



SK Holdings Co., Ltd.

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

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Report on review of interim condensed separate financial statements

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

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

Management's responsibility for the separate financial statements

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

Auditors' responsibility

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

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

Conclusion

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

Emphasis of matter

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

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

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

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

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

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

Further, the Company recognized accounts receivable (unbilled construction contract) for the amount that cumulative construction costs to date plus profit recognized (or less the loss recognized) exceeds the amount billed to customers. As at September 30, 2017, unbilled construction contract amounted to ₩83,509 million and if such amount is uncollected, the Company is exposed to risks in relation to asset measurement.

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

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

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

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

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

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

Other matters

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

Ernst & Young Han Young

November 14, 2017

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

SK Holdings Co., Ltd.

Interim condensed separate financial statements
for the nine months ended September 30, 2017 and 2016

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

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

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

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

	Notes	Korean won		Translation into U.S. dollar (Note 2)	
		September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016
Assets					
Current assets:					
Cash and cash equivalents	4	₩ 234,570	₩ 158,963	\$ 204,561	\$ 138,626
Short-term financial instruments	4, 28	56,817	37,620	49,548	32,807
Trade accounts receivable	4, 5, 25, 28	380,731	465,740	332,023	406,157
Other accounts receivable	4, 25, 28	9,777	1,347	8,526	1,175
Inventories	6	104,761	98,580	91,359	85,968
Other current assets	4, 16, 17, 28	21,026	22,695	18,336	19,792
Assets held for sale	7	37,134	-	32,383	-
Total current assets		<u>844,816</u>	<u>784,945</u>	<u>736,736</u>	<u>684,525</u>
Non-current assets:					
Available-for-sale financial assets	4, 7, 28	167,342	155,695	145,934	135,777
Investments in subsidiaries	8	15,418,316	14,484,809	13,445,815	12,631,734
Investments in associates and joint ventures	9	597,366	120,229	520,944	104,848
Property, plant and equipment	10, 27	684,024	684,381	596,515	596,827
Investment properties	11	40,281	40,601	35,128	35,407
Intangible assets	12	2,097,579	2,088,725	1,829,231	1,821,510
Other non-current assets	4, 16, 28	23,827	21,423	20,779	18,682
Total non-current assets		<u>19,028,735</u>	<u>17,595,863</u>	<u>16,594,346</u>	<u>15,344,785</u>
Total assets		<u>₩ 19,873,551</u>	<u>₩ 18,380,808</u>	<u>\$ 17,331,082</u>	<u>\$ 16,029,310</u>
Liabilities and equity					
Current liabilities:					
Short-term borrowings	4, 13, 28	₩ 660,000	₩ 280,000	\$ 575,565	\$ 244,179
Trade accounts payable	4, 25, 28	98,374	155,605	85,789	135,698
Other accounts payable	4, 25, 28	59,550	90,042	51,932	78,523
Accrued expenses	4, 25, 28	57,633	41,701	50,260	36,366
Provisions	14	3,210	6,098	2,799	5,318
Current portion of long-term debt	4, 13, 28	1,080,775	754,262	942,509	657,768
Other current liabilities	4, 16, 17, 28	126,465	105,877	110,286	92,332
Total current liabilities		<u>2,086,007</u>	<u>1,433,585</u>	<u>1,819,140</u>	<u>1,250,184</u>
Non-current liabilities:					
Bonds payable	4, 13, 28	5,010,966	4,707,396	4,369,901	4,105,168
Retirement benefit obligation	15	65,696	33,067	57,291	28,837
Deferred income tax liabilities		265,961	263,779	231,936	230,033
Other non-current liabilities	4, 16, 17, 28	16,782	17,280	14,635	15,069
Total non-current liabilities		<u>5,359,405</u>	<u>5,021,522</u>	<u>4,673,763</u>	<u>4,379,107</u>
Total liabilities		<u>7,445,412</u>	<u>6,455,107</u>	<u>6,492,903</u>	<u>5,629,291</u>
Equity:					
Issued capital	1, 18	15,385	15,385	13,417	13,417
Other paid-in capital	18	4,719,876	4,719,052	4,116,051	4,115,333
Retained earnings	18	7,681,440	7,183,223	6,698,736	6,264,257
Other capital components	18	11,438	8,041	9,975	7,012
Total equity		<u>12,428,139</u>	<u>11,925,701</u>	<u>10,838,179</u>	<u>10,400,019</u>
Total liabilities and equity		<u>₩ 19,873,551</u>	<u>₩ 18,380,808</u>	<u>\$ 17,331,082</u>	<u>\$ 16,029,310</u>

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

SK Holdings Co., Ltd.
Interim condensed separate statements of comprehensive income
for the three months and nine months ended September 30, 2017 and 2016

(Korean won in millions except for per share)

	Notes	Korean won			
		September 30, 2017		September 30, 2016	
		Three months	Nine months	Three months	Nine months
Operating revenue	19, 25	₩ 766,915	₩ 2,718,977	₩ 661,795	₩ 2,436,014
Operating expenses	20, 21, 25	<u>643,082</u>	<u>1,859,923</u>	<u>566,240</u>	<u>1,634,612</u>
Operating income		123,833	859,054	95,555	801,402
Financial income (loss)	22	(3,476)	14,275	7,281	11,853
Financial costs	22	41,899	121,770	43,451	119,739
Other non-operating income	22	39,160	39,686	553	3,831
Other non-operating expenses	22	<u>7,520</u>	<u>14,703</u>	<u>3,368</u>	<u>13,439</u>
Income before income tax expense		110,098	776,542	56,570	683,908
Income tax expense	23	<u>24,247</u>	<u>67,051</u>	<u>6,535</u>	<u>43,915</u>
Net income		<u>85,851</u>	<u>709,491</u>	<u>50,035</u>	<u>639,993</u>
Other comprehensive income:					
Items not to be reclassified to profit or loss in subsequent periods (net of tax):					
Remeasurement gain (loss) on defined benefit plans	15	2,610	(2,608)	(210)	(12,094)
Items to be reclassified to profit or loss in subsequent periods (net of tax):					
Net gain (loss) on available-for-sale financial assets	7	<u>(11,162)</u>	<u>3,397</u>	<u>2,062</u>	<u>494</u>
		<u>(8,552)</u>	<u>789</u>	<u>1,852</u>	<u>(11,600)</u>
Total comprehensive income for the period		<u>₩ 77,299</u>	<u>₩ 710,280</u>	<u>₩ 51,887</u>	<u>₩ 628,393</u>
Earnings per share (Korean won):					
Basic earnings per share	24	₩ 1,528	₩ 12,681	₩ 887	₩ 11,438

(Continued)

SK Holdings Co., Ltd.
Interim condensed separate statements of comprehensive income
for the three months and nine months ended September 30, 2017 and 2016

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

	Notes	Translation into U.S. dollar (Note 2)			
		September 30, 2017		September 30, 2016	
		Three months	Nine months	Three months	Nine months
Operating revenue	19, 25	\$ 668,802	\$ 2,371,132	\$ 577,130	\$ 2,124,369
Operating expenses	20, 21, 25	560,811	1,621,979	493,800	1,425,493
Operating income		107,991	749,153	83,330	698,876
Financial income	22	(3,031)	12,449	6,350	10,337
Financial costs	22	36,539	106,192	37,892	104,421
Other non-operating income	22	34,150	34,609	482	3,341
Other non-operating expenses	22	6,558	12,822	2,937	11,720
Income before income tax expense		96,013	677,197	49,333	596,413
Income tax expense	23	21,145	58,473	5,699	38,296
Net income		74,868	618,724	43,634	558,117
Other comprehensive income:					
Items not to be reclassified to profit or loss in subsequent periods (net of tax):					
Remeasurement gain (loss) on defined benefit plans	15	2,276	(2,274)	(183)	(10,547)
Items to be reclassified to profit or loss in subsequent periods (net of tax):					
Net gain (loss) on available-for-sale financial assets	7	(9,734)	2,962	1,798	431
		(7,458)	688	1,615	(10,116)
Total comprehensive income for the period		\$ 67,410	\$ 619,412	\$ 45,249	\$ 548,001
Earnings per share (U.S. dollar):					
Basic earnings per share	24	\$ 1.33	\$ 11.06	\$ 0.77	\$ 9.97

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

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

(Korean won in millions)

	Issued capital	Other paid-in capital	Retained earnings	Other capital components	Total equity
	₩	₩	₩	₩	₩
As at January 1, 2016	15,385	4,719,052	6,736,539	10,701	11,481,677
Total comprehensive income:					
Net income	-	-	639,993	-	639,993
Remeasurement loss on defined benefits plans	-	-	(12,094)	-	(12,094)
Net loss on available-for-sale financial assets	-	-	-	494	494
Dividends	-	-	(191,750)	-	(191,750)
As at September 30, 2016	15,385	4,719,052	7,172,688	11,195	11,918,320
As at January 1, 2017	15,385	4,719,052	7,183,223	8,041	11,925,701
Total comprehensive income:					
Net income	-	-	709,491	-	709,491
Remeasurement loss on defined benefits plans	-	-	(2,608)	-	(2,608)
Net gain on available-for-sale financial assets	-	-	-	3,397	3,397
Dividends	-	-	(208,666)	-	(208,666)
Stock option	-	824	-	-	824
As at September 30, 2017	15,385	4,719,876	7,681,440	11,438	12,428,139

(Continued)

SK Holdings Co., Ltd.
Interim condensed separate statements of changes in shareholders' equity
for the nine months ended September 30, 2017 and 2016 (cont'd)
(U.S. dollar in thousands)

	Issued capital	Other paid-in capital	Retained earnings	Other capital components	Total equity
As at January 1, 2016	\$ 13,417	\$ 4,115,333	\$ 5,874,718	\$ 9,332	\$ 10,012,800
Total comprehensive income:					
Net income	-	-	558,117	-	558,117
Remeasurement loss on defined benefits plans	-	-	(10,547)	-	(10,547)
Net loss on available-for-sale financial assets	-	-	-	431	431
Dividends	-	-	(167,219)	-	(167,219)
As at September 30, 2016	<u>\$ 13,417</u>	<u>\$ 4,115,333</u>	<u>\$ 6,255,069</u>	<u>\$ 9,763</u>	<u>\$ 10,393,582</u>
As at January 1, 2017	\$ 13,417	\$ 4,115,333	\$ 6,264,257	\$ 7,012	\$ 10,400,019
Total comprehensive income:					
Net income	-	-	618,724	-	618,724
Remeasurement loss on defined benefits plans	-	-	(2,274)	-	(2,274)
Net gain on available-for-sale financial assets	-	-	-	2,962	2,962
Dividends	-	-	(181,969)	-	(181,969)
Stock option	-	719	-	-	719
As at September 30, 2017	<u>\$ 13,417</u>	<u>\$ 4,116,052</u>	<u>\$ 6,698,738</u>	<u>\$ 9,974</u>	<u>\$ 10,838,181</u>

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

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

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

	Notes	For the nine months ended September 30,			
		Korean won		Translation into U.S. dollar (Note 2)	
		2017	2016	2017	2016
Cash flows from operating activities:					
Net income		₩ 709,491	₩ 639,993	\$ 618,724	\$ 558,117
Non-cash adjustments	26	(472,865)	(378,887)	(412,370)	(330,415)
Working capital adjustments	26	(1,105)	12,200	(964)	10,639
Interest received		3,533	2,640	3,081	2,302
Interest paid		(124,277)	(137,697)	(108,378)	(120,081)
Dividends received		690,196	596,189	601,898	519,917
Income taxes paid		(44,253)	(43,372)	(38,592)	(37,823)
Net cash provided by operating activities		760,720	691,066	663,399	602,656
Cash flows from investing activities:					
Net change of short-term and long-term financial instruments		(19,113)	19,580	(16,668)	17,075
Net change of short-term loans		203	900	177	785
Proceeds from disposal of available-for-sale financial assets		418	1,284	365	1,120
Proceeds from disposal of investments in associates		5,001	10,108	4,361	8,815
Proceeds from disposal of investments in subsidiaries		12,344	4,662	10,765	4,066
Proceeds from disposal of property, plants and equipments		1,132	150	987	131
Proceeds from disposal of intangible assets		2,286	3,285	1,994	2,865
Acquisition of available-for-sale financial assets		(44,634)	(11,350)	(38,924)	(9,898)
Acquisition of investments in associates		(485,691)	-	(423,555)	-
Acquisition of investments in subsidiaries		(907,516)	(634,944)	(791,415)	(553,714)
Acquisition of property, plant and equipment		(37,532)	(46,212)	(32,730)	(40,300)
Acquisition of intangible assets		(25,430)	(45,228)	(22,177)	(39,442)
Increase in guarantee deposits, net		(2,481)	777	(2,164)	678
Cash flows from other investing activities		-	181	-	158
Net cash used in investing activities		(1,501,013)	(696,807)	(1,308,984)	(607,661)
Cash flows from financing activities:					
Net change of short-term borrowings		380,000	(170,000)	331,386	(148,252)
Repayment of current portion of bonds payable		(450,000)	(590,000)	(392,430)	(514,520)
Issuance of bonds		1,095,603	1,195,262	955,440	1,042,349
Payment of dividend		(208,666)	(191,750)	(181,971)	(167,219)
Net cash provided by financing activities		816,937	243,512	712,425	212,358
Net increase in cash and cash equivalents		76,644	237,771	66,840	207,353
Net foreign exchange effects		(1,037)	(295)	(905)	(257)
Cash and cash equivalents at the beginning of the period		158,963	97,835	138,626	85,319
Cash and cash equivalents at the end of the period		₩ 234,570	₩ 335,311	\$ 204,561	\$ 292,415

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

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

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

As at September 30, 2017, the issued capital of the Company amounts to ₩15,385 million (including ₩113 million of preferred shares), and major shareholders consist of Tae-won Chey (23.40%), National Pension Service (8.40%) and Ki-won Choi (7.46%).

2. Summary of significant accounting policies

The Company maintains its official accounting records in Korean won and prepares the interim condensed separate financial statements in conformity with Korean International Financial Reporting Standards (“KIFRS”), in the Korean language. Accordingly, these interim condensed separate financial statements are intended for use by those who are informed about KIFRS and Korean practices. The accompanying interim condensed 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 interim condensed separated financial statements, but not required for a fair presentation of the Company’s interim condensed separate financial position, comprehensive income, changes in shareholders’ equity or cash flows is not presented in the accompanying interim condensed separate financial statements.

The accompanying interim condensed separate financial statements are stated in Korean won, the currency of the country in which the Company is incorporated and operates. The translation of Korean won amounts into U.S. dollar amounts is included solely for the convenience of readers of the interim condensed separate financial statements and has been made at the rate of ₩1,146.70 to USD 1.00, the basic exchange rate in the Seoul Money Brokerage Service for cable transfers in Korean won on the last business day of the year ended September 30, 2017. Such translations into U.S. dollar should not be construed as representations that the Korean won amounts could be converted into U.S. dollar at that or any other rate.

2.1 Basis of preparation

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

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

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

2.2 Significant accounting policies

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

2.2.1 New and revised KIFRSs adopted in the current period

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

Amendments to KIFRS 1007 – *Statement of Cash Flows*

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

Amendments to KIFRS 1012 – *Income Taxes*

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

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

2.2.2 New and revised KIFRSs issued, but not yet effective

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

KIFRS 1109 – *Financial Instruments*

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

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

KIFRS 1115 – Revenue from Contracts with Customers

Under KIFRS 1115, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under KIFRS. Either a full retrospective application or a modified retrospective application of the standard is required for annual periods beginning on or after January 1, 2018. The Company plans to adopt KIFRS 1115 on January 1, 2018. Accumulated effects of the adoption of KIFRS 1115 would be reflected in beginning retained earnings or other equity components, if applicable. Based on the transition rule in KIFRS 1115, the Company is considering applying the standard retrospectively to prior periods only for the ongoing contracts at the first adoption date, with no restatement for completed contracts.

Amendments to KIFRS 1102 – Share-based Payment

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

2.2.3 Construction contracts

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

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

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

3. Significant accounting judgments, estimates and assumptions

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

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

SK Holdings Co., Ltd.
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4. Financial instruments

4.1 Financial assets

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

	September 30, 2017			
	Financial assets at FVTPL	Loans and receivables	Available-for-sale financial assets	Total
Current assets:				
Cash and cash equivalents	₩ -	₩ 234,570	₩ -	₩ 234,570
Short-term financial instruments	-	56,817	-	56,817
Trade accounts receivable (*1)	-	297,222	-	297,222
Other accounts receivable	-	9,777	-	9,777
Accrued income	-	453	-	453
Short-term loans	-	-	-	-
Guarantee deposits	-	3,884	-	3,884
Derivative financial assets	44	-	-	44
	<u>44</u>	<u>602,723</u>	<u>-</u>	<u>602,767</u>
Non-current assets:				
Long-term financial instruments	-	19	-	19
Available-for-sale financial assets	-	-	167,342	167,342
Long-term loans	-	397	-	397
Guarantee deposits	-	19,388	-	19,388
	<u>-</u>	<u>19,804</u>	<u>167,342</u>	<u>187,146</u>
	<u>₩ 44</u>	<u>₩ 622,527</u>	<u>₩ 167,342</u>	<u>₩ 789,913</u>
	December 31, 2016			
	Financial assets at FVTPL	Loans and receivables	Available-for-sale financial assets	Total
Current assets:				
Cash and cash equivalents	₩ -	₩ 158,963	₩ -	₩ 158,963
Short-term financial instruments	-	37,620	-	37,620
Trade accounts receivable (*1)	-	395,272	-	395,272
Other accounts receivable	-	1,347	-	1,347
Accrued income	-	169	-	169
Short-term loans	-	600	-	600
Guarantee deposits	-	3,671	-	3,671
Derivative financial assets	1,094	-	-	1,094
	<u>1,094</u>	<u>597,642</u>	<u>-</u>	<u>598,736</u>
Non-current assets:				
Long-term financial instruments	-	19	-	19
Available-for-sale financial assets	-	-	155,695	155,695
Long-term loans	-	-	-	-
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>

(*1) Unbilled receivables amounting to ₩83,509 million and ₩70,468 million as at September 30, 2017 and December 31, 2016, respectively, are not included in the financial instruments.

SK Holdings Co., Ltd.
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4.2 Financial liabilities

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

	September 30, 2017		
	Financial liabilities at FVTPL	Other financial liabilities	Total
Current liabilities:			
Short-term borrowings	₩ -	₩ 660,000	₩ 660,000
Trade accounts payable	-	98,374	98,374
Other accounts payable	-	59,550	59,550
Accrued expenses	-	57,633	57,633
Current portion of long-term debt	-	1,080,775	1,080,775
Derivative financial liabilities	213	-	213
	<u>213</u>	<u>1,956,332</u>	<u>1,956,545</u>
Non-current assets:			
Bonds payable	-	5,010,966	5,010,966
Leasehold deposits received	-	11,807	11,807
Derivative financial liabilities	17	-	17
	<u>17</u>	<u>5,022,773</u>	<u>5,022,790</u>
	<u>₩ 230</u>	<u>₩ 6,979,105</u>	<u>₩ 6,979,335</u>

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

4.3 Fair values of financial instruments by hierarchy level

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

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

SK Holdings Co., Ltd.
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4.3 Fair values of financial instruments by hierarchy level (cont'd)

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

	September 30, 2017			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets at FVTPL	₩ -	₩ 44	₩ -	₩ 44
Available-for-sale financial assets (*1)	-	-	2,152	2,152
	<u>₩ -</u>	<u>₩ 44</u>	<u>₩ 2,152</u>	<u>₩ 2,196</u>
Financial liabilities:				
Financial liabilities at FVTPL	₩ -	₩ 230	₩ -	₩ 230
	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets at FVTPL	₩ -	₩ 1,094	₩ -	₩ 1,094
Available-for-sale financial assets (*1)	32,652	-	2,152	34,804
	<u>₩ 32,652</u>	<u>₩ 1,094</u>	<u>₩ 2,152</u>	<u>₩ 35,898</u>
Financial liabilities:				
Financial liabilities at FVTPL	₩ -	₩ 1,656	₩ -	₩ 1,656

(*1) Available-for-sale financial assets do not include available-for-sale financial assets, which are measured at cost as their fair values are not reliably measurable.

5. Trade accounts receivable

Details of trade accounts receivable as at September 30, 2017 and December 31, 2016 are as follows (Korean won in millions):

	September 30, 2017	December 31, 2016
Trade accounts receivable:		
Trade accounts receivable	₩ 299,193	₩ 397,204
Unbilled receivable	83,509	70,468
	<u>₩ 382,702</u>	<u>₩ 467,672</u>
Allowance for doubtful accounts:		
Trade accounts receivable	(1,971)	(1,932)
	<u>₩ 380,731</u>	<u>₩ 465,740</u>

6. Inventories

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

	September 30, 2017			December 31, 2016		
	Cost	Valuation allowance	Book value	Cost	Valuation allowance	Book value
Merchandises	₩ 104,701	₩ (173)	₩ 104,528	₩ 98,523	₩ (119)	₩ 98,404
Raw material	216	-	216	157	-	157
Materials in transit	17	-	17	19	-	19
	<u>₩ 104,934</u>	<u>₩ (173)</u>	<u>₩ 104,761</u>	<u>₩ 98,699</u>	<u>₩ (119)</u>	<u>₩ 98,580</u>

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7. Available-for-sale financial assets

(1) Details of available-for-sale financial assets as at September 30, 2017 and December 31, 2016 are as follows (Korean won in millions):

	September 30, 2017		December 31, 2016	
	Cost	Book value	Cost	Book value
Marketable equity instruments	₩ -	₩ -	₩ 45,841	₩ 32,652
Non-marketable instruments	151,768	151,771	122,487	122,490
Debt securities (*1)	15,571	15,571	553	553
	<u>₩ 167,339</u>	<u>₩ 167,342</u>	<u>₩ 168,881</u>	<u>₩ 155,695</u>

(*1) Debt securities represent Mobile TCS Co., Ltd. and Socar, Inc.'s convertible bond.

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

	For the nine months ended	
	September 30, 2017	September 30, 2016
Beginning balance	₩ 155,695	₩ 148,455
Acquisitions	44,634	11,452
Gain on valuation (*1, 3)	19,207	652
Disposals	(335)	(1,172)
Transfer (*2, 3)	(51,859)	-
Ending balance	<u>₩ 167,342</u>	<u>₩ 159,387</u>

(*1) The gain on valuation excludes the effect of deferred income tax recognized directly to equity (2017: ₩(-)4,648 million, 2016: ₩(-)158 million).

(*2) The Company decided to sell its interests in SK Securities Co., Ltd., which are classified as AFS securities in accordance with the Article 8-2 "Restrictions on activities by holding companies" of *Monopoly Regulation and Fair Trade Act of the Republic of Korea*, in the nine months ended September 30, 2017. The entire stake of the equity ownership is publicly offered, and the investment has been classified as AFS. The stock sale and purchase agreement with Cape Investment & Securities Co., Ltd. (prior to the close of the transaction, it is possible to transfer the status of the buyer to the management participatory private equity group or investment company established by Cape Investment & Securities Co., Ltd.) with regards to a sale of ordinary shares of SK Securities Co., Ltd. was approved by the Board of the Directors on August 11, 2017.

(*3) The gain on valuation of assets held for sale in the current period is ₩(-)14,725 million, which is the amount before income tax effect of ₩3,563 million deducted directly from equity.

SK Holdings Co., Ltd.
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8. Investments in subsidiaries

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

	Domicile	Principal Business activity	September 30, 2017		December 31, 2016	
			Equity ownership (*1)	Acquisition cost	Book value	Book value
SK Innovation Co., Ltd. (*2)	Korea	Resource development	33.40%	₩ 3,072,937	₩ 3,072,937	₩ 3,072,937
SK Telecom Co., Ltd. (*2)	Korea	Mobile	25.22%	5,080,681	5,080,681	5,080,681
		Tele-communication				
SK Networks Co., Ltd. (*2)	Korea	Trading and distribution	39.14%	706,229	706,229	706,229
SK Engineering & Construction Co., Ltd. (*2)	Korea	Construction	44.48%	545,300	545,300	545,300
SK E&S Co., Ltd.	Korea	City gas business	100.00%	2,600,000	2,600,000	2,600,000
SK Maritime Co., Ltd. (formerly, SK Shipping Co., Ltd.) (*3)	Korea	Shipping	99.99%	332,400	332,400	332,400
SKC Co., Ltd. (*2)	Korea	Petrochemicals manufacturing	41.00%	548,654	548,654	548,654
SK Materials Co., Ltd. (*2)	Korea	Special-gas manufacturing and sales	49.10%	473,335	473,335	473,335
SK Siltron Co., Ltd.	Korea	Silicon wafer for electronic industry manufacturing and sales	51.00%	620,006	620,006	-
SKY Property Management Ltd. (*7)	Virgin Island	Investment	-	-	-	44,885
SK GI Management	Cayman Islands	Investment	100.00%	9,523	9,523	9,523
SK China Company, Ltd. (*4, *5, *7)	Hong Kong	Consulting and investment	27.42%	557,041	557,041	299,352
SK Investment Management Co., Ltd. (*5)	Hong Kong	Investment	80.76%	9,201	9,201	-
SK Biopharmaceuticals Co., Ltd.	Korea	Life science	100.00%	328,702	328,702	328,702
SK Biotek Co., Ltd.	Korea	Life science	100.00%	163,818	163,818	163,818
SK Industrial Development China Co., Ltd. (*7)	Hong Kong	Investment	-	-	-	69,624
SK Technology Innovation Company (*4)	Cayman Islands	Research and development	2.12%	1,876	1,876	1,876
SK Forest Co., Ltd.	Korea	Landscape construction	100.00%	61,387	61,387	61,387
SK MENA Investment B.V. (*4)	Netherlands	Investment	11.54%	5,178	5,178	5,178
SK Latin Americas Investment S.A. (*4)	Spain	Investment	11.54%	5,135	5,135	5,135
Gemini Partners Pte. Ltd. (*4)	Singapore	Consulting investment	20.00%	6,018	6,018	6,018
Plutus Capital NY, Inc.	USA	Investment	100.00%	117,163	117,163	-
Happynarae Co., Ltd.	Korea	E-commerce	-	-	-	1,436
SK Infosec Co., Ltd.	Korea	Information security services	100.00%	37,905	44,077	44,077
SK C&C Beijing Co., Ltd.	China	Computer system	100.00%	25,481	25,481	25,481
SK C&C India Pvt. Ltd.	India	Computer system	100.00%	3,442	382	382
SK MENA B.V.	Netherlands	Investment	-	-	-	11,364
SK S.E.Asia Pte. Ltd.	Singapore	Investment	100.00%	25,847	25,847	25,847
S&G Technology	Saudi Arabia	Computer system	51.00%	74	74	74
SK Encarsales.Com. Ltd.	Korea	Online used car retailers	50.01%	13,914	13,914	13,914
Saturn Agriculture Investment Co., Ltd.	Hong Kong	Investment	100.00%	-	-	-
FSK L&S Co., Ltd.	Korea	Conversion logistics business	60.00%	24,158	24,158	7,200
SM Core, Inc. (*2, *6)	Korea	Car materials system manufacturing and sales	26.65%	39,419	39,419	-
SK Computer and Communication L.L.C. (*2)	UAE	Computer system	49.00%	380	380	-
				<u>₩ 15,415,204</u>	<u>₩ 15,418,316</u>	<u>₩ 14,484,809</u>

(*1) The equity ownership is based on ordinary shares.

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

(*3) SK Maritime Co., Ltd. (formerly, SK Shipping Co., Ltd.) reduced its capital of ₩162,696 million in May 2017. Therefore, the Company's ownership interest increased from 83.08% to 99.99%.

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

(*5) During the current reporting period, the Company has received shares of SK Investment Management Co., Ltd., established by SK China Company, Ltd., one of the subsidiaries of the Company. The Company recognized the book value of SK China Company, Ltd. by the proportion of fair value of each share.

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8. Investments in subsidiaries (cont'd)

(*6) During the current reporting period, the Company acquired 26.65% ownership equity of SM Core, Inc. and voting rights of shares (16.93%) owned by the CEO have been delegated to the Company. Consequently, the Company classified SM Core, Inc. as its subsidiary.

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

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

	<u>September 30, 2017</u>
SK Innovation Co., Ltd.	₩ 6,145,874
SK Telecom Co., Ltd.	5,192,680
SK Networks Co., Ltd.	700,400
SKC Co., Ltd.	634,838
SK Materials Co., Ltd.	914,529
SM Core, Inc.	75,415

9. Investments in associates and joint ventures

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

	<u>Domicile</u>	<u>Principal business activity</u>	<u>September 30, 2017</u>			<u>December 31,</u>
			<u>Equity ownership</u>	<u>Acquisition cost</u>	<u>Book value</u>	<u>2016</u>
						<u>Book value</u>
Investments in associates:						
SBS Golf Co., Ltd.	Korea	Cable broadcast	-	₩ -	₩ -	₩ 8,554
Mobile TCS Co., Ltd.	Korea	Mobile service	41.00%	820	820	820
Daehan Kanggun BcN Co., Ltd. (*1)	Korea	Wired communication	0.67%	58	58	58
FSK Holdings Co., Ltd.	Hong Kong	IT service	30.00%	11,937	11,937	11,937
Mozido Corfire, Inc. (*2)	USA	System consulting	19.94%	6,767	-	-
Socar, Inc.	Korea	Rental of cars	28.23%	91,798	91,798	58,860
9352-7281 Quebec Inc. (*3)	Canada	Investment	40.09%	31,558	31,558	-
Turo Inc. (*2, *3)	USA	Rental of cars	5.11%	39,762	39,762	-
	Cayman Islands					
ESR Cayman Limited. (*2, *3)		Investment	11.77%	374,400	374,400	-
				<u>557,102</u>	<u>550,335</u>	<u>80,229</u>
Investments in joint ventures:						
Hana Land Chip PEF 33 (*1)	Korea	Real estate	13.51%	40,000	40,000	40,000
Socar Mobility Malaysia, SDN. BHD. (*3)	Malaysia	Rental of cars	60.00%	7,031	7,031	-
				<u>47,031</u>	<u>47,031</u>	<u>40,000</u>
				<u>₩ 604,133</u>	<u>₩ 597,366</u>	<u>₩ 120,229</u>

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

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

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

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10. Property, plant and equipment

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

	September 30, 2017			December 31, 2016		
	Acquisition cost	Accumulated depreciation	Book value	Acquisition cost	Accumulated depreciation	Book value
Land	₩ 173,818	₩ -	₩ 173,818	₩ 173,818	₩ -	₩ 173,818
Buildings	483,169	(104,451)	378,718	483,169	(92,920)	390,249
Structures	7,041	(354)	6,687	7,041	(156)	6,885
Machinery and equipment	482	(391)	91	425	(383)	42
Vehicles	9,102	(2,401)	6,701	7,939	(2,020)	5,919
Furniture and fixtures	327,684	(218,747)	108,937	309,520	(203,943)	105,577
Construction-in-progress	9,072	-	9,072	1,891	-	1,891
	<u>₩ 1,010,368</u>	<u>₩ (326,344)</u>	<u>₩ 684,024</u>	<u>₩ 983,803</u>	<u>₩ (299,422)</u>	<u>₩ 684,381</u>

(2) Details of changes in property, plant and equipment for the nine months ended September 30, 2017 and 2016 are as follows (Korean won in millions):

	For the nine months ended September 30, 2017					
	Beginning balance	Acquisition	Depreciation	Disposal	Transfer	Ending balance
Land	₩ 173,818	₩ -	₩ -	₩ -	₩ -	₩ 173,818
Buildings	390,249	-	(11,531)	-	-	378,718
Structures	6,885	-	(198)	-	-	6,687
Machinery and equipment	42	65	(16)	-	-	91
Vehicles	5,919	1,332	(509)	(41)	-	6,701
Furniture and fixtures	105,577	28,108	(23,718)	(1,032)	2	108,937
Construction-in-progress	1,891	7,183	-	-	(2)	9,072
	<u>₩ 684,381</u>	<u>₩ 36,688</u>	<u>₩ (35,972)</u>	<u>₩ (1,073)</u>	<u>₩ -</u>	<u>₩ 684,024</u>

	For the nine months ended September 30, 2016					
	Beginning balance	Acquisition	Depreciation	Disposal	Transfer	Ending balance
Land	₩ 163,134	₩ 4	₩ -	₩ -	₩ 4,619	₩ 167,757
Buildings	337,160	9	(10,922)	-	61,389	387,636
Structures	881	-	(89)	-	6,159	6,951
Machinery and equipment	33	26	(13)	-	-	46
Vehicles	6,995	133	(896)	(162)	63	6,133
Furniture and fixtures	85,096	29,176	(21,950)	(49)	3,536	95,809
Construction-in-progress	71,939	17,579	-	(4)	(75,766)	13,748
	<u>₩ 665,238</u>	<u>₩ 46,927</u>	<u>₩ (33,870)</u>	<u>₩ (215)</u>	<u>₩ -</u>	<u>₩ 678,080</u>

11. Investment property

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

	September 30, 2017			December 31, 2016		
	Acquisition cost	Accumulated depreciation	Book value	Acquisition cost	Accumulated depreciation	Book value
Land	₩ 31,395	₩ -	₩ 31,395	₩ 31,395	₩ -	₩ 31,395
Buildings	9,809	(923)	8,886	9,810	(604)	9,206
	<u>₩ 41,205</u>	<u>₩ (923)</u>	<u>₩ 40,281</u>	<u>₩ 41,205</u>	<u>₩ (604)</u>	<u>₩ 40,601</u>

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

	For the nine months ended September 30, 2017			
	Beginning balance	Acquisition & disposal	Depreciation	Ending balance
Land	₩ 31,395	₩ -	₩ -	₩ 31,395
Buildings	9,206	-	(320)	8,886
	<u>₩ 40,601</u>	<u>₩ -</u>	<u>₩ (320)</u>	<u>₩ 40,281</u>

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11. Investment property (cont'd)

	For the nine months ended September 30, 2016			
	Beginning balance	Acquisition & disposal	Depreciation	Ending balance
Land	₩ 31,395	₩ -	₩ -	₩ 31,395
Buildings	9,632	-	(320)	9,312
	<u>₩ 41,027</u>	<u>₩ -</u>	<u>₩ (320)</u>	<u>₩ 40,707</u>

12. Intangible assets

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

	September 30, 2017				December 31, 2016			
	Acquisition cost	Accumulated amortization	Accumulated impairment	Book value	Acquisition cost	Accumulated amortization	Accumulated impairment	Book value
Goodwill	4,639	-	-	4,639	₩ 4,639	₩ -	₩ -	₩ 4,639
Development costs	100,675	(48,493)	(2,688)	49,494	87,412	(39,926)	(2,688)	44,798
Memberships	53,248	-	(13,648)	39,600	49,077	-	(13,648)	35,429
Brand-related assets	1,975,000	-	-	1,975,000	1,975,000	-	-	1,975,000
Others	31,325	(2,479)	-	28,846	30,447	(1,588)	-	28,859
	<u>₩ 2,164,887</u>	<u>₩ (50,972)</u>	<u>₩ (16,336)</u>	<u>₩ 2,097,579</u>	<u>₩ 2,146,575</u>	<u>₩ (41,514)</u>	<u>₩ (16,336)</u>	<u>₩ 2,088,725</u>

(2) Changes in intangible assets for the nine months ended September 30, 2017 and 2016 are as follows (Korean won in millions):

	For the nine months ended September 30, 2017					
	Beginning balance	Acquisition	Depreciation	Impairment	Disposal	Ending balance
Goodwill	₩ 4,639	₩ -	₩ -	₩ -	₩ -	₩ 4,639
Development costs	44,798	13,636	(8,611)	-	(329)	49,494
Memberships (*1)	35,429	6,094	-	-	(1,923)	39,600
Brand-related assets (*1)	1,975,000	-	-	-	-	1,975,000
Others	28,859	878	(891)	-	-	28,846
	<u>₩ 2,088,725</u>	<u>₩ 20,608</u>	<u>₩ (9,502)</u>	<u>₩ -</u>	<u>₩ (2,252)</u>	<u>₩ 2,097,579</u>

	For the nine months ended September 30, 2016					
	Beginning balance	Acquisition	Depreciation	Impairment	Disposal	Ending balance
Goodwill	₩ 4,639	₩ -	₩ -	₩ -	₩ -	₩ 4,639
Development costs	40,792	13,871	(8,755)	(1,226)	-	44,682
Memberships (*1)	31,816	8,039	-	-	(3,580)	36,275
Brand-related assets (*1)	1,975,000	-	-	-	-	1,975,000
Others	905	23,319	(234)	-	-	23,990
	<u>₩ 2,053,152</u>	<u>₩ 45,229</u>	<u>₩ (8,989)</u>	<u>₩ (1,226)</u>	<u>₩ (3,580)</u>	<u>₩ 2,084,586</u>

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

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13. Borrowings and bonds payable

(1) Short-term borrowings

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

Description	Financial institution	Interest rate (%)	September 30, 2017	December 31, 2016
Working capital loan	KEB Hana Bank	2.55	₩ 20,000	₩ 10,000
Working capital loan	Shinhan Bank	2.27 ~ 2.32	150,000	50,000
Working capital loan	Woori Bank	2.49 ~ 2.50	150,000	10,000
Working capital loan	Kookmin Bank	2.41 ~ 2.54	200,000	90,000
Working capital loan	Industrial & Commercial Bank of China	2.29	40,000	-
Commercial paper	Samsung Securities	-	-	60,000
Commercial paper	Korea Investment & Securities	1.52	100,000	60,000
			₩ 660,000	₩ 280,000

(2) Bonds payable

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

Issuance number	Interest rate (%)	Maturity	Security	September 30, 2017	December 31, 2016
256-2nd	-	2017-05-25	Unsecured	₩ -	₩ 200,000
257-1st	-	2017-08-27	Unsecured	-	150,000
257-2nd	3.36	2019-08-27	Unsecured	100,000	100,000
258-1st	3.21	2017-10-19	Unsecured	100,000	100,000
258-2nd	3.35	2019-10-19	Unsecured	100,000	100,000
259-2nd	3.34	2020-06-03	Unsecured	100,000	100,000
260-1st	3.59	2018-09-06	Unsecured	100,000	100,000
260-2nd	3.84	2020-09-06	Unsecured	100,000	100,000
261-1st	3.77	2018-12-03	Unsecured	150,000	150,000
261-2nd	3.97	2020-12-03	Unsecured	100,000	100,000
262-1st	3.43	2019-02-12	Unsecured	150,000	150,000
262-2nd	3.68	2021-02-12	Unsecured	100,000	100,000
263-1st	3.19	2019-05-30	Unsecured	150,000	150,000
263-2nd	3.36	2021-05-30	Unsecured	100,000	100,000
264-1st	3.04	2019-08-05	Unsecured	80,000	80,000
264-2nd	3.25	2021-08-05	Unsecured	170,000	170,000
265-1st	2.28	2017-12-02	Unsecured	100,000	100,000
265-2nd	2.45	2019-12-02	Unsecured	100,000	100,000
265-3rd	2.66	2021-12-02	Unsecured	100,000	100,000
266-1st	2.26	2020-02-06	Unsecured	150,000	150,000
266-2nd	2.39	2022-02-06	Unsecured	100,000	100,000
269-1st	-	2017-06-14	Unsecured	-	100,000
269-2nd	4.12	2019-06-14	Unsecured	150,000	150,000
270-1st	3.19	2017-11-02	Unsecured	100,000	100,000
270-2nd	3.39	2019-11-02	Unsecured	50,000	50,000
270-3rd	3.80	2022-11-02	Unsecured	50,000	50,000
271-1st	3.03	2018-02-27	Unsecured	100,000	100,000
271-2nd	3.34	2020-02-27	Unsecured	100,000	100,000
272-2nd	3.57	2018-08-30	Unsecured	100,000	100,000
272-3rd	3.92	2020-08-30	Unsecured	60,000	60,000
273-1st	3.47	2019-03-25	Unsecured	100,000	100,000
273-2nd	3.79	2021-03-25	Unsecured	100,000	100,000
273-3rd	4.26	2024-03-25	Unsecured	100,000	100,000
274-1st	1.94	2018-09-30	Unsecured	70,000	70,000
274-2nd	2.17	2020-09-30	Unsecured	150,000	150,000
274-3rd	2.34	2022-09-30	Unsecured	80,000	80,000
275-1st	2.27	2018-12-07	Unsecured	120,000	120,000
275-2nd	2.52	2020-12-07	Unsecured	120,000	120,000
275-3rd	2.66	2022-12-07	Unsecured	60,000	60,000
276-1st	1.73	2018-03-07	Unsecured	130,000	130,000
276-2nd	2.02	2021-03-07	Unsecured	120,000	120,000
276-3rd	2.26	2023-03-07	Unsecured	150,000	150,000

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13. Borrowings and bonds payable (cont'd)

Issuance number	Interest rate (%)	Maturity	Security	September 30, 2017	December 31, 2016
277-1st	1.70	2018-06-01	Unsecured	₩ 100,000	₩ 100,000
277-2nd	1.93	2021-06-01	Unsecured	120,000	120,000
277-3rd	2.16	2023-06-01	Unsecured	120,000	120,000
277-4th	2.43	2026-06-01	Unsecured	60,000	60,000
278-1st	1.49	2018-09-07	Unsecured	180,000	180,000
278-2nd	1.65	2021-09-07	Unsecured	110,000	110,000
278-3rd	1.80	2023-09-07	Unsecured	110,000	110,000
279-1st	1.96	2020-03-06	Unsecured	90,000	-
279-2nd	2.34	2022-03-06	Unsecured	190,000	-
279-3rd	2.58	2024-03-06	Unsecured	120,000	-
280-1st	1.99	2020-06-01	Unsecured	90,000	-
280-2nd	2.39	2022-06-01	Unsecured	200,000	-
280-3rd	2.67	2024-06-01	Unsecured	110,000	-
281-1st	1.90	2019-08-04	Unsecured	100,000	-
281-2nd	2.40	2022-08-04	Unsecured	130,000	-
281-3rd	2.62	2024-08-04	Unsecured	70,000	-
				<u>6,060,000</u>	<u>5,410,000</u>
				31,741	51,658
				<u>(1,080,775)</u>	<u>(754,262)</u>
				<u>₩ 5,010,966</u>	<u>₩ 4,707,396</u>

Addition: premium on bonds payable
Less: current portion

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

Year ending	Amount of repayment
October 1, 2017 ~ September 30, 2018	₩ 1,080,000
October 1, 2018 ~ September 30, 2019	1,100,000
October 1, 2019 ~ September 30, 2020	1,090,000
October 1, 2020 ~ September 30, 2021	1,040,000
October 1, 2021 and thereafter	1,750,000
	<u>₩ 6,060,000</u>

14. Provisions

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

	For the nine months ended September 30, 2017			
	Beginning balance	Increase	Decrease	Ending balance
Provision for service warranties	₩ 5,284	₩ 1,586	₩ (4,906)	₩ 1,964
Provision for sale warranties	814	4,360	(3,928)	1,246
	<u>₩ 6,098</u>	<u>₩ 5,946</u>	<u>₩ (8,834)</u>	<u>₩ 3,210</u>
	For the nine months ended September 30, 2016			
	Beginning balance	Increase	Decrease	Ending balance
Provision for service warranties	₩ 4,620	₩ 3,777	₩ (5,420)	₩ 2,977
Provision for sale warranties	680	29	-	709
	<u>₩ 5,300</u>	<u>₩ 3,806</u>	<u>₩ (5,420)</u>	<u>₩ 3,686</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 contribution plans recognized for the nine months ended September 30, 2017, were ₩11 million.

(2) Defined benefit plans

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

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

	<u>September 30, 2017</u>	<u>December 31, 2016</u>
Present value of defined benefit obligation	₩ 265,857	₩ 237,311
Fair value of plan assets	<u>(200,161)</u>	<u>(204,244)</u>
	<u>₩ 65,696</u>	<u>₩ 33,067</u>

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

	<u>For the nine months ended September 30, 2017</u>		
	<u>Present value of defined benefit obligation</u>	<u>Fair value of plan assets</u>	<u>Total</u>
Beginning balance	₩ 237,311	₩ (204,244)	₩ 33,067
Provision for pension benefits:			
Current service cost	23,504	-	23,504
Net interest expense (income)	4,217	(3,832)	385
Re-measurement:			
Return on plan assets (excluding amounts included in net interest expense)	-	583	583
Actuarial changes arising from changes in financial assumptions	(3,447)	-	(3,447)
Experience adjustments	6,303	-	6,303
Contributions by employer directly to plan assets	-	(1,000)	(1,000)
Benefits paid	(8,845)	13,275	4,430
Others	<u>6,814</u>	<u>(4,943)</u>	<u>1,871</u>
Ending balance	<u>₩ 265,857</u>	<u>₩ (200,161)</u>	<u>₩ 65,696</u>

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15. Retirement benefit obligation (cont'd)

	For the nine months ended September 30, 2016		
	Present value of defined benefit obligation	Fair value of plan assets	Total
Beginning balance	₩ 211,451	₩ (185,030)	₩ 26,421
Provision for pension benefits:			
Current service cost	20,372	-	20,372
Net interest expense (income)	3,230	(3,020)	210
Re-measurement:			
Return on plan assets (excluding amounts included in net interest expense)	-	554	554
Actuarial changes arising from changes in financial assumptions	9,653	-	9,653
Experience adjustments	5,750	-	5,750
Contributions by employer directly to plan assets	-	(514)	(514)
Benefits paid	(6,004)	5,603	(401)
Others	4,672	(3,330)	1,342
Ending balance	<u>₩ 249,124</u>	<u>₩ (185,737)</u>	<u>₩ 63,387</u>

16. Other assets and liabilities

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

	September 30, 2017	December 31, 2016
Current assets:		
Short-term loans	₩ -	₩ 600
Accrued income	453	169
Advance payments	4,647	9,287
Prepaid expenses	11,934	7,852
Guarantee deposits	3,884	3,671
Derivative financial assets	44	1,094
Others	64	22
	<u>₩ 21,026</u>	<u>₩ 22,695</u>
Non-current assets:		
Long-term financial instruments	₩ 19	₩ 19
Long-term guarantee deposits	19,388	16,763
Long-term loans	397	-
Others	4,023	4,641
	<u>₩ 23,827</u>	<u>₩ 21,423</u>

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16. Other assets and liabilities (cont'd)

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

	<u>September 30, 2017</u>		<u>December 31, 2016</u>	
Current liabilities:				
Advance received	₩	59,183	₩	55,028
Withholdings		23,405		26,513
Income tax payable		43,589		22,721
Derivative financial liabilities		213		1,541
Others		75		74
	<u>₩</u>	<u>126,465</u>	<u>₩</u>	<u>105,877</u>
Non-current liabilities:				
Leasehold deposits received	₩	11,807	₩	12,223
Derivative financial liabilities		17		115
Others		4,958		4,942
	<u>₩</u>	<u>16,782</u>	<u>₩</u>	<u>17,280</u>

17. Derivative financial assets and liabilities

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

	<u>September 30, 2017</u>		<u>December 31, 2016</u>	
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
Forward contract	₩ 44	₩ 230	₩ 1,094	₩ 1,656

18. Equity

18.1 Issued capital

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

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

The Company retired 6,000,000 shares of its treasury stock (par value: ₩1,200 million) in 2015 by reducing its 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 September 30, 2017 and December 31, 2016 are as follows (Korean won in millions):

	<u>September 30, 2017</u>	<u>December 31, 2016</u>
Paid-in surplus (*1)	₩ 5,605,831	₩ 5,605,831
Treasury shares (*2)	(904,490)	(904,490)
Stock option	824	-
Others	17,711	17,711
	<u>₩ 4,719,876</u>	<u>₩ 4,719,052</u>

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

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

18.3 Retained earnings

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

	<u>September 30, 2017</u>	<u>December 31, 2016</u>
Legal reserve (*1)	₩ 7,693	₩ 7,693
Voluntary reserve	71,563	80,896
Unappropriated retained earnings	7,602,184	7,094,634
	<u>₩ 7,681,440</u>	<u>₩ 7,183,223</u>

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

18.4 Other capital components

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

	<u>September 30, 2017</u>	<u>December 31, 2016</u>
Gain on available-for-sale financial assets	₩ 11,438	₩ 8,041

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18.5 Stock option

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

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

Share compensation expense recognized during the current reporting period is ₩824 million and the remaining share compensation expense to be recognized in later periods are ₩3,463 million.

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

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

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19. Operating revenues

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

	September 30, 2017		September 30, 2016	
	Three months	Nine months	Three months	Nine months
IT service (*1)	₩ 380,660	₩ 1,133,233	₩ 367,686	₩ 1,026,697
Used car distribution	258,342	722,142	209,695	625,050
Dividend income	69,778	690,193	21,996	596,622
Trademark usage income	46,428	138,752	50,845	152,783
Rental income	11,707	34,657	11,573	34,862
Total	₩ 766,915	₩ 2,718,977	₩ 661,795	₩ 2,436,014

(*1) IT service includes contract revenue of ₩309,256 million and ₩285,707 million recognized from construction contract for the nine months ended September 30, 2017 and 2016, respectively.

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

	September 30, 2017	December 31, 2016
Accumulated cost and profit	₩ 325,781	₩ 307,039
Progress billings	257,048	248,995
Unbilled receivables (trade accounts receivable)	83,509	70,468
Overbilled receivables (advance receipts)	14,776	12,424

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

	Change in estimated construction revenue	Change in estimated cost	Impact on current period profit	Impact on future period loss
Construction contracts (*1)	₩ (2,949)	₩ (656)	₩ (5)	₩ (2,288)

(*1) In accordance with KIFRS 1108 *Operating Segments*, the Company has a single reportable segment and therefore, does not need to separately disclose the business segment.

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

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

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20. Operating expenses

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

	September 30, 2017		September 30, 2016	
	Three months	Nine months	Three months	Nine months
Material costs	₩ 288,579	₩ 850,731	₩ 240,393	₩ 723,917
Outsourcing costs	158,677	447,888	149,846	395,095
Salaries	87,814	255,382	78,185	230,145
Provision for pension benefits	6,598	23,732	6,854	20,168
Depreciation	11,631	34,662	12,181	33,078
Amortization	2,489	5,871	1,326	4,011
Rents	12,218	35,655	12,406	35,662
Communications	5,444	16,850	5,582	16,956
Employee welfare benefits	13,288	40,459	11,959	39,057
Commissions	10,783	23,883	8,397	22,854
Advertising	15,443	38,133	9,250	33,832
Education and training	3,801	10,795	3,329	9,952
Research and development	5,065	15,666	5,477	13,481
Office management	10,894	29,512	9,159	24,555
Travel	3,960	10,816	3,376	9,966
Others	6,398	19,888	8,520	21,883
Total	₩ 643,082	₩ 1,859,923	₩ 566,240	₩ 1,634,612

21. Expenses classified by nature

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

	September 30, 2017		September 30, 2016	
	Three months	Nine months	Three months	Nine months
Material costs	₩ 288,720	₩ 851,128	₩ 240,518	₩ 724,275
Outsourcing costs	158,882	448,691	151,086	396,718
Salaries	89,925	262,098	80,047	233,403
Provision for pension benefits	6,873	24,708	7,095	20,826
Depreciation and amortization	15,797	45,422	14,852	42,859
Rents	12,219	35,658	12,406	35,663
Communications	5,445	16,851	5,583	16,958
Employee welfare benefits	13,737	41,753	12,309	40,052
Commissions	10,884	24,150	8,478	23,072
Education and training	3,865	10,972	3,424	10,170
Office management	10,898	29,516	9,159	24,555
Travel	3,979	10,884	3,429	10,152
Others	21,858	58,092	17,854	55,909
Total	₩ 643,082	₩ 1,859,923	₩ 566,240	₩ 1,634,612

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

22.1 Financial income and costs

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

	September 30, 2017		September 30, 2016	
	Three months	Nine months	Three months	Nine months
Financial income:				
Interest income	₩ 1,447	₩ 3,817	₩ 1,341	₩ 2,870
Gain on foreign currency transactions	1,150	4,480	2,152	3,579
Gain on foreign currency translation	574	935	27	365
Gain on valuation of derivative instruments	(7,245)	2,527	3,155	4,213
Gain on transactions of derivative instruments	598	2,516	606	826
Total	₩ (3,476)	₩ 14,275	₩ 7,281	₩ 11,853
Financial costs:				
Interest expenses	₩ 38,829	₩ 110,950	₩ 37,270	₩ 110,187
Loss on foreign currency transactions	1,710	4,149	2,554	4,225
Loss on foreign currency translation	326	2,004	580	1,076
Loss on valuation of derivative instruments	566	3,352	2,859	3,491
Loss on transactions of derivative instruments	468	1,315	188	760
Total	₩ 41,899	₩ 121,770	₩ 43,451	₩ 119,739

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22.2 Other non-operating income and expenses

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

	September 30, 2017		September 30, 2016	
	Three months	Nine months	Three months	Nine months
Other non-operating income:				
Dividends income	₩ -	₩ 3	₩ -	₩ 1,200
Gain on disposal of available-for-sale financial assets	241	241	-	125
Gain on disposal of investments in associates	-	-	-	1,320
Gain on disposal of investments in subsidiaries	38,791	38,791	307	307
Gain on disposal of property, plant and equipment	58	167	9	39
Gain on disposal of intangible assets	-	225	-	167
Others	70	259	237	673
Total	<u>₩ 39,160</u>	<u>₩ 39,686</u>	<u>₩ 553</u>	<u>₩ 3,831</u>
Other non-operating expenses:				
Loss on disposal of available-for-sale financial assets	₩ 158	₩ 158	₩ -	₩ 13
Loss on disposal of property, plant and equipment	19	49	44	104
Loss on disposal of intangible assets	16	42	2	358
Impairment of intangible assets	-	-	259	1,226
Loss on disposal of investments in associates	3,553	3,553	730	730
Loss on disposal of investments in subsidiaries	456	456	-	-
Donations	2,906	9,024	1,975	9,562
Others	412	1,421	358	1,446
Total	<u>₩ 7,520</u>	<u>₩ 14,703</u>	<u>₩ 3,368</u>	<u>₩ 13,439</u>

23. Income taxes

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

Effective tax rates for the nine months ended September 30, 2017 and 2016 were 8.63% and 6.42%, respectively.

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24. Earnings per share

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

	September 30, 2017		September 30, 2016	
	Three months	Nine months	Three months	Nine months
Net income	₩ 85,851	₩ 709,491	₩ 50,035	₩ 639,993
Less: Preferred share dividends	(529)	(1,587)	(487)	(1,460)
Net income attributable to ordinary share owners of the Company	₩ 85,322	₩ 707,904	₩ 49,548	₩ 638,533
Weighted-average number of issued shares outstanding (*1)	55,824,357	55,824,357	55,824,357	55,824,357
Basic earnings per share (Korean won)	1,528	12,681	887	11,438

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

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

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

25. Transactions with related parties

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

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

Ultimate controlling party	Subsidiary
Subsidiary (total 308)	Tae-won, Chey and related parties SK Innovation Co., Ltd., SK Energy Co., Ltd., Netruck Co., Ltd., Jeju United FC Corporation, SK Energy Road Investment Co., Ltd., SK Energy Road Investment (HK) Co., Ltd., Ningbo SK Baoying Asphalt Storage Co., Ltd., Hefei SK Baoying Asphalt Co., Ltd., Chongqing SK Asphalt Co., Ltd., SK Shanghai Asphalt Co., Ltd., SK Energy Hong Kong Co., Ltd., Shandong SK Hightech Oil Co., Ltd., SK Global Chemical Co., Ltd., SK Global Chemical (China) Holding Co., Ltd., SK Global Chemical International Trading (Shanghai) Co., Ltd., SK Golden Tide Plastics (Yantai) Co., Ltd., SK Global Chemical International Trading (Guangzhou) Co., Ltd., SK Global Chemical Americas, Inc., SK Primacor Americas LLC, SK Primacor Europe, S.L.U., SK Global Chemical Japan Co., Ltd., SK Global Chemical Singapore Pte. Ltd., SK Global Chemical Investment Hong Kong Ltd., Ningbo SK Performance Rubber Co., Ltd., SK Incheon Petrochem Co., Ltd., SK Trading International Co., Ltd., SK Energy International Pte. Ltd., SK Energy Europe, Ltd., SK Energy Americas, Inc., SK Terminal B.V., Bergaya International Pte. Ltd., SK Lubricants Co., Ltd., Yubase Manufacturing Asia Corporation, SK Energy Lubricants (Tianjin) Co., Ltd., PT. Patra SK, SK Lubricants & Oils India Pte. Ltd., SK Lubricants Americas, Inc., SK Lubricants Europe B.V., SK Lubricants Japan Co., Ltd., Iberian Lube Base Oils, S.A., SK Lubricants Russia L.L.C, SK Mobile Energy Co., Ltd., SK Innovation Insurance (Bermuda), Ltd., SK USA, Inc., Moche Energy Company, L.L.C, SK E&P

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25. Transactions with related parties (cont'd)

Subsidiary	Subsidiary
Subsidiary (total 308)	<p>Company, SK E&P America, Inc., SK Plymouth, L.L.C, SK Permian, L.L.C, SK Battery Systems Co., Ltd., SK Telecom Co., Ltd., SK Telink Co., Ltd., NSOK Co., Ltd. (formerly, Neos Networks Co., Ltd.), SK Broadband Co., Ltd., Home&Service Co., Ltd., PS&Marketing Corp. , Serviceace Co., Ltd., Service Top Co., Ltd., Network O&S Co., Ltd., SK techx Co., Ltd., K-Net Culture & Contents Venture Fund, One store Co., Ltd., SK Communications Co., Ltd., SK Planet Co., Ltd., SK M & Service Co., Ltd., Hello Nature Co., Ltd., Planet11 E-commerce Solutions India Pvt. Ltd., 11street (Thailand) Co., Ltd., SK Planet Japan, K.K., SK Planet Global Pte. Ltd., SKP Global Holdings Pte. Ltd., SKP America, L.L.C, shopkick Management Company, Inc., Shopkick, Inc., SK Telecom China Holding Co., Ltd., SK Global Healthcare Business Group, Ltd., SKT Vietnam Pte. Ltd., SKT Americas Inc., YTK Investment Ltd., Atlas Investment Ltd., SK Telecom Innovation Fund, L.P., SK Telecom China Fund I L.P., Iriver Co., Ltd., iriver Inc., iriver Enterprise Ltd., iriver China Co., Ltd., Dongguan iriver Electronics Co., Ltd., Groovers Japan Co., Ltd., S.M.Life Design Company Japan, Entrix Co., Ltd., SK Networks Co., Ltd., SK Networks Service Co., Ltd., SK Pinx Co., Ltd., Car Life Service Co., Ltd., SK Magic Co., Ltd., SK Magic Service Co., Ltd., Mokgam Service, SKN (China) Holdings Co., Ltd., Liaoning SK Networks Real Estate Development Co., Ltd., Shenyang SK Bus Terminal Co., Ltd., SK Networks (Liaoning) Logistics Co., Ltd., SK Networks (Dandong) Energy Co., Ltd., Shenyang SK Networks Energy Co., Ltd., SK (GZ FreeZone) Co., Ltd., SK Networks (Shanghai) Co., Ltd., POSK (Pinghu) Steel Processing Center Co., Ltd., SK Networks Hong Kong Ltd., SK (Guangzhou) Metal Co., Ltd., SK Networks (Xiamen) Steel Processing Center Co., Ltd., SK Networks Japan Co., Ltd., SK Networks Deutschland GmbH, Daiyang SK Networks SAN. VE TIC. Ltd. STI, SK Networks Resources Australia Pty. Ltd., SKC Co., Ltd., SK Telesys Co., Ltd., SE (Jiangsu) Electronic Materials Co., Ltd., Techdream Co., Ltd., SKC Infra Service Co., Ltd., SKC Solmics Co., Ltd., Solmics Taiwan Co., Ltd., Solmics Shanghai Co., Ltd., SKW Co., Ltd., SKC (Jiangsu) High tech Plastics Co., Ltd., SKC, Inc., SKC Europe GmbH, SK bioland Co., Ltd., Bioland Biotec Co., Ltd., Bioland Haimen Co., Ltd., SKC Hi-Tech&Marketing Co., Ltd., (formerly, SKC Haas Display Film Co., Ltd.), SKC Hi-Tech&Marketing (Suzhou) Co., Ltd., SKC Hi-Tech&Marketing Taiwan Co., Ltd., SKC Hi-Tech&Marketing Japan K.K., SKC Hi-Tech&Marketing Polska SP.Z.O.O, SKC Hi-Tech&Marketing USA LLC, SK Maritime Co., Ltd. (formerly, SK Shipping Co., Ltd), SK Shipping Co., Ltd., Blueseaocean 1st L.L.C, Blueseaocean 2nd L.L.C, Blueseaocean 3rd L.L.C, With Ocean L.L.C, Yukyungjiju 1st L.L.C, Neptune Solution L.L.C, SK Shipping Hong Kong 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., Wirye Energy Service Co., Ltd., SK E&S Hong Kong Co., Ltd., SK E&S Australia Pty. Ltd., SK E&S Ameriacas, Inc., SK E&S LNG, L.L.C, DewBlaine Energy, L.L.C, CAIIP Gas Marketing, L.L.C, Prism Energy International Pte. Ltd. (formerly, SK LNG Trading Pte. Ltd.), Fajar Energy International Pte. Ltd., PT SK E&S Nusantara, SK Engineering & Construction Co., Ltd., Seosuwon Development Company, SK TNS Co., Ltd., SKEC Nanjing Co., Ltd., SKEC (Thai), Ltd., Thai Woo Ree Engineering Co., Ltd., SKEC Anadolu, L.L.C, SK E&C Betek Corporation, Mesa Verde RE Ventures, L.L.C, SKEC Consultores Ecquador, S.A., Sunlake Co., Ltd., SK E&C India Pvt. Ltd., SK Holdco Pte. Ltd., SK Materials Co., Ltd., SK Materials Japan Co., Ltd., SK Materials Taiwan Co., Ltd., SK Materials (Jiangsu) Co., Ltd., SK Materials (Xian) Co., Ltd., SK Airgas Co., Ltd., SK Tri Chem Co., Ltd., SK Siltron Co., Ltd., SK Siltron America, Inc., SK Siltron Japan, Inc., SK Infosec Co., Ltd., SK Encarsales.Com Ltd., SK C&C Beijing Co., Ltd., SK C&C Chengdu Co., Ltd., SK C&C India Pvt. Ltd., SK S.E.Asia Pte. Ltd., Essencore Limited, ISD Techology (ShenZhen) Limited, S&G Technology, FSK L&S Co., Ltd., FSK L&S (Shanghai) Co., Ltd. (formerly, Shanghai Huayou International Freight Forwarding Co., Ltd.), Saturn Agriculture Investment Co., Limited, SK Biopharmaceuticals Co., Ltd., SK Biotek Co., Ltd., SM Core, Inc., Point Code Inc., SMC US, Inc., SK Life Science, Inc., SK Investment Management Co., Ltd., SK computer and communication L.L.C., SK China Company, Ltd., SK China (Beijing) Co., Ltd., SK Beijing Investment Management Ltd., SKY Property Mgmt (Beijing) Co., Ltd., SK Bio Energy Hong Kong Co., Ltd., SK Property Investment Management Co., Ltd., SK Industrial</p>

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Notes to the interim condensed separate financial statements
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25. Transactions with related parties (cont'd)

Subsidiary	Subsidiary
Subsidiary (total 308)	Development China Co., Ltd., Shanghai SKY Real Estate Development Co., Ltd., SK International Supply Chain Management Co., Ltd., Ningde Sky Beverage Co., Ltd., SK China Investment Management Co., Ltd., SK International Agro-Products Logistics, Development Co., Ltd., SK Auto Service Hong Kong Co., Ltd., SK (Shenyang) auto rental Co., Ltd., SK (Beijing) auto rental Co., Ltd., SK Rent-A-Car (Qingdao) Co., Ltd., Skyline Auto Financial Leasing Co., Ltd., SK Financial Leasing Co., Ltd., SKY Property Management Ltd., SKY Investment Co., Ltd., SK China Real Estate Co., Ltd., SK China Creative Industry Development Co., Ltd., Gemini Partners Pte. Ltd., Solaris Partners Pte. Ltd., Beijing SK Magellan Capital Advisors Co., Ltd., SK GI Management, SK MENA Investment B.V., SK Latin America Investment S.A., Plutus Capital NY, Inc., Hudson Energy NY, LLC, SK BIOTEK Ireland Limited, SK Technology Innovation Company, Happynarae Co., Ltd., Suzhou Happynarae Co., Ltd., SK Forest Co., Ltd.

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

Subsidiary	Company name	September 30, 2017			
		Sales (*1)		Purchase (*2)	
		Three months	Nine months	Three months	Nine months
		₩	₩	₩	₩
		70,359	302,610	841	2,238
		3,077	8,900	-	-
		22,146	59,359	2	2
		8,255	20,595	-	-
		4,264	11,713	-	10
		1,098	3,191	-	-
		1,466	2,623	-	-
		-	-	614	1,617
		6,794	20,424	-	-
		3,422	19,951	-	-
		3,628	161,555	-	-
		1,036	3,057	4,846	14,459
		87	5,563	215	674
		139	320	2,931	7,074
		959	2,694	-	-
		13,171	48,541	4,544	14,234
		117	520	1,482	3,526
		12	47	49	1,527
		-	1,589	-	-
	(formerly, SK Shipping Co., Ltd.)				
		1,395	2,712	-	-
		114,571	490,311	3,495	9,125
		1,216	3,351	46	114
		4,267	12,396	-	-
		43,305	148,071	2,496	7,698
		806	2,177	325	1,534
		4,392	22,376	1,623	2,163
		1,672	22,866	-	-
		6,986	15,862	1,577	4,379
		-	1,629	8,830	25,282
		5,491	19,442	-	-
		2,022	6,050	-	4
		1,162	3,595	-	-
		80,608	209,165	35	143
		705	2,145	-	443
		1,765	6,125	419	1,554
		₩	₩	₩	₩
		410,393	1,641,525	34,370	97,800
		Total	Total	Total	Total

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25. Transactions with related parties (cont'd)

		September 30, 2016			
		Sales (*1)		Purchase (*2)	
Subsidiary	Company name	Three months	Nine months	Three months	Nine months
	SK Innovation Co., Ltd.	₩ 16,860	₩ 197,709	₩ 601	₩ 3,480
	SK Lubricants Co., Ltd.	2,825	7,965	-	-
	SK Energy Co., Ltd.	20,812	61,723	2	2
	SK Global Chemical Co., Ltd.	6,659	19,167	-	-
	SK Incheon Petrochem Co., Ltd.	4,228	12,627	-	-
	SK Trading International Co., Ltd.	901	2,486	-	-
	SK Biotek Co., Ltd.	234	713	-	-
	SK USA, Inc.	-	-	32	613
	SK Engineering & Construction Co., Ltd.	7,737	22,719	-	1
	SKC Co., Ltd.	2,150	18,105	-	-
	SK E&S Co., Ltd.	4,313	228,720	-	-
	SK Infosec Co., Ltd.	1,037	2,891	4,638	9,729
	SK Encarsales.Com., Ltd.	70	4,232	323	1,065
	SK C&C Beijing Co., Ltd.	96	645	2,171	5,736
	Essencore Limited	605	1,690	-	-
	SK Networks Co., Ltd.	15,653	50,302	3,433	12,493
	Happynarae Co., Ltd.	128	260	590	1,232
	SK Pinx Co., Ltd.	9	26	43	1,281
	SK Maritime Co., Ltd. (formerly, SK Shipping Co., Ltd.)	1,652	4,714	-	-
	SK Telecom Co., Ltd.	136,321	519,962	3,073	8,458
	SK Telink Co., Ltd.	1,039	2,949	54	270
	SK Techx Co., Ltd.	5,519	19,078	-	-
	SK Broadband Co., Ltd.	30,798	94,110	2,322	6,807
	PS&Marketing Corp.	625	2,206	1,800	1,932
	SK Planet Co., Ltd.	12,599	44,250	468	1,459
	SK Materials Co., Ltd.	2,292	2,679	-	-
	Others	4,981	13,623	1,277	3,411
Others	Hana Land Chip PEF 33	1,632	3,360	9,194	26,049
	SK Securities Co., Ltd.	5,951	16,878	10	10
	SK Gas Co., Ltd.	2,030	5,953	-	-
	SK Chemicals Co., Ltd.	1,469	4,218	-	-
	SK Hynix Inc.	62,246	157,408	147	188
	SK Hynix Semiconductor (China) Ltd.	10,561	26,088	72	72
	Others	2,810	6,725	232	1,071
Total		<u>₩ 366,842</u>	<u>₩ 1,556,181</u>	<u>₩ 30,482</u>	<u>₩ 85,359</u>

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

(*2) Purchase consists of rental expenses and outsourcing technology services expenses.

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25. Transactions with related parties (cont'd)

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

		September 30, 2017					
		Receivables			Payables		
	Company name	Trade receivables	Other receivables	Total	Trade payables	Other payables	Total
Subsidiary	SK Innovation Co., Ltd.	₩ 14,447	₩ 6,195	₩ 20,642	₩ 2,544	₩ 5,408	₩ 7,952
	SK Lubricants Co., Ltd.	909	-	909	1,982	-	1,982
	SK Energy Co., Ltd.	7,081	-	7,081	5,353	-	5,353
	SK Global Chemical Co., Ltd.	1,836	-	1,836	2,077	-	2,077
	SK Incheon Petrochem Co., Ltd.	-	-	-	2,189	-	2,189
	SK Trading International Co., Ltd.	152	-	152	1,343	-	1,343
	SK USA, Inc.	-	-	-	-	531	531
	SK Engineering & Construction Co., Ltd.	4,019	-	4,019	-	-	-
	SKC Co., Ltd.	1,373	-	1,373	116	-	116
	SK E&S Co., Ltd.	2,242	2,490	4,732	-	-	-
	SK Infosec Co., Ltd.	1,664	1,883	3,547	3,046	1,984	5,030
	SK Encarsales.Com., Ltd.	23	4,726	4,749	-	14	14
	SK C&C Beijing Co., Ltd.	291	-	291	36	77	113
	Essencore Limited	913	-	913	114	-	114
	SK Networks Co., Ltd.	7,193	2	7,195	155	152	307
	Happynarae Co., Ltd.	242	-	242	266	694	960
	SK Maritime Co., Ltd.	-	-	-	30	-	30
	(formerly, SK Shipping Co., Ltd.)						
	SK Telecom Co., Ltd.	60,899	134	61,033	3,935	565	4,500
	SK Telink Co., Ltd.	325	-	325	5	11	16
	SK Broadband Co., Ltd.	55,729	-	55,729	5,242	158	5,400
	PS&Marketing Corp.	348	-	348	-	-	-
	SK Planet Co., Ltd.	4,374	-	4,374	12	105	117
	SK Techx Co., Ltd.	3,318	-	3,318	91	-	91
	SK Materials Co., Ltd.	1,157	-	1,157	-	-	-
	Others	3,969	10,922	14,891	1,056	188	1,244
	Others	Hana Land Chip PEF 33	-	7,612	7,612	-	-
SK Securities Co., Ltd.		3,929	-	3,929	-	-	-
SK Gas Co., Ltd.		585	-	585	-	-	-
SK Chemicals Co., Ltd.		1,006	-	1,006	-	-	-
SK Hynix Inc.		108,298	-	108,298	7,992	5,344	13,336
SK Hynix Semiconductor (China) Ltd.		1,381	-	1,381	356	-	356
Others		1,039	148	1,187	621	869	1,490
		₩ 288,742	₩ 34,112	₩ 322,854	₩ 38,561	₩ 16,100	₩ 54,661

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25. Transactions with related parties (cont'd)

		December 31, 2016					
		Receivables			Payables		
Subsidiary	Company name	Trade	Other	Total	Trade	Other	Total
		receivables	receivables		payables	payables	
	SK Innovation Co., Ltd.	₩ 19,472	₩ 199	₩ 19,671	₩ 5	₩ 5,155	₩ 5,160
	SK Lubricants Co., Ltd.	3,207	-	3,207	-	1,888	1,888
	SK Energy Co., Ltd.	8,198	-	8,198	-	6,509	6,509
	SK Global Chemical Co., Ltd.	2,475	-	2,475	-	2,374	2,374
	SK Incheon Petrochem Co., Ltd.	2,096	-	2,096	-	1,907	1,907
	SK Trading International Co., Ltd.	1,742	-	1,742	-	1,365	1,365
	SK USA, Inc.	-	-	-	-	393	393
	SK Engineering & Construction Co., Ltd.	5,994	-	5,994	-	56	56
	SKC Co., Ltd.	1,451	-	1,451	-	3	3
	SK E&S Co., Ltd.	1,817	-	1,817	-	-	-
	SK Infosec Co., Ltd.	2,031	23	2,054	3,855	4,114	7,969
	SK Encarsales.Com., Ltd.	-	5,076	5,076	-	25	25
	SK C&C Beijing Co., Ltd.	281	-	281	454	209	663
	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 Maritime Co., Ltd. (formerly, 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	-	-	-
	SK Planet Co., Ltd.	15,716	-	15,716	9	124	133
	SK Techx Co., Ltd.	6,437	-	6,437	-	423	423
	SK Materials Co., Ltd.	1,039	-	1,039	-	3	3
	Others	2,873	290	3,163	1,164	1,289	2,453
Others	Hana Land Chip PEF 33	-	5,727	5,727	-	-	-
	SK Securities Co., Ltd.	2,648	-	2,648	-	160	160
	SK Gas Co., Ltd.	861	-	861	-	-	-
	SK Chemicals Co., Ltd.	1,454	-	1,454	-	-	-
	SK Hynix Inc.	105,205	-	105,205	-	13,294	13,294
	SK Hynix Semiconductor (China) Ltd.	6,471	-	6,471	-	610	610
	Others	3,336	148	3,484	57	2,503	2,560
		<u>₩ 373,988</u>	<u>₩ 11,875</u>	<u>₩ 385,863</u>	<u>₩ 7,563</u>	<u>₩ 53,833</u>	<u>₩ 61,396</u>

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

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

	September 30, 2017		September 30, 2016	
	Three months	Nine months	Three months	Nine months
Salaries	₩ 1,383	₩ 3,956	₩ 965	₩ 2,469
Provision for pension benefits	152	1,513	48	301
Share compensation expense	397	824	-	-
Total	<u>₩ 1,932</u>	<u>₩ 6,293</u>	<u>₩ 1,013</u>	<u>₩ 2,770</u>

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

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

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26. Cash flow information

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

	For the nine months ended	
	September 30, 2017	September 30, 2016
Provision for pension benefits	₩ 23,889	₩ 20,582
Depreciation	35,972	33,870
Depreciation of investment property	320	320
Amortization	9,502	8,989
Bad debt expenses	172	157
Valuation loss on inventories	54	78
Outsourcing fees (provision for service warranties)	5,946	3,806
Interest expenses	110,950	110,187
Loss on foreign currency translation	2,004	1,076
Loss on valuation of derivative instruments	3,352	3,491
Loss on disposal of available-for-sale financial assets	158	13
Loss on disposal of investments in associates	3,553	730
Loss on disposal of investments in subsidiaries	456	-
Loss on disposal of property, plant and equipment	49	104
Loss on disposal of intangible assets	42	358
Loss on impairment of intangible assets	-	1,226
Share compensation expense	824	-
Income tax expense	67,051	43,915
Reversal of service warranties	(297)	(618)
Dividends income	(690,196)	(597,822)
Interest income	(3,817)	(2,870)
Gain on foreign currency translation	(935)	(365)
Gain on valuation of derivative instruments	(2,527)	(4,213)
Gain on disposal of available-for-sale financial assets	(241)	(125)
Gain on disposal of investments in associates	-	(1,320)
Gain on disposal of investments in subsidiaries	(38,791)	(307)
Gain on disposal of property, plant and equipment	(167)	(39)
Gain on disposal of intangible assets	(225)	(167)
Others	37	57
	<u>₩ (472,865)</u>	<u>₩ (378,887)</u>

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26. Cash flow information (cont'd)

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

	For the nine months ended	
	September 30, 2017	September 30, 2016
Trade accounts receivable	₩ 84,608	₩ 42,023
Other accounts receivable	(8,222)	497
Accrued income	-	(19)
Inventories	(6,234)	8,065
Advance payments	4,640	(6,359)
Prepaid expenses	(3,557)	(325)
Trade accounts payable	(57,157)	14,726
Advance received	4,155	(10,200)
Withholdings	(3,108)	(1,915)
Other accounts payable	(24,784)	(22,641)
Accrued expenses	13,735	(7,552)
Leasehold deposits received	(681)	(71)
Provision for service warranties	(8,537)	(4,802)
Retirement benefit obligation	(2,031)	(1,332)
Plan assets	7,332	1,759
Others	(1,264)	346
	<u>₩ (1,105)</u>	<u>₩ 12,200</u>

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

	For the nine months ended	
	September 30, 2017	September 30, 2016
Transfer of long-term bonds payable to current-portion	₩ 500,792	₩ 456,005
Transfer of available-for-sale financial assets to assets held for sale	51,859	-
Transfer of advance payments to investments in associates	-	58,860
Accounts payable regarding the acquisition of property, plant and equipment, and intangible assets	(5,666)	-

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27. Commitments and contingencies

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

	Currency	September 30, 2017	December 31, 2016
Seoul Guarantee Insurance	KRW	2,069	1,943
Korea Software Financial Cooperative	KRW	237,985	355,006
The Export-Import Bank of Korea	USD	1,225	2,659
Korea Trade Insurance Corporation	USD	1,077	6,587
Korea Trade Insurance Corporation	VND	90,113,661	90,113,661

(2) Pending litigation

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

Plaintiff	Defendant	Description	amount	Current status
Samsung Card Co., Ltd.	The Company	Claim for damages	KRW 3,692	Second trial in progress
Defense Acquisition Program Administration	The Company	Claim for damages	USD 19,673	First trial in progress
Korea Minting Security Printing & ID Card Operating Corp.	The Company	Claim for damages	KRW 2,000	First trial in progress
The Company	Samsung Card Co., Ltd.	Claim for damages	KRW 5,564	Second trial in progress

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

(3) The assets pledged as collateral for the Company's performance guarantee for contract as at September 30, 2017 are as follows (Korean won in millions):

	Book value	Collateralized amount	Reason for collateral	Collateral beneficiary
Land and buildings	₩ 9,391	₩ 1,700	Performance guarantee for contract	RCI Financial Service Korea

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27. Commitments and contingencies (cont'd)

(4) Significant commitments

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

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

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

	Shareholder agreement
Investor	Warmachine Sixth Co., Ltd. and others
Number of shares	13,143,330
Contract date	August 25, 2017
Expiry date	August 24, 2022
Settlement	The Company and the investors are to settle the amount that deducts the issue price from the net selling price in cash. If the amount is positive, the investors are to pay to the Company, and if the amount is negative, the Company are to pay to the investors. In case where the sale is not complete, the selling price of the shares is considered to be nil.
Premium	The Company is to pay 0.5% of the initial contract amount at the closing date of the transaction and is to pay to the investors the amount equivalent to 3.14% of the total shares held by the investors annually. When the investors receive dividends on the shares held, the amount is paid to the Company.
Call option	On a three-month basis from the closing date of sale (“the quarterly payment day”), the Company has the right to purchase the shares held by the investors at the initial contract price of the ordinary shares with a certain level of additional charges.

27. Commitments and contingencies (cont'd)

- 3) The Company entered into a contract to lease the headquarters building from the National Agricultural Cooperative Federation (the "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 fair value when the lessor elects to dispose of the property.
 - 4) 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 September 30, 2017, SK E&S Co., Ltd., one of the subsidiaries, is responsible for a performance guarantee in case SK E&S LNG, LLC defaults on payments for the service or for claims against breach of obligation. In regard to this, the Company provides a performance guarantee for SK E&S Co., Ltd.'s guarantee.
 - 5) 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 jointly responsible for obligations of the Company arisen before the spin-off on July 1, 2007. The Company and SK Biopharmaceuticals Co., Ltd. are jointly responsible for obligations of the Company that occurred before the spin-off on April 1, 2011.
 - 6) The Company provided a performance guarantee to SK Shipping Co., Ltd., a subsidiary. The amount of guarantee provided to SK Shipping Co., Ltd. by the Company was calculated as the lower of nil or other guarantee of ₩51,893 million, less the estimated value of vessels owned by SK Shipping Co., Ltd.
 - 7) The Company holds IT outsourcing and IT system maintenance agreements with subsidiaries to provide hardware and information system maintenance, and development service.
 - 8) The Company entered into a contract with the Gyeonggi Province on May 31, 2011 to purchase land located in the 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. When non-compliant, the contract may be terminated.
 - 9) As at September 28, 2017, the Company entered into a cash deficiency support agreement with Hudson Energy NY, LLC, a subsidiary of Plutus Capital NY, Inc., to lend funds for the shortfall of payment for loans and credit limit of USD 226,000 thousand.
- (5) The Company has provided 7 blank checks and 12 blank notes as collateral in relation to sales and other transactions as at September 30, 2017.

28. Financial risk management

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

28.1 Market risk

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

28.1.1 Interest rate risk

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

28.1.2 Foreign currency risk

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

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

	Currency	September 30, 2017		December 31, 2016	
		Foreign currencies	Korean won equivalent	Foreign currencies	Korean won equivalent
Assets	USD	3,147	₩ 3,608	12,542	₩ 15,157
	EUR	1,263	1,706	213	270
	Others		3,050		4,085
			₩ 8,364		₩ 19,512
Liabilities	USD	2,648	₩ 3,036	7,585	₩ 9,167
	Others		278		653
			₩ 3,314		₩ 9,820

When 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 nine months ended		For the year ended	
	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016
	Increase by 10%	Decrease by 10%	Increase by 10%	Decrease by 10%
Increase (decrease) in income before tax expense	₩ 505	₩ (505)	₩ 969	₩ (969)

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28.1.3 Other price risk

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

28.2 Credit risk

Credit risk is the risk of financial loss to the Company if a customer or a 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 September 30, 2017 and December 31, 2016 is as follows, and for cash and cash equivalents, credit risk exposure is low (Korean won in millions):

	<u>September 30, 2017</u>	<u>December 31, 2016</u>
Short-term and long-term financial instruments	₩ 56,836	₩ 37,639
Trade accounts receivable	297,222	395,272
Other accounts receivable	9,777	1,347
Accrued income	453	169
Available-for-sale financial assets	15,571	553
Short-term and long-term guarantee deposits	23,272	20,434
Short-term and long-term loan	397	600
	<u>₩ 403,528</u>	<u>₩ 456,014</u>

28.2.1 Trade and other accounts receivable

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

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

28.2.2 Other financial assets

Credit risk arising from other financial assets consists of long-term and short-term financial instruments, and is due to the bankruptcy of the counterparties. In this case, the credit risk exposure of the Company will be the same as the book value of the maximum applicable financial instruments. On the other hand, the management of the Company's credit rating, is judged to have limited impact on the credit risk of the financial institutions of the Company as the Company deals with financial institutions with sound credit ratings.

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28.3 Liquidity risk

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

The contractual maturity of financial liabilities as at September 30, 2017 is as follows. Amounts include interests paid and presented at gross amounts (Korean won in millions):

	Book value	Contractual cash flow	Less than 3 months	3-12 months	1-5 years	More than 5 years
Short-term borrowings	₩ 660,000	₩ 664,428	₩ 412,778	₩ 251,650	₩ -	₩ -
Bonds payable	6,091,741	6,260,457	300,685	785,099	4,201,530	973,143
Financial derivatives liabilities	230	230	99	114	17	-
Trade accounts payable	98,374	98,374	98,374	-	-	-
Other liabilities	128,990	128,990	44,127	73,056	11,807	-
	<u>₩ 6,979,335</u>	<u>₩ 7,152,479</u>	<u>₩ 856,063</u>	<u>₩ 1,109,919</u>	<u>₩ 4,213,354</u>	<u>₩ 973,143</u>

28.4 Capital risk 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 the 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 59.91% as at September 30, 2017. The maturity of the debt is dispersed in the long-term and the borrowings mainly consist of long-term bonds, which do not present significant risks for unexpected payment for debts.

The Company's debt ratio as at September 30, 2017 and December 31, 2016 is as follows (Korean won in millions):

	September 30, 2017	December 31, 2016
Total liabilities	₩ 7,445,412	₩ 6,455,107
Total equity	12,428,139	11,925,701
Debt ratio	59.91%	54.13%

29. Subsequent events

29.1 SK E&S Co., Ltd.

In accordance with a resolution of the Board of Directors on October 31, 2017, SK E&S Co., Ltd., one of the subsidiaries, elected to issue 4,640,199 new ordinary shares (issue price: ₩146,066) by the third-party allocation method, with the purpose of financial structure improvement. Due to this, the Company's equity ownership for SK E&S Co., Ltd. will decrease from 100.0% to 90.0%. In addition, in accordance with a resolution of the Board of Directors on October 31, 2017, the Company approved of Total Return Swap (the "TRS") contract between the Company and the investors. The contract is based on the ordinary shares of SK E&S Co., Ltd., which is issued by the third-party allocation method.

In addition, in accordance with a resolution of the Board of Directors on October 31, 2017, the Company approved the TRS contract between the Company and the investors as an underlying asset of the shares of SK E&S Co., Ltd. by the third-party allocation.