinery and equipment	59	-	9	(29)	(6)	-	33
Vehicles	696	6,794	172	(629)	(41)	3	6,995
Furniture and fixtures	79,987	436	32,232	(27,156)	(408)	5	85,096
Construction-in-progress	-	46,338	25,609	-	-	(8)	71,939
	<u>₩ 564,079</u>	<u>₩ 83,621</u>	<u>₩ 59,624</u>	<u>₩ (41,631)</u>	<u>₩ (455)</u>	<u>₩ -</u>	<u>₩ 665,238</u>

11. Investment property

(1) Details of investment properties as at December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016			December 31, 2015		
	Acquisition cost	Accumulated depreciation	Book value	Acquisition cost	Accumulated depreciation	Book value
Land	₩ 31,395	₩ -	₩ 31,395	₩ 31,395	₩ -	₩ 31,395
Buildings	9,810	(604)	9,312	9,810	(178)	9,632
	<u>₩ 41,205</u>	<u>₩ (604)</u>	<u>₩ 40,601</u>	<u>₩ 41,205</u>	<u>₩ (178)</u>	<u>₩ 41,027</u>

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11. Investment property (cont'd)

(2) Changes in investment properties for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

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

	For the year ended December 31, 2015			
	Beginning balance	Business combination	Depreciation	Ending balance
Land	₩ -	₩ 31,395	₩ -	₩ 31,395
Buildings	-	9,810	(178)	9,632
	<u>₩ -</u>	<u>₩ 41,205</u>	<u>₩ (178)</u>	<u>₩ 41,027</u>

(3) Details of gains and losses related to investment property for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	For the years ended	
	December 31, 2016	December 31, 2015
Rental income	₩ 2,246	₩ 1,003
Depreciation	(426)	(178)
	<u>₩ 1,820</u>	<u>₩ 825</u>

Operating expenses related with rental income were not recognized separately.

(4) The fair value of land and building classified as investment property was ₩31,395 million and ₩9,810 million as at December 31, 2016, respectively.

12. Intangible assets

(1) Details of intangible assets as at December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016				December 31, 2015			
	Acquisition cost	Accumulated amortization	Accumulated impairment	Book value	Acquisition cost	Accumulated amortization	Accumulated impairment	Book value
Development costs	₩ 87,412	₩ (39,926)	₩ (2,688)	₩ 44,798	₩ 69,336	₩ (28,554)	₩ -	₩ 40,792
Goodwill	4,639	-	-	4,639	4,639	-	-	4,639
Memberships	49,077	-	(13,648)	35,429	49,795	-	(17,979)	31,816
Brand contract	-	-	-	-	-	-	-	-
-related assets	1,975,000	-	-	1,975,000	1,975,000	-	-	1,975,000
Others	30,447	(1,588)	-	28,859	2,165	(1,260)	-	905
	<u>₩ 2,146,575</u>	<u>₩ (41,514)</u>	<u>₩ (16,336)</u>	<u>₩ 2,088,725</u>	<u>₩ 2,100,935</u>	<u>₩ (29,804)</u>	<u>₩ (17,979)</u>	<u>₩ 2,053,152</u>

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12. Intangible assets (cont'd)

(2) Changes in intangible assets for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

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

	For the year ended December 31, 2015						Ending balance
	Beginning balance	Business combination	Acquisitions	Depreciation	Impairment	Disposal	
Development costs	₩ 45,942	₩ -	₩ 17,243	₩ (10,171)	₩ (4,939)	₩ (7,283)	₩ 40,792
Goodwill	4,639	-	-	-	-	-	4,639
Memberships	16,462	15,375	2,225	-	-	(2,246)	31,816
Brand contract -related assets	-	1,975,000	-	-	-	-	1,975,000
Others	1,310	-	219	(301)	-	(323)	905
	<u>₩ 68,353</u>	<u>₩ 1,990,375</u>	<u>₩ 19,687</u>	<u>₩ (10,472)</u>	<u>₩ (4,939)</u>	<u>₩ (9,852)</u>	<u>₩ 2,053,152</u>

(3) Impairment testing of brand contract-related assets

The Company measured the recoverable amount of intangible assets with an indefinite useful life related to brand contract based on the estimated cash flow with weighted average cost of capital plus risk premium for the next 5 years. The Company expects the average growth rate used for estimating cash flow after 5 years will not exceed the average growth rate of industry which subsidiaries belong to.

The Company's managements estimate that the total carrying amount would not exceed the recoverable amount due to reasonable changes in major assumptions used in estimating recoverable amounts.

Significant assumptions used in impairment testing of brand contract-related assets as at December 31, 2016 are as follows:

Recoverable amounts	Growth rate (*1)	Discount rate (*2)
Usage value	1.0%	12.6%

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

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

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

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13. Borrowings and bonds payable

(1) Short-term borrowings

Details of short-term borrowings as at December 31, 2016 and 2015 are as follows (Korean won in millions):

Description	Financial institution	Interest rate (%)	December 31, 2016		December 31, 2015	
Working capital loan	KEB Hana Bank	2.61	₩	10,000	₩	-
Working capital loan	Shinhan Bank	2.30 ~ 2.46		50,000		-
Working capital loan	Woori Bank	2.59		10,000		30,000
Working capital loan	Kookmin Bank	2.46		90,000		20,000
Working capital loan	NH Bank	-		-		40,000
Commercial paper	Samsung Securities	1.82		60,000		-
Commercial paper	Korea Investment & Securities	1.82		60,000		-
Commercial paper	KEB Hana Bank	-		-		50,000
Commercial paper	Shinhan Bank	-		-		50,000
Commercial paper	KTB Investment & Securities	-		-		60,000
			₩	280,000	₩	250,000

(2) Bonds payable

Details of bonds payable as at December 31, 2016 and 2015 are as follows (Korean won in millions):

Issuance number	Interest rate (%)	Maturity	Security	December 31,	
				2016	2015
253-2nd	-	2016-04-04	Unsecured	₩	₩ 140,000
254-2nd	-	2016-08-26	Unsecured	-	200,000
255-2nd	-	2016-12-15	Unsecured	-	200,000
256-2nd	3.78	2017-05-25	Unsecured	200,000	200,000
257-1st	3.21	2017-08-27	Unsecured	150,000	150,000
257-2nd	3.36	2019-08-27	Unsecured	100,000	100,000
258-1st	3.21	2017-10-19	Unsecured	100,000	100,000
258-2nd	3.35	2019-10-19	Unsecured	100,000	100,000
259-1st	-	2016-06-03	Unsecured	-	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
267th	-	2016-09-23	Unsecured	-	100,000
268th	-	2016-11-10	Unsecured	-	120,000
269-1st	3.82	2017-06-14	Unsecured	100,000	100,000
269-2nd	4.12	2019-06-14	Unsecured	150,000	150,000
270-1st	3.19	2017-11-02	Unsecured	100,000	100,000
270-2nd	3.39	2019-11-02	Unsecured	50,000	50,000
270-3rd	3.80	2022-11-02	Unsecured	50,000	50,000
271-1st	3.03	2018-02-27	Unsecured	100,000	100,000
271-2nd	3.34	2020-02-27	Unsecured	100,000	100,000
272-1st	-	2016-08-30	Unsecured	-	50,000
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

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13. Borrowings and bonds payable (cont'd)

Issuance number	Interest rate (%)	Maturity	Security	December 31, 2016	December 31, 2015
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	-
276-2nd	2.02	2021-03-07	Unsecured	120,000	-
276-3rd	2.26	2023-03-07	Unsecured	150,000	-
277-1st	1.70	2018-06-01	Unsecured	100,000	-
277-2nd	1.93	2021-06-01	Unsecured	120,000	-
277-3rd	2.16	2023-06-01	Unsecured	120,000	-
277-4th	2.43	2026-06-01	Unsecured	60,000	-
278-1st	1.49	2018-09-07	Unsecured	180,000	-
278-2nd	1.65	2021-09-07	Unsecured	110,000	-
278-3rd	1.80	2023-09-07	Unsecured	110,000	-
				5,410,000	5,120,000
				51,658	88,753
				(754,262)	(918,835)
				<u>₩ 4,707,396</u>	<u>₩ 4,289,918</u>

Addition: premium on bonds payable
Less: current portion

(3) The Company's bonds payable repayment schedule as at December 31, 2016 is as follows (Korean won in millions):

Year ending	Amount of repayment
December 31, 2017	₩ 750,000
December 31, 2018	1,050,000
December 31, 2019	980,000
December 31, 2020	880,000
December 31, 2021 and thereafter	1,750,000
	<u>₩ 5,410,000</u>

14. Provisions

Changes in provisions for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	For the year ended December 31, 2016			
	Beginning balance	Increase	Decrease	Ending balance
Provision for service warranties	₩ 4,620	₩ 7,406	₩ (6,742)	₩ 5,284
Provision for sale warranties	680	134	-	814
	<u>₩ 5,300</u>	<u>₩ 7,540</u>	<u>₩ (6,742)</u>	<u>₩ 6,098</u>
	For the year ended December 31, 2015			
	Beginning balance	Increase	Decrease	Ending balance
Provision for service warranties	₩ 4,539	₩ 7,355	₩ (7,274)	₩ 4,620
Provision for sale warranties	334	346	-	680
	<u>₩ 4,873</u>	<u>₩ 7,701</u>	<u>₩ (7,274)</u>	<u>₩ 5,300</u>

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

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15. Retirement benefit obligation

(1) Defined contribution plans

The Company partly operates a defined contribution plan for certain employees. The expenses related to the defined contributions plans recognized for the year ended December 31, 2016, were ₩14 million.

(2) Defined benefit plans

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

(3) Details of retirement benefit obligation as at December 31, 2016 and 2015 are as follows (Korean won in millions):

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Present value of defined benefit obligation	₩ 237,311	₩ 211,451
Fair value of plan assets	<u>(204,244)</u>	<u>(185,030)</u>
	<u>₩ 33,067</u>	<u>₩ 26,421</u>

(4) Changes in the retirement benefit obligation for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	<u>For the year ended December 31, 2016</u>		
	<u>Present value of defined benefit obligation</u>	<u>Fair value of plan assets</u>	<u>Total</u>
Beginning balance	₩ 211,451	₩ (185,030)	₩ 26,421
Provision for pension benefits:			
Current service cost	27,901	-	27,901
Net interest expense (income)	4,251	(3,900)	351
Remeasurement:			
Return on plan assets (excluding amounts included in net interest expense)	-	859	859
Actuarial changes arising from changes in demographic assumptions	-	-	-
Actuarial changes arising from changes in financial assumptions	(1,082)	-	(1,082)
Experience adjustments	4,524	-	4,524
Contributions by employer directly to plan assets	-	(21,537)	(21,537)
Benefit paid	(14,552)	6,571	(7,981)
Others	4,818	(1,207)	3,611
Ending balance	<u>₩ 237,311</u>	<u>₩ (204,244)</u>	<u>₩ 33,067</u>

	<u>For the year ended December 31, 2015</u>		
	<u>Present value of defined benefit obligation</u>	<u>Fair value of plan assets</u>	<u>Total</u>
Beginning balance	₩ 171,015	₩ (155,371)	₩ 15,644
Business combination	21,967	(5,077)	16,890
Provision for pension benefits:			
Current service cost	23,598	-	23,598
Net interest expense (income)	4,509	(3,539)	970
Remeasurement:			
Return on plan assets (excluding amounts included in net interest expense)	-	1,300	1,300
Actuarial changes arising from changes in demographic assumptions	5	-	5
Actuarial changes arising from changes in financial assumptions	(3,950)	-	(3,950)
Experience adjustments	7,120	-	7,120
Contributions paid into the plan	-	(44,440)	(44,440)
Benefit paid	(14,920)	24,264	9,344
Others	2,107	(2,167)	(60)
Ending balance	<u>₩ 211,451</u>	<u>₩ (185,030)</u>	<u>₩ 26,421</u>

15. Retirement benefit obligation (cont'd)

(5) The components of plan assets as at December 31, 2016 and 2015 are as follows (Korean won in millions):

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Debt instruments	₩ 44,518	₩ 32,373
Deposits and others	159,726	152,657
	<u>₩ 204,244</u>	<u>₩ 185,030</u>

(6) Principal actuarial assumptions

The principal assumptions used in actuarial calculation as at December 31, 2016 and 2015 are as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Discount rate for defined benefit obligations	2.55% ~ 2.68%	2.51% ~ 2.64%
Expected rate of salary increase	3.00% ~ 4.00%	3.00% ~ 4.00%

(7) The sensitivity analysis for significant actuarial assumptions as at December 31, 2016, is as follows (Korean won in millions):

	<u>Impact on the defined benefit obligation</u>		
	<u>Sensitivity level</u>	<u>Increase</u>	<u>Decrease</u>
Discount rate	0.5%	₩ (8,007)	₩ 8,526
Expected rate of salary increase	0.5%	8,402	(7,971)

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

16. Other assets and liabilities

(1) Details of other assets as at December 31, 2016 and 2015 are as follows (Korean won in millions):

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Current assets:		
Short-term loans	₩ 600	₩ 1,500
Accrued income	169	203
Advance payments	9,287	61,533
Prepaid expenses	7,852	9,267
Guarantee deposits	3,671	3,084
Derivative financial assets	1,094	42
Others	22	4
	<u>₩ 22,695</u>	<u>₩ 75,633</u>
Non-current assets:		
Long-term financial instruments	₩ 19	₩ 19
Long-term loans	-	181
Long-term guarantee deposits	16,763	19,449
Others	4,641	5,485
	<u>₩ 21,423</u>	<u>₩ 25,134</u>

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16. Other assets and liabilities (cont'd)

(2) Details of other liabilities as at December 31, 2016 and 2015 are as follows (Korean won in millions):

	<u>December 31, 2016</u>		<u>December 31, 2015</u>	
Current liabilities:				
Advance received	₩	55,028	₩	59,028
Withholdings		26,513		29,247
Income tax payable		22,721		21,610
Derivative financial liabilities		1,541		241
Others		74		-
	₩	<u>105,877</u>	₩	<u>110,126</u>
Non-current liabilities:				
Leasehold deposits received	₩	12,223	₩	12,425
Derivative financial liabilities		115		3
Others		4,942		4,597
	₩	<u>17,280</u>	₩	<u>17,025</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 December 31, 2016 and 2015 are as follows (Korean won in millions):

	<u>December 31, 2016</u>		<u>December 31, 2015</u>	
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
Forward contract	₩ 1,094	₩ 1,656	₩ 42	₩ 244

18. Equity

18.1 Issued capital

Details of issued capital as at December 31, 2016 and December 31, 2015 are as follows (Korean won in millions):

	<u>December 31, 2016</u>		<u>December 31, 2015</u>	
Number of shares authorized for issued		400,000,000		400,000,000
Par value per share (Korean won)	₩	200	₩	200
Number of shares issued:				
Ordinary share		70,360,297		70,360,297
Preferred share		566,135		566,135
Issued capital:				
Ordinary share	₩	15,272	₩	15,272
Preferred share		113		113
	₩	<u>15,385</u>	₩	<u>15,385</u>

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

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18.2 Other paid-in capital

Details of other paid-in capital as at December 31, 2016 and December 31, 2015 are as follows (Korean won in millions):

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Paid-in surplus (*1)	₩ 5,605,831	₩ 5,605,831
Treasury shares (*2)	(904,490)	(904,490)
Others	17,711	17,711
	<u>₩ 4,719,052</u>	<u>₩ 4,719,052</u>

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

(*2) As at December 31, 2016, 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 previous reporting period. There are no additional acquisitions or disposals during the current period.

18.3 Retained earnings

Details of retained earnings as at December 31, 2016 and 2015 are as follows (Korean won in millions):

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Legal reserve (*1)	₩ 7,693	₩ 5,100
Voluntary reserve	80,896	102,563
Unappropriated retained earnings	7,094,634	6,628,876
	<u>₩ 7,183,223</u>	<u>₩ 6,736,539</u>

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

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18.4 Statements of appropriation of retained earnings

The statements of appropriation of retained earnings for the years ended December 31, 2016 and 2015, are as follows (Korean won in millions):

	For the years ended	
	December 31, 2016	December 31, 2015
I. Unappropriated retained earnings	₩ 7,094,634	₩ 6,628,876
Unappropriated retained earnings carried over from prior years	6,456,200	1,447,213
Net income	641,694	5,821,064
Remeasurement loss on defined benefit plans	(3,260)	(3,391)
Retirement of treasury shares	-	(636,010)
II. Transfer from voluntary reserves	9,333	21,667
III. Appropriation of retained earnings	208,666	194,343
Dividends	208,666	191,750
Legal reserve	-	2,593
IV. Unappropriated retained earnings to be carried forward to the next year	₩ 6,895,301	₩ 6,456,200

18.5 Other capital components

Details of other capital components as at December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016	December 31, 2015
Gain on available-for-sale financial assets	₩ 8,041	₩ 10,701

19. Dividends

(1) Details of dividends proposed for approval at the annual ordinary shareholders' meeting for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	For the years ended			
	December 31, 2016		December 31, 2015	
	Ordinary share	Preferred share	Ordinary share	Preferred share
Number of shares (*1)	55,824,357	564,317	55,824,357	564,317
Par value per share (Korean won)	₩ 200	₩ 200	₩ 200	₩ 200
Dividend rate	1,850%	1,875%	1,700%	1,725%
Dividends	₩ 206,550	₩ 2,116	₩ 189,803	₩ 1,947

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

(2) Details of calculation of dividend payout ratio for the years ended December 31, 2016 and 2015, are as follows (Korean won in millions):

	For the years ended	
	December 31, 2016	December 31, 2015
Dividends	₩ 208,666	₩ 191,750
Net income	641,694	5,821,064
Dividend payout ratio	32.52%	3.29%

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19. Dividends (cont'd)

(3) Details of calculation of dividend yield ratio for the years ended December 31, 2016 and 2015, are as follows (Korean won):

	For the years ended			
	December 31, 2016		December 31, 2015	
	Ordinary share	Preferred share	Ordinary share	Preferred share
Dividend per share	₩ 3,700	₩ 3,750	₩ 3,400	₩ 3,450
Last price	229,500	137,000	240,500	151,500
Dividend yield ratio	1.61%	2.74%	1.41%	2.28%

20. Operating revenues

Details of operating revenues for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	For the years ended	
	December 31, 2016	December 31, 2015
IT Service	₩ 1,452,177	₩ 1,278,223
Used car distribution	814,886	663,286
Dividend income	596,622	772
Trademark usage income	203,664	98,904
Rental income	46,370	23,847
	<u>₩ 3,113,719</u>	<u>₩ 2,065,032</u>

(*1) Includes contract revenue of ₩ 404,160 million and ₩ 332,035 million recognized from construction contract for the years ended December 31, 2016 and 2015, respectively.

(2) Details of accumulated cost, accumulated profit, unbilled receivables, overbilled receivables related to construction contracts in progress as at December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016	December 31, 2015
Accumulated cost and profit	₩ 307,039	₩ 251,195
Progress billings	248,995	232,504
Unbilled receivables (trade accounts receivable)	70,468	37,238
Overbilled receivables (advance receipts)	12,424	18,547

(3) Details of construction profit variation by changes of accounting estimates related to construction contracts as at December 31, 2016 are as follows (Korean won in millions):

	Change in estimated construction revenue	Change in in estimated cost	Impact on current period profit (loss)	Impact on future period profit (loss)
Construction contracts (*1)	₩ 9,962	₩ 9,820	₩ 164	₩ (22)

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

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

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20. Operating revenues (cont'd)

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

21. Operating expenses

Details of operating expenses for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	For the years ended	
	December 31, 2016	December 31, 2015
Material costs	₩ 989,820	₩ 775,027
Outsourcing costs	561,234	441,003
Salaries	324,047	284,291
Provision for pension benefits	27,293	26,617
Depreciation	44,690	33,587
Amortization	6,097	5,373
Rents	47,218	27,070
Communications	22,617	23,625
Employee welfare benefits	53,070	49,110
Commissions	30,645	28,796
Advertising	44,128	28,805
Education and training	15,709	10,357
Research and development	22,785	12,335
Office management	33,323	27,524
Travel	14,326	11,486
Others	30,344	27,308
	<u>₩ 2,267,346</u>	<u>₩ 1,812,314</u>

22. Expenses classified based on nature of expense

Details of classification based on nature of expenses for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	For the years ended	
	December 31, 2016	December 31, 2015
Material costs	₩ 990,813	₩ 775,436
Outsourcing costs	563,797	443,522
Salaries	332,525	285,207
Provision for pension benefits	28,266	26,977
Depreciation and amortization	58,167	52,281
Rents	47,447	27,077
Communications	22,621	23,629
Employee welfare benefits	54,556	49,637
Commissions	31,016	28,797
Education and training	16,009	10,440
Office management	33,330	27,527
Travel	14,549	11,499
Others	74,250	50,285
	<u>₩ 2,267,346</u>	<u>₩ 1,812,314</u>

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

23.1 Financial income and costs

Details of financial income and costs for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	For the years ended	
	December 31, 2016	December 31, 2015
Financial income:		
Interest income	₩ 3,851	₩ 4,604
Gain on foreign currency transactions	4,793	2,002
Gain on foreign currency translation	1,453	1,265
Gain on valuation of derivative instruments	6,224	1,260
Gain on transactions of derivative instruments	1,221	704
	<u>₩ 17,542</u>	<u>₩ 9,295</u>

	For the years ended	
	December 31, 2016	December 31, 2015
Financial costs:		
Interest expenses	₩ 145,932	₩ 92,096
Loss on foreign currency transactions	5,773	3,267
Loss on foreign currency translation	1,056	793
Loss on valuation of derivative instruments	6,138	1,118
Loss on transactions of derivative instruments	1,668	965
	<u>₩ 160,567</u>	<u>₩ 98,239</u>

23.2 Other non-operating income and expenses

Details of other non-operating income and expenses for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	For the years ended	
	December 31, 2016	December 31, 2015
Other non-operating income:		
Dividends income	₩ 1,200	₩ 60,219
Gain on disposal of available-for-sale financial assets	131	114
Gain on disposal of investments in associates	1,320	2,039,256
Gain on disposal of investments in subsidiaries	306	88,437
Gain on disposal of property, plant and equipment	43	152
Gain on disposal of intangible assets	198	300
Gain on bargain purchase	-	4,117,255
Others	909	3,693
	<u>₩ 4,107</u>	<u>₩ 6,309,426</u>
Other non-operating expenses:		
Loss on disposal of available-for-sale financial assets	₩ 13	₩ 102,108
Impairment of available-for-sale financial assets	-	2,848
Loss on disposal of investments in subsidiaries	2,579	-
Loss on disposal of property, plant and equipment	154	144
Loss on disposal of intangible assets	464	1,088
Impairment of intangible assets	2,688	4,939
Donations	15,768	7,214
Others	1,841	3,876
	<u>₩ 23,507</u>	<u>₩ 122,217</u>

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24. Income taxes

(1) Components of income tax expense for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	For the years ended	
	December 31, 2016	December 31, 2015
Current income tax	₩ 44,990	₩ 69,805
Deferred income tax	(4,626)	(362,473)
Deferred tax charged directly to the equity:		
Net gain on available-for-sale financial assets	849	6,131
Remeasurement loss on defined benefits plans	1,041	1,083
Paid-in surplus	-	815,373
Income tax expense	₩ 42,254	₩ 529,919

(2) A reconciliation of income before income tax at the Korea statutory tax rate to income tax expense at the effective income tax rate of the Company for the years ended December 31, 2016 and 2015 is as follows (Korean won in millions):

	For the years ended	
	December 31, 2016	December 31, 2015
Income before income tax expense	₩ 683,948	₩ 6,350,983
Income tax at statutory income tax rate (*1)	165,049	1,532,098
Adjustments:		
Non-taxable revenue	(114,572)	(6,760)
Non-deductible expenses	2,158	1,322
Tax credit	(404)	(521)
Unrecognized deferred income tax	(2,468)	(835)
Tax effects of the business combinations	-	(996,376)
Tax effects of the consolidated tax return	(8,226)	-
Adjustments in respect of current income tax of prior year	577	19
Others	140	972
	(122,795)	(1,002,179)
Income tax expense	₩ 42,254	₩ 529,919
Effective tax rate	6.18%	8.34%

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

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24. Income taxes (cont'd)

(3) Changes in deferred income tax assets (liabilities) for the years ended December 31, 2016 and 2015, are as follows (Korean won in millions):

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

	For the year ended December 31, 2015				
	Beginning balance	Business combination	Recognized in profit or loss	Recognized directly in equity	Ending balance
Provisions	₩ 1,179	₩ -	₩ 199	₩ -	₩ 1,378
Investments in associates and subsidiaries	266,115	13,983	(246,938)	-	33,160
Advanced depreciation provision	(418,108)	-	400,275	-	(17,833)
R&D reserve	(9,599)	-	5,243	-	(4,356)
Available-for-sale financial assets	(10,147)	8,200	(756)	6,131	3,428
Depreciation	1,084	(1,955)	(928)	-	(1,799)
Deemed cost of land and buildings	(25,280)	(2,735)	544	-	(27,471)
Accrued bonuses and others	11,258	-	1,356	-	12,614
Retirement benefit obligation	901	3,383	(3,938)	1,083	1,429
Treasury shares	-	-	(644,281)	815,373	171,092
Intangible assets	-	(476,902)	-	-	(476,902)
Bonds payable	-	28,689	-	-	28,689
Others	4,557	(25,502)	29,111	-	8,166
	₩ (178,040)	₩ (452,839)	₩ (460,113)	₩ 822,587	₩ (268,405)

(4) Details of temporary differences for which no deferred tax assets (liabilities) were recognized as at December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016	December 31, 2015
Taxable temporary differences:		
Investments in subsidiaries and others	₩ 5,185,937	₩ 5,180,462
Gain on transfer for investment in kind	90,687	90,687
Goodwill	4,639	4,639
Deductible temporary difference:		
Investments in subsidiaries and others	(671,884)	(676,636)
	₩ 4,609,379	₩ 4,599,152

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25. Earnings per share

(1) Basic earnings per share for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions, except per share information):

	For the years ended	
	December 31, 2016	December 31, 2015
Net income	₩ 641,694	₩ 5,821,064
Less : Preferred share dividends	(2,116)	(1,947)
Net income attributable to ordinary share owners of the Company	639,578	5,819,117
Weighted-average number of issued shares outstanding (*1)	55,824,357	49,517,825
Basic earnings per share (Korean won)	₩ 11,457	₩ 117,516

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

(2) The weighted-average number of issued shares outstanding for the years ended December 31, 2016 and 2015 are as follows:

	For the years ended	
	December 31, 2016	December 31, 2015
Weighted-average number of shares outstanding	70,360,297	56,900,727
Weighted-average number of treasury shares	(14,535,940)	(7,382,902)
Weighted-average number of issued shares outstanding	55,824,357	49,517,825

26. Transactions with related parties

Details of significant transactions with related parties for the years ended December 31, 2016 and 2015, and significant balances with related parties as at December 31, 2016 and 2015 are as follows (Korean won in millions):

(1) The subsidiaries of the Company as at December 31, 2016, are as follows:

Ultimate controlling party	Subsidiary
Tae-won, Chey and related parties	
Subsidiary (total 290)	SK Innovation Co., Ltd., SK Energy Co.,Ltd., Netruck Co., Ltd., Jeju United FC Corporation, SK Energy Road Investment Co., Ltd., SK Energy Road Investment (HK) Co., Ltd., Ningbo SK Baoying Asphalt Storage Co., Ltd., Hefei SK Baoying Asphalt Co., Ltd., Chongqing SK Asphalt Co., Ltd., SK Shanghai Asphalt Co., Ltd., SK Energy Hong Kong Co., Ltd., Shandong SK Hightech Oil Co., Ltd., SK Global Chemical Co., Ltd., SK Global Chemical (China) Holding Co., Ltd., SK Global Chemical International Trading (Shanghai) Co., Ltd., SK Golden Tide Plastics (Yantai) Co., Ltd., SK Global Chemical International Trading (Guangzhou) Co., Ltd., Shanghai Huayou Internaional Freight Forwarding Co., Ltd., SK Global Chemical Americas, Inc., SK Global Chemical Japan Co., Ltd., SK Global Chemical Singapore Pte. Ltd., SK Global Chemical Investment Hong Kong Ltd., Ningbo SK Performance Rubber Co., Ltd., SK Incheon Petrochem Co., Ltd., SK Trading International Co., Ltd., SK Energy International Pte. Ltd., SK Energy Europe, Ltd., SK Energy Americas, Inc., SK Terminal B.V., Bergaya International Pte. Ltd., MOKGAM SERVICE, SK Lubricants Co., Ltd., Yubase Manufacturing Asia Corporation, SK Energy Lubricants (Tianjin) Co., Ltd., PT. Patra SK, SK Lubricants & Oils India Private Limited, SK Lubricants Americas, Inc., SK Lubricants Europe B.V., SK Lubricants Japan Co., Ltd., Iberian Lube Base Oils S.A., SK Lubricants Russia LLC, SK Mobile Energy Co., Ltd., SK Innovation Insurance (Bermuda), Ltd., SK USA, Inc., SK Energy Australia (Togara) Pty. Ltd., Moche Energy Company, LLC, SK E&P Company, SK E&P America, Inc., SK Plymouth, LLC, SK Permian, LLC, SK Battery Systems Co., Ltd., SK Telecom Co., Ltd., SK Telink Co., Ltd., SK Broadband Co., Ltd., PS&Marketing Corp., Serviceace Co., Ltd., Service Top Co., Ltd., Networkons Co., Ltd., Neosnetworks Co., Ltd., SK techx Co.,Ltd., One store Co., Ltd., HelloNature Co., Ltd.,

26. Transactions with related parties (cont'd)

Subsidiary (total 290)	Subsidiary
	SK Planet Co., Ltd., M&SERVICE Co., Ltd., SK Communications Co., Ltd., Stonebridge Cinema Fund, K-Net Culture & Contents Venture Fund, SK Planet Japan, K. K., SK Planet Global Pte. Ltd., SKP America LLC, shopkick Management Company, Inc., shopkick, Inc., SKP Global Holdings Pte. Ltd., SK Telecom China Holding Co., Ltd., SK Global Healthcare Business Company., Ltd., SKT Vietnam Pte. Ltd., SKT Americas Inc., YTK Investment Ltd., Atlas Investment Ltd., Technology Innovation Partners, L.P., SK Telecom China Fund I L.P., IRIVER LIMITED, iriver Inc., iriver Enterprise Ltd., iriver China Co., Ltd., Dongguan iriver Electronics Co., Ltd., Groovers JP Ltd., ENTRIX Co., Ltd., Planet11 E-commerce Solutions India Pvt. Ltd., 11street (Thailand) Co., Ltd., SK Networks Co., Ltd., SK Networks Service Co., Ltd., SK Pinx Co., Ltd., Car Life Service Co., Ltd. (formerly, Speed Motors Co., Ltd.), SKN (China) Holdings Co., Ltd., SK Networks (China) Fashion Co., Ltd., Liaoning SK Networks Real Estate Development Co., Ltd., Shenyang SK Bus Terminal Co., Ltd., Liaoning SK Networks Logistics Co., Ltd., Dandong SK Networks Energy Co., Ltd., Shenyang SK Networks Energy Co., Ltd., SK (GZ FreeZone) Co., Ltd., SK Networks (Shanghai) Co., Ltd., POSK (Pinghu) Steel Processing Center Co., Ltd., SK Networks Hong Kong Ltd., SK (Guangzhou) Metal Co., Ltd., SK Networks (Xiamen) Steel Processing Center Co., Ltd., SK Auto Service Hong Kong Co., Ltd., SK (Shenyang) auto rental Co., Ltd., SK (Beijing) auto rental Co., Ltd., SK Rent-A-Car (Qingdao) Co., Ltd., SK Networks Japan Co., Ltd., Obzee N.Y. Inc., SK Networks Deutschland GmbH, Daiyang SK Networks SAN. VE TIC. Ltd. STI, SK Networks Resources Australia Pty. Ltd., SK Magic Inc., Magic Service.Co.,Ltd., SKC Co., Ltd., SK Telesys Co., Ltd., SK Airgas Co., Ltd.(formerly, SKC 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.(formerly, Bioland Co., Ltd.), Bioland Biotec Co., Ltd., Bioland Haimen Co., Ltd., SE (JIANGSU) Electronic Materials Co., Ltd., Techdream Co., Ltd., SKC INFRA SERVICE Co., Ltd., SK Shipping Co., Ltd., GaSan 2nd L.L.C, BLUESEAOCEAN 1ST L.L.C, BLUESEAOCEAN 2ND L.L.C, With Ocean L.L.C, YUKYUNG 1ST L.L.C, SK Shipping Hongkong Ltd., SK Shipping Singapore Pte. Ltd., SK B&T Pte. Ltd., Promise Shipholding S.A. and 63 other companies, SK Shipping Europe Plc., SK E&S Co., Ltd., Kangwon City Gas Co., Ltd., Yeongnam energy service Co., Ltd., Ko-one energy service Co., Ltd., Narae energy service Co., Ltd., Pusan City Gas Co., Ltd., Jeonbuk Energy Service Co., Ltd., Chonnam City Gas Co., Ltd., Chungcheong energy service Co., Ltd., Paju Energy Service Co., Ltd.(formerly, PMP Co., Ltd.), Wirye energy service Co., Ltd., SK E&S Hong Kong Co., Ltd., SK E&S Australia Pty. Ltd., SK E&S Americas, Inc., SK E&S LNG, LLC, DewBlaine Energy, LLC, CAILIP Gas Marketing, LLC, SK LNG Trading Pte. Ltd., PT SK E&S Nusantara, Fajar Energy International Pte. Ltd., SK Engineering & Construction Co., Ltd., Seosuwon Development Company, SK TNS Co., Ltd., SKEC Nanjing Co., Ltd., SKEC (Thai), Ltd., Thai Woo Ree Engineering Co., Ltd., SKEC Anadolu, LLC, SK E&C Betek Corporation, Mesa Verde RE Ventures, LLC, N-Compass Development, LLC, SKEC Consultores Ecquador, S.A., Sunlake Co., Ltd., SK E&C India Pvt. Ltd., SK HOLDCO PTE. LTD., SK Materials Co., Ltd., SK Materials Japan Co., Ltd., SK Materials Taiwan Co., Ltd., SK Materials (Jiangsu) Co., Ltd., SK Materials (Xian) Co., Ltd., SK Tri chem Co., Ltd., SK Infosec Co., Ltd., SK ENCARSALSALES.COM., Ltd., SK C&C Beijing Co., Ltd., SK C&C Chengdu Co., Ltd., SK C&C India Pvt. Ltd., SK MENA B.V., SK S.E.Asia Pte. Ltd., ESSENCORE Limited, ISD Technology (ShenZhen) Limited, S&G Technology, SK Biopharmaceuticals Co., Ltd., SK Biotek Co., Ltd., SK Life Science, Inc., SK China Company, Ltd., SK China (Beijing) Co., Ltd., SK Beijing Investment Management Ltd., SKY Property Mgmt (Beijing) Co., Ltd., SK Bio Energy HongKong Co., Ltd., SK Property Investment Management Co., Ltd., SK Industrial Development China Co., Ltd., Shanghai SKY Real Estate Development Co., Ltd., SK International Supply Chain Management Co., Ltd., Ningde Sky Beverage Co., Ltd., SK China Investment Management Co., Ltd., SK International Agro-Products Logistics Development Co., Ltd., SKY Property Management Ltd., SKY Investment Co., Ltd., SK China Real Estate Co., Ltd., SK China Creative Industry Development Co., Ltd., Gemini Partners Pte. Ltd., Solaris Partners Pte. Ltd., Beijing SK Magellan Capital Advisors Co., Ltd., SK GI Management, SK MENA Investment B.V., SK Latin Investment Americas S.A., SK Technology Innovation Company, HAPPYNARAE Co., Ltd., Suzhou HAPPYNARAE Co., Ltd., SK Forest Co., Ltd., FSK L&S Co., Ltd., Saturn Agriculture Investment Co., Ltd.

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26. Transactions with related parties (cont'd)

(2) Details of transactions with the related parties for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

Subsidiary	Company name	Sales (*1)		Purchase (*2)	
		For the years ended December 31,		For the years ended December 31,	
		2016	2015	2016	2015
	SK Innovation Co., Ltd.	₩ 212,757	₩ 40,365	₩ 4,074	₩ 1,219
	SK Biopharmaceuticals Co., Ltd.	1,594	2,246	-	-
	SK M & SERVICE Co., Ltd. (formerly, M & SERVICE Co., Ltd.)	1,257	603	1,507	652
	Jeju United FC Corporation	127	126	-	-
	SK Lubricants Co., Ltd.	14,918	6,881	-	116
	SK Energy Co., Ltd.	83,690	64,077	2	20
	SK Global Chemical Co., Ltd.	26,905	20,225	-	-
	SK Incheon Petrochem Co., Ltd.	17,813	9,889	-	-
	SK Trading International Co., Ltd.	4,736	2,346	-	-
	SK BIOTEK Co., Ltd.	1,118	630	-	-
	SK USA, Inc.	-	-	1,360	695
	SK Engineering & Construction Co., Ltd.	32,475	24,192	53	7,526
	SK TNS Co., Ltd.	1,009	323	-	-
	SK Forest Co., Ltd.	135	68	2,114	4,237
	SKC Co., Ltd.	21,035	9,101	-	-
	SK Telesys Co., Ltd.	1,590	1,064	-	-
	SK Mobile Energy Co., Ltd.	275	321	776	-
	SKC Solmics Co., Ltd.	326	165	-	-
	SK E&S Co., Ltd.	231,483	36,793	-	-
	Kangwon City Gas Co., Ltd.	350	346	-	-
	Yeongnam energy service Co., Ltd.	1,459	1,012	-	7
	Ko-one energy service Co., Ltd.	1,556	964	101	129
	Pusan City Gas Co., Ltd.	1,770	1,497	-	-
	Jeonbuk Energy Service Co., Ltd.	251	267	-	-
	Chonnam City Gas Co., Ltd.	424	478	-	-
	Chungcheong energy service Co., Ltd.	703	649	-	-
	SK Infosec Co., Ltd.	4,760	3,285	16,304	11,470
	SK ENCARSALES.COM., Ltd.	4,302	2,819	1,342	2,284
	SK C&C Beijing Co., Ltd.	940	1,018	7,753	7,515
	ESSENCORE Limited	2,535	1,334	-	-
	SK Networks Co., Ltd.	65,951	48,566	16,727	12,790
	HAPPYNARAE Co., Ltd.	426	54	3,351	1,190
	SK Networks Service Co., Ltd.	1,984	1,477	2,513	1,318
	SK Pinx Co., Ltd.	55	38	1,405	194
	SK Shipping Co., Ltd.	6,349	4,724	-	-
	SK Telecom Co., Ltd.	646,817	409,634	11,670	10,107
	SK Telink Co., Ltd.	4,033	4,543	325	550
	SK Communications Co., Ltd.	392	255	-	-
	Commerce Planet Co., Ltd.	19	403	-	-
	SK techx Co., Ltd.	27,571	-	6	-
	SK Broadband Co., Ltd.	139,774	105,707	9,100	10,059
	PS&Marketing Corp.	3,535	3,859	1,007	454
	Serviceace Co., Ltd.	368	248	-	-
	Service Top Co., Ltd.	364	246	-	-
	Networkons Co., Ltd.	1,351	1,842	-	-
	SK Planet Co., Ltd.	61,325	62,690	1,626	4,795
	SK Materials Co., Ltd.	3,199	-	-	-
	Others	2,901	855	52	51
Others	SK Holdings Co., Ltd.	-	40,219	-	2,338
	Hana Land Chip PEF 33	3,360	-	34,377	14,957
	Netruck Corporation	117	-	-	-
	SK D&D Co., Ltd.	477	145	-	-
	Mitsui Chemicals & SKC Polyurethanes Inc.	1,038	492	-	-
	SK Securities Co., Ltd.	23,116	9,700	10	-
	SK Gas Co., Ltd.	8,238	4,201	6	-
	SK Advanced Co., Ltd.	1,008	1,930	-	-
	DONGBU POWER DANGJIN CORPORATION	81	174	-	-
	SK Chemicals Co., Ltd.	5,817	2,560	-	-
	Mobile TCS Co., Ltd.	755	190	-	-
	SK WYVERNS Co., Ltd.	46	16	500	500
	Konan Technology	-	-	151	104
	SK hynix Inc.	234,228	110,506	270	108

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26. Transactions with related parties (cont'd)

Subsidiary	Company name	Sales (*1)		Purchase (*2)	
		For the years ended December 31,		For the years ended December 31,	
		2016	2015	2016	2015
	SK hystec. Inc.	₩ 456	₩ 175	₩ 382	₩ 82
	SK hyeng Inc.	312	117	213	9
	SK hynix Semiconductor (China) Ltd.	28,233	-	72	-
	Others	4,970	3,686	26	160
		<u>₩ 1,950,959</u>	<u>₩ 1,052,336</u>	<u>₩ 119,175</u>	<u>₩ 95,636</u>

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

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

(3) Details of outstanding balances of receivables and payables with the related parties as at December 31, 2016 and 2015 are as follows (Korean won in millions):

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

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26. Transactions with related parties (cont'd)

		December 31, 2015					
		Receivables			Payables		
		Trade	Other	Total	Trade	Other	Total
Subsidiary	Company name	receivables	receivables		payables	payables	
	SK Innovation Co., Ltd.	₩ 12,087	₩ 159	₩ 12,246	₩ 187	₩ 5,460	₩ 5,647
	SK M&SERIVCE Co., Ltd. (formerly, M&SERVICE Co., Ltd.)	41	-	41	65	220	285
	SK Lubricants Co., Ltd.	807	-	807	-	1,561	1,561
	SK Energy Co., Ltd.	7,121	-	7,121	-	6,064	6,064
	SK Global Chemical Co., Ltd.	1,940	-	1,940	-	2,933	2,933
	SK Incheon Petrochem Co., Ltd.	923	-	923	-	1,047	1,047
	SK Trading International Co., Ltd.	367	-	367	-	1,122	1,122
	SK Battery Systems Co., Ltd.	178	-	178	-	-	-
	SK USA, Inc.	-	-	-	-	357	357
	SK Engineering & Construction Co., Ltd.	7,257	-	7,257	-	1,254	1,254
	SK Forest Co., Ltd.	11	290	301	-	997	997
	SKC Co., Ltd.	1,591	-	1,591	-	-	-
	SK Telesys Co., Ltd.	1,322	-	1,322	-	59	59
	SK E&S Co., Ltd.	1,641	-	1,641	-	-	-
	BUSAN CITY GAS Co., Ltd.	531	-	531	-	-	-
	Chungcheong energy service Co., Ltd.	101	-	101	-	-	-
	SK Infosec Co., Ltd.	1,153	-	1,153	5,019	1,124	6,143
	SK ENCARSALSALES.COM., Ltd.	3	5,776	5,779	-	-	-
	SK C&C Beijing Co., Ltd.	577	-	577	673	6	679
	ESSENCORE Limited	688	297	985	-	19	19
	SK Networks Co., Ltd.	4,129	70	4,199	-	1,321	1,321
	Happynarae Co., Ltd.	1	-	1	37	134	171
	SK Networks Service Co., Ltd.	65	-	65	411	144	555
	SK Shipping Co., Ltd.	614	-	614	-	-	-
	SK Telecom Co., Ltd.	107,677	342	108,019	696	695	1,391
	SK Telink Co., Ltd.	434	-	434	6	40	46
	SK Broadband Co., Ltd.	35,200	-	35,200	-	3,204	3,204
	PS&Marketing Corp.	1,880	-	1,880	-	-	-
	Networkons Co., Ltd.	956	-	956	-	-	-
	SK Planet Co., Ltd.	13,467	90	13,557	-	81	81
	Others	494	23	517	12	106	118
Others	Hana Land Chip PEF 33	-	5,727	5,727	-	-	-
	SK Securities co., Ltd.	3,018	-	3,018	-	-	-
	SK Gas Co., Ltd.	954	-	954	-	-	-
	SK Advanced Co., Ltd.	177	-	177	-	-	-
	DONGBU POWER DANGJIN CORPORATION	164	-	164	-	-	-
	SK Chemicals Co., Ltd.	1,367	-	1,367	-	-	-
	HUVIS Co., Ltd.	970	-	970	-	-	-
	Hana Card Co., Ltd.	2,869	-	2,869	-	7	7
	SK hynix Inc.	100,512	-	100,512	-	6,263	6,263
	Others	660	-	660	21	40	61
		<u>₩ 313,947</u>	<u>₩ 12,774</u>	<u>₩326,721</u>	<u>₩ 7,127</u>	<u>₩ 34,258</u>	<u>₩ 41,385</u>

(4) Compensation for key management personnel of the Company for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	For the years ended	
	December 31, 2016	December 31, 2015
Salaries	₩ 4,610	₩ 1,588
Provision for pension benefits	475	211
	<u>₩ 5,085</u>	<u>₩ 1,799</u>

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

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26. Transactions with related parties (cont'd)

(5) Details of significant transactions with related parties in relation to the investments for the year ended December 31, 2016 are as follows (Korean won in millions):

	<u>Amount</u>	<u>Transactions</u>
SK Biopharmaceuticals Co., Ltd.	₩ 123,800	Acquisition of shares of SK BIOTEK Co., Ltd.
SK BIOTEK Co., Ltd.	40,000	Share capital increase
	<u>₩ 163,800</u>	

(6) Guarantees provided to related parties are described in Note 28.

27. Cash flow information

(1) Details of non-cash adjustments for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	<u>For the years ended</u>	
	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Provision for pension benefits	₩ 28,252	₩ 24,568
Depreciation	45,681	41,631
Depreciation of investment property	426	178
(Reversal of) valuation loss on inventories	15	(312)
Amortization	12,060	10,472
Bad debt expenses	966	1,019
Outsourcing fees (provision for service warranties)	7,540	7,701
Interest expenses	145,932	92,096
Loss on foreign currency translation	1,056	793
Loss on valuation of derivative instruments	6,138	1,118
Loss on disposal of available-for-sale financial assets	13	102,108
Loss on impairment of available-for-sale financial assets	-	2,848
Loss on disposal of investments in subsidiaries	2,579	-
Loss on disposal of property, plant and equipment	154	144
Loss on disposal of intangible assets	464	1,088
Loss on impairment of intangible assets	2,688	4,939
Income tax expense	42,254	529,919
Reversal of service warranties	(717)	(586)
Dividends income	(597,822)	(60,991)
Interest income	(3,851)	(4,064)
Gain on foreign currency translation	(1,453)	(1,265)
Gain on valuation of derivative instruments	(6,224)	(1,260)
Gain on disposal of available-for-sale financial assets	(131)	(114)
Gain on disposal of investments in associates	(1,320)	(2,039,256)
Gain on disposal of investments in subsidiaries	(306)	(88,437)
Gain on disposal of property, plant and equipment	(43)	(152)
Gain on disposal of intangible assets	(198)	(300)
Gain on bargain purchase	-	(4,117,255)
Others	54	(1,188)
	<u>₩ (315,793)</u>	<u>₩ (5,494,558)</u>

SK HOLDINGS CO., LTD.
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27. Cash flow information (cont'd)

(2) Details of working capital adjustments for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	For the years ended	
	December 31, 2016	December 31, 2015
Trade accounts receivable	₩ (50,452)	₩ 536
Other accounts receivable	1,735	7,252
Accrued income	(7)	9
Inventories	(15,397)	(6,652)
Advance payments	(6,614)	(59,732)
Prepaid expenses	2,116	(55)
Trade accounts payable	46,215	(45,822)
Other accounts payable	8,328	6,319
Accrued expenses	901	15,194
Advance received	(4,000)	8,449
Withholdings	(2,735)	1,745
Leasehold deposits received	(202)	2,749
Provision for service warranties	(6,024)	(6,688)
Retirement benefit obligation	(9,734)	(12,813)
Plan assets	(16,173)	(32,759)
Others	789	(115)
	<u>₩ (51,254)</u>	<u>₩ (122,383)</u>

(3) Details of significant non-cash transactions for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	For the years ended	
	December 31, 2016	December 31, 2015
Transfer of construction-in-progress to depreciable assets	₩ 89,475	₩ 8
Transfer of long-term bonds payable to current-portion	758,139	670,000
Issuance of ordinary shares from business combination	-	5,611,216
Reclassification of investments in subsidiaries	215	333,624
Acquisitions of available-for-sale financial assets	114	90,790
Transfer of advance payments to investments in associates	58,860	-
Accounts payable regarding the acquisition of property, plant and equipment and intangible assets	8,654	-

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28. Commitments and contingencies

(1) Guarantees provided by financial institutions for the Company's obligations and indebtedness as at December 31, 2016 and 2015 are as follows (Korean won in millions, and EUR, USD, AED and VND in thousands):

Financial institutions	Type	Commitments		Use	
		Currency	Amount	Currency	Amount
Industrial and commercial bank of China	General loan	KRW	100,000	-	-
KEB Hana Bank	Line of credit	USD	11,400	EUR	1,750
	Guarantee of foreign currency payment	USD	1,000	USD	241
	Other guarantee of Foreign currency management (*1)	USD	13,900	AED	205
				VND	33,323,445
Shinhan Bank	General loan	KRW	150,000	KRW	10,000
	Bank overdraft	KRW	1,000	-	-
	General loan	KRW	300,000	KRW	50,000
	Note discount	KRW	90,000	-	-
S.C. Bank	Guarantee of foreign currency payment	USD	2,000	-	-
	Line of credit	USD	10,000	-	-
	General loan	KRW	19,700	-	-
NH Bank	Guarantee of foreign currency payment	USD	300	-	-
	General loan	KRW	75,000	-	-
Woori Bank	Line of credit and guarantee of foreign currency payment	USD	10,000	-	-
	General loan	KRW	270,000	-	-
Korea Development Bank	Guarantee of foreign currency payment	USD	24,041	USD	24,041
	General loan	KRW	10,000	-	-
Kookmin Bank	General loan	KRW	280,000	KRW	90,000

(*1) The limit of USD 20,000,000 is comprehensive agreement limit.

(2) Guarantees provided by others for the Company's obligations and indebtedness as at December 31, 2016 and 2015 are as follows (Korean won in millions, and USD and VND in thousands):

	Currency	December 31, 2016	December 31, 2015
Seoul Guarantee Insurance	KRW	1,943	1,753
Korea Software Financial Cooperative	KRW	355,006	403,904
The Export-Import Bank of Korea	USD	2,659	2,841
Korea Trade Insurance Corporation	USD	6,587	6,820
Korea Trade Insurance Corporation	VND	90,113,661	96,845,147

(3) Pending litigation

Details of significant pending litigations as at December 31, 2016 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	₩ 2,831	Second trial in progress
	Defense Acquisition Program administration Company	Company	Claim for damages	\$ 19,673	First trial in progress
Plaintiff	Company	Samsung Card Co., Ltd.	Claim for damages	₩ 5,564	Second trial in progress

As at December 31, 2016, the Company is unable to determine the ultimate outcomes of the above litigations.

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28. Commitments and contingencies (cont'd)

(4) The assets pledged as collateral for the Company's guarantee of implementation of the agreement as at December 31, 2016 are as follows (Korean won in millions):

	Book value	Collateralized amount	Reason for collateral	Collateral beneficiary
Land and buildings	₩ 9,509	₩ 1,700	Guarantee of implementation of the agreement	RCI Financial Service Korea

(5) Deposits restricted for the use as at December 31, 2016 and 2015 are as follows (Korean won in millions):

	December 31, 2016	December 31, 2015	Reason for restriction
Short-term financial instruments	₩ 13,320	₩ 13,000	Refund guarantee and others
Available-for-sale financial assets	2,152	1,500	Refund guarantee and others
Long-term financial instruments	19	19	Collateral for bank overdraft

(6) Significant commitments

- 1) HPEIK V SGPS LDA participated in new share issue of SK Shipping Co., Ltd. in the amount of 21,132,075 shares (issue price per share: ₩5,300) during 2010, under the condition that it can exercise a put option when certain defined events occur. The issued and outstanding shares of the entity were acquired by D&D Strategic Growth Ltd. (88.75%) and Daewoo Securities (Hong Kong) Ltd. (11.25%) in 2014. D&D Growth Strategy Limited and others has sent Exercise Notice as at December 15, 2016, to SK Shipping Co., Ltd., the first obligor of this put option. However, SK Shipping Co., Ltd. has not sent Acceptance Notice within Acceptance Period. Meanwhile, D&D Growth Strategy Limited has sent Exercise Notice as at February 14, 2017 to SK Holdings Co., Ltd, the second obligor of this put option.

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

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

In order to estimate the fair value of this put option, the Company considered the present value of the underlying asset and its variance, as well as the possibility of the exercise condition being met. After the consideration, the Company found it difficult to reliably estimate the probability of acceptance of the acquisition and, therefore, did not recognize it in the condensed separate financial statements.

- 2) The Company entered into a contract to lease the headquarters building from National Agricultural Cooperative Federation ("NACF"), the trustee of Hana Asset Management Co., Ltd. Under the terms of the lease, the lease period is until March 28, 2021, and the Company has the preemptive right to purchase the building at the fair value when the lessor elects to dispose the property.
- 3) SK E&S LNG, LLC, one of the subsidiaries, is scheduled to be provided with liquefaction service amounting to 115 million MMBtu per year for 20 years from FLNG Liquefaction 3, LLC, Which plans to operate natural gas liquefaction plants in Texas starting from 2019. As at December 31, 2015, SK E&S Co., Ltd., one of the subsidiaries, is responsible for performance guarantee in case of SK E&S LNG, LLCs inability to make payments for service or for claims against breach of obligation. In regard to this, the Company provides performance guarantee for SK E&S Co., Ltd.'s guarantee.

28. Commitments and contingencies (cont'd)

- 4) The Company, SK Innovation Co., Ltd., SK Energy Co., Ltd., SK Global Chemical Co., Ltd., SK Lubricants Co., Ltd., SK Incheon Petrochem Co., Ltd. and SK Trading International Co., Ltd., are collectively responsible for any obligations of the Company arising before the spin-off on July 1, 2007. The Company and SK Biopharmaceuticals Co., Ltd. are collectively responsible for any obligations of the Company that occurred before the spin-off on April 1, 2011.
- 5) The Company provided performance guarantee to SK Shipping Co., Ltd., a subsidiary. Amount of guarantee provided to SK Shipping Co., Ltd. by the Company was calculated as the lower of ₩0 or other guarantee of ₩85,219 million, less the estimated value of ships owned by SK Shipping Co., Ltd.
- 6) The Company holds IT outsourcing and IT system maintenance agreements to provide hardware and information systems maintenance, and development service entered into between the Company and SK Company companies and others.
- 7) The Company entered into a contract with Gyeonggi province on May 31, 2011 to purchase land located in Pangyo Land Development District. The total agreement amount is ₩82,964 million (the Company's portion: ₩45,536 million (54.9%)), which will be used for the construction of urban infrastructure facilities ("designated purpose" of the land). The contract includes requirements to be complied with and restrictions in transfer of ownership of the land. Should there be non-compliance, the contract may be terminated or cancelled.
- (7) The Company has provided 7 blank checks and 12 blank notes as collateral in relation to sales and other transactions as at December 31, 2016.

29. Financial risk management

The principal financial liabilities of the Company comprise borrowings, bonds payable, trade and other accounts payable. The main purpose of these financial liabilities is to finance the operations of the Company. Further, the Company has various financial assets, including trade and other accounts receivable that are directly related to its operations. The Company's financial assets and liabilities are exposed to mainly market risk, credit risk and liquidity risk. The Company's key management is responsible for the Company's financial risk-taking activities, and that such activities are governed by appropriate policies and procedures.

29.1 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.

29.1.1 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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29.1.2 Foreign currency risk

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

Significant monetary assets and liabilities denominated in foreign currencies as at December 31, 2016 and 2015 are as follows (Korean won in millions, and USD, EUR and Others in thousands):

	Currency	December 31, 2016		December 31, 2015	
		Foreign currencies	Korea won equivalent	Foreign currencies	Korea won equivalent
Assets	USD	12,542	₩ 15,157	13,575	₩ 15,946
	EUR	213	270	539	691
	Others		4,085		1,934
			₩ 19,512		₩ 18,571
Liabilities	USD	7,585	₩ 9,167	2,349	₩ 2,753
	Others		653		1,333
			₩ 9,820		₩ 4,086

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

	For the years ended			
	December 31, 2016		December 31, 2015	
	Increase by 10%	Decrease by 10%	Increase by 10%	Decrease by 10%
Increase (decrease) in income before tax expense	₩ 969	₩ (969)	₩ 1,449	₩ (1,449)

29.1.3 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.

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29.2 Credit risk

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

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk as at December 31, 2016 and 2015 is as follows and for cash and cash equivalents, credit risk exposure is low (Korean won in millions):

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Short-term and long-term financial instruments	₩ 37,639	₩ 67,219
Trade accounts receivable	395,272	378,597
Other accounts receivable	1,347	1,369
Accrued income	169	203
Available-for-sale financial assets	553	541
Short-term and long-term guarantee deposits	20,434	22,533
Short-term and long-term loan	600	1,681
	<u>₩ 456,014</u>	<u>₩ 472,143</u>

29.2.1 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 Companyed into homogenous Companies and looked for impairment collectively. The calculation is based on actually incurred historical data.

As at December 31, 2016 and 2015, the aging of trade receivables and others for which an allowance for doubtful accounts has not been made, as the allowance is deemed to be recoverable from a customer or counterparty later although the amount is past due, are as follows (Korean won in millions):

	<u>December 31, 2016</u>		<u>December 31, 2015</u>	
	<u>Trade accounts receivable</u>	<u>Other receivables</u>	<u>Trade accounts receivable</u>	<u>Other receivables</u>
Less than one month	₩ 4,810	₩ 934	₩ 1,346	₩ 901
One-three months	3,467	-	1,067	235
Three-six months	63	-	2,486	148
More than six months	1,698	148	13,485	133
	<u>₩ 10,038</u>	<u>₩ 1,082</u>	<u>₩ 18,384</u>	<u>₩ 1,417</u>

Changes in the allowance for doubtful accounts for the years ended December 31, 2016 and 2015 are as follows (Korean won in millions):

	<u>For the years ended</u>	
	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Beginning balance	₩ 4,512	₩ 3,535
Bad debt expenses	966	1,019
Write-off	(1,089)	(42)
Ending balance	<u>₩ 4,389</u>	<u>₩ 4,512</u>

29.2.2 Other financial assets

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

29.3 Liquidity risk

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

The contractual maturity of financial liabilities as at December 31, 2016 is as follows. Amounts include interests paid and presented at gross amounts (Korean won in millions):

	Book value	Contractual cash flow	Less than 3 months	3-12 months	1-5 years	More than 5 years
Short-term borrowings	₩ 280,000	₩ 281,072	₩ 230,914	₩ 50,158	₩ -	₩ -
Bonds payable	5,461,658	5,606,773	-	757,386	4,001,787	847,600
Financial derivatives liabilities	1,656	1,656	870	671	115	-
Trade accounts payable	155,605	155,605	155,605	-	-	-
Other liabilities	143,966	143,966	123,472	8,271	12,223	-
	<u>₩ 6,042,885</u>	<u>₩ 6,189,072</u>	<u>₩ 510,861</u>	<u>₩ 816,486</u>	<u>₩ 4,014,125</u>	<u>₩ 847,600</u>

29.4 Capital management

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

The Company maintains a debt ratio of 54.13% as at December 31, 2016. The maturity of the debt is dispersed in the long-term and the borrowings mainly consist of long-term bonds, which do not present significant risks for unexpected payment for debts.

The Company's debt ratio as at December 31, 2016 and December 31, 2015 is as follows (Korean won in millions):

	December 31, 2016	December 31, 2015
Total liabilities	₩ 6,455,107	₩ 6,111,406
Total equity	11,925,701	11,481,677
Debt ratio	54.13%	53.23%

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30. Business combinations

The Company has entered into business combination with SK Holdings Co., Ltd. August 1, 2015 through the approval at the board of directors on April 20, 2015 and the resolutions of the general meeting of shareholders on June 26, 2015.

30.1 General information

	Description
Existed company after acquisition	SK C&C Co., Ltd
Extinct company after acquisition	SK Holdings Co., Ltd.
Name of existed company after acquisition	SK Holdings Co., Ltd.
Purpose	Finding a new growth engines and increasing the Company's competitiveness through improving financial structure.
Ratio of acquisition	(1) Ordinary share = 1:0.7367839 (SK C&C Co., Ltd. : SK Holdings Co., Ltd.) (2) Preferred share = 1:1.1102438 (SK C&C Co., Ltd. : SK Holdings Co., Ltd.)

30.2 The consideration transferred

The fair value of the consideration transferred for the merger for the year ended December 31, 2015 is as follows (Korean won in millions):

	Amount
Fair value of ordinary shares for issued	₩ 4,696,941
Fair value of preferred shares for issued	99,838
The fair value of equity for merged company owned by the Company (*1)	<u>3,369,310</u>
	<u>₩ 8,166,089</u>

(*1) ₩2,039,256 million was recorded as gain on disposal of investments in associates due to re-measurement of investments in associates at fair value, which was merged by the Company.

30.3 Identifiable assets acquired and liabilities assured

1) Identifiable assets acquired and liabilities assured due to merger are as follows (Korean won in millions):

	Amount
Current assets:	₩ 687,576
Cash and cash equivalents	657,059
Trade accounts receivable	1,038
Other accounts receivable	28,466
Other current assets	1,013
Non-current assets:	15,719,191
Available-for-sale financial assets	15,386
Investments in subsidiaries	13,519,478
Investments in joint ventures	40,000
Property, plant and equipment and investment property	124,826
Intangible assets	1,990,375
Other non-current assets	29,126
Current liabilities:	641,320
Short-term borrowings	50,000
Current portion of long-term debt	543,786
Other current liabilities	47,534
Non-current liabilities:	3,482,103
Bonds payable	3,006,796
Retirement benefit obligation	16,890
Deferred income tax liabilities	452,839
Other non-current liabilities	5,578
Fair value of identifiable net assets	₩ 12,283,344

2) Measurement of fair value

Used valuation techniques for re-measurement at fair value of acquired significant assets and liabilities is as follow:

Acquired Assets	Valuation techniques
Property, plant and equipment and Investment property	Market approach or Cost Approach: The Company determines the fair value reflecting on the created price in the available market transactions of similar assets or on the replacement cost considering the appropriate functional and economic obsolescence as well as the physical deterioration degree.
Intangible assets	Relief from royalty method or Multi-period excess earnings method: The Company determines the fair value of intangible assets by using relief from royalty method considering the royalty discount that is expected to be avoided by the retention the patents or trademarks directly. And the Company also determines the fair value of intangible by using multi-period excess earnings method considering the present value of net cash flows that is expected to be generated from the customer relationship.
Inventories	The Company determines the fair value on the basis of a reasonable profit based on the effort required to complete or sell inventories and the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.
Bonds payable and borrowings	The company determines the fair value by discounting future cash flows at an effective interest rate that consider current credit rating at assessment date and spread applied to recently issued.

30.4 Gain on bargain purchase

Gain on bargain purchase for the business combination is as follows (Korean won in millions):

	Amount
The total consideration transferred	₩ 8,166,089
Deduction: fair value of identifiable net assets	(12,283,344)
Gain on bargain purchase	<u>₩ (4,117,255)</u>

31. Subsequent events

31.1 Acquisition of shares of SMCORE. Inc.

In accordance with a resolution of the board of directors on November 29, 2016, the Company acquired 5,329,707 shares (26.7%) of SMCORE. Inc for consideration of ₩39,419 million on January 11, 2017.

31.2 Acquisition of shares of LG Siltron Incorporated

In accordance with a resolution of the board of directors on January 23, 2017, the Company will acquire 34,181,410 shares (51%) of LG Siltron Incorporated held by LG Corporation for consideration of ₩620,000 million on January 23, 2017.

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

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

31.4 TRS (total revenue swap) contract for shares of SK Shipping Co., Ltd.

In accordance with a resolution of the board of directors on February 27, 2017, the Company approved the TRS (Total Revenue Swap) contract with Samsung Securities Co., Ltd. as SK Shipping Co., Ltd.'s shares the underlying asset.

Independent auditors' review report on internal control over financial reporting

Chief Executive Officer
SK Holdings Co., Ltd.

We have reviewed the accompanying management's report on the operations of the internal control over financial reporting ("ICFR") of SK Holdings Co., Ltd. (the "Company") as at December 31, 2016. The Company's management is responsible for the design and operations of its ICFR, including the reporting of its operations. Our responsibility is to review management's ICFR report and issue a report based on our review. Management's report on the operations of the ICFR of the Company states that "based on the assessment of the operations of the ICFR, the Company's ICFR has been effectively designed and has operated as at December 31, 2016 in all material respects, in accordance with the ICFR standard."

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

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

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

We conducted our review of the ICFR in existence as at December 31, 2016 and we did not review the ICFR subsequent to December 31, 2016. This report has been prepared for Korean regulatory purposes pursuant to the Corporate External Audit Law, and may not be appropriate for other purposes or for other users.



March 9, 2017

This report is annexed in relation to the audit of the separate financial statements as at December 31, 2016 and the review of internal control over financial reporting pursuant to Article 2-3 of the Act on External Audit of Stock Companies of the Republic of Korea.