



SK Holdings Co., Ltd.

Interim condensed separate financial statements
for the nine months ended September 30, 2018 and 2017
with the independent auditor's review report

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Report on review of interim condensed separate financial statements

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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 of September 30, 2018, and the related interim condensed separate statements of comprehensive income for the three-month and nine-month periods ended September 30, 2018 and 2017, interim condensed separate statements of changes in shareholders' equity and interim condensed separate statements of cash flows for the nine-month periods then ended, presented in Korean won, and notes to the interim condensed separate financial statements, including a summary of significant accounting policies.

Management's responsibility for the interim condensed separate financial statements

Management is responsible for the preparation and 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 control as management determines is necessary to enable the preparation of the interim financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

We conducted our review in accordance with the review standard for interim financial statements in the Republic of Korea. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of Korea and, consequently, 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 presented in Korean won do not present fairly in all material respects, the financial position of the Company as of September 30, 2018 and of its financial performance and cash flows for the nine-month period then ended in accordance with KIFRS 1034.



Other matter

We have audited the separate statement of financial position of the Company as of December 31, 2017, and the related 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, 2018 expressed an unqualified opinion thereon. The accompanying separate statement of financial position as of December 31, 2017, presented for comparative purposes is not different, in all material respects, from the above audited separate statement of financial position.

November 14, 2018

This review report is effective as of November 14, 2018, the independent auditor's review report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the date of the independent auditor's 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 review report.

SK Holdings Co., Ltd.

Interim condensed separate financial statements
for the nine months ended September 30, 2018 and 2017

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

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

SK Holdings Co., Ltd.
Interim condensed separate statements of financial position
as of September 30, 2018 and December 31, 2017

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

| | Notes | Korean won | | Translation into U.S. dollar (Note 2) | |
|--|------------------|--------------------------|--------------------------|---------------------------------------|-----------------------------|
| | | September 30, 2018 | December 31, 2017 | September 30, 2018 | December 31, 2017 |
| Assets | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | 4,30 | 335,889 | 84,482 | \$ 301,868 | \$ 75,925 |
| Short-term financial instruments | 4,29 | 32,220 | 43,516 | 28,957 | 39,108 |
| Trade accounts receivable | 4,5,25,29 | 435,584 | 463,079 | 391,466 | 416,176 |
| Other accounts receivable | 4,25,29,30 | 11,240 | 1,767 | 10,102 | 1,588 |
| Inventories | 6 | 366 | 785 | 329 | 705 |
| Other current assets | 4,16,17,25,28,29 | 46,513 | 13,603 | 41,802 | 12,225 |
| Assets held-for-sale | 7,22 | - | 224,942 | - | 202,159 |
| Total current assets | | <u>861,812</u> | <u>832,174</u> | <u>774,524</u> | <u>747,886</u> |
| Non-current assets: | | | | | |
| Long-term investment securities | 4,7,29,30 | 157,052 | - | 141,145 | - |
| Available-for-sale financial assets | 4,7,29 | - | 78,984 | - | 70,984 |
| Investments in subsidiaries | 8,30 | 16,299,479 | 15,583,417 | 14,648,584 | 14,005,048 |
| Investments in associates and joint ventures | 9 | 773,929 | 647,970 | 695,541 | 582,340 |
| Property, plant and equipment | 10,28 | 678,394 | 671,658 | 609,683 | 603,629 |
| Investment property | 11 | 39,855 | 40,174 | 35,818 | 36,105 |
| Goodwill and intangible assets | 12 | 2,105,765 | 2,090,299 | 1,892,482 | 1,878,583 |
| Other non-current assets | 4,16,17,25,28,29 | 12,494 | 14,385 | 11,230 | 12,930 |
| Total non-current assets | | <u>20,066,968</u> | <u>19,126,887</u> | <u>18,034,483</u> | <u>17,189,619</u> |
| Total assets | | <u>20,928,780</u> | <u>19,959,061</u> | <u>\$ 18,809,007</u> | <u>\$ 17,937,505</u> |
| Liabilities and equity | | | | | |
| Current liabilities: | | | | | |
| Short-term borrowings | 4,13,28,29 | 1,080,000 | 780,000 | \$ 970,612 | \$ 700,998 |
| Trade accounts payable | 4,25,29 | 120,826 | 125,590 | 108,588 | 112,870 |
| Other accounts payable | 4,25,29 | 67,457 | 98,155 | 60,625 | 88,213 |
| Accrued expenses | 4,29 | 56,485 | 58,695 | 50,764 | 52,750 |
| Provisions | 14 | 2,117 | 7,949 | 1,903 | 7,144 |
| Current portion of long-term debt | 4,13,29 | 1,173,645 | 1,052,733 | 1,054,772 | 946,107 |
| Other current liabilities | 4,16,17,25,29 | 209,055 | 135,282 | 187,881 | 121,580 |
| Liabilities held-for-sale | | - | 16,582 | - | 14,902 |
| Total current liabilities | | <u>2,709,585</u> | <u>2,274,986</u> | <u>2,435,145</u> | <u>2,044,564</u> |
| Non-current liabilities: | | | | | |
| Bonds payable | 4,13,29 | 5,158,148 | 5,034,055 | 4,635,704 | 4,524,180 |
| Retirement benefit obligation | 15 | 75,566 | 38,799 | 67,912 | 34,869 |
| Deferred income tax liabilities | | 260,681 | 257,340 | 234,278 | 231,275 |
| Other non-current liabilities | 4,16,17,25,29 | 23,364 | 21,180 | 20,998 | 19,035 |
| Total non-current liabilities | | <u>5,517,759</u> | <u>5,351,374</u> | <u>4,958,892</u> | <u>4,809,359</u> |
| Total liabilities | | <u>8,227,344</u> | <u>7,626,360</u> | <u>7,394,037</u> | <u>6,853,923</u> |
| Equity: | | | | | |
| Issued capital | 1,18 | 15,385 | 15,385 | 13,827 | 13,827 |
| Other paid-in capital | 18,30 | 4,410,857 | 4,720,271 | 3,964,103 | 4,242,178 |
| Retained earnings | 18 | 8,277,436 | 7,585,590 | 7,439,055 | 6,817,282 |
| Other capital components | 18 | (2,242) | 11,455 | (2,015) | 10,295 |
| Total equity | | <u>12,701,436</u> | <u>12,332,701</u> | <u>11,414,970</u> | <u>11,083,582</u> |
| Total liabilities and equity | | <u>20,928,780</u> | <u>19,959,061</u> | <u>\$ 18,809,007</u> | <u>\$ 17,937,505</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, 2018 and 2017
(Korean won in millions except for earnings per share)

| | Notes | Korean won | | | |
|---|------------|----------------------|-----------------------|----------------------|-----------------------|
| | | September 30, 2018 | | September 30, 2017 | |
| | | Three months | Nine months | Three months | Nine months |
| Operating revenue | 19, 25 | \ 545,154 | \ 2,152,007 | \ 508,572 | \ 1,996,835 |
| Operating expenses | 20, 21, 25 | <u>413,560</u> | <u>1,136,756</u> | <u>388,357</u> | <u>1,149,162</u> |
| Operating income | | 131,594 | 1,015,251 | 120,215 | 847,673 |
| Financial income | 7, 22 | 22,893 | 30,691 | (3,513) | 14,163 |
| Financial costs | 22 | (43,168) | (136,070) | (41,906) | (121,715) |
| Other non-operating income | 7, 22 | 416 | 200,663 | 39,136 | 39,624 |
| Other non-operating expenses | 22 | (3,964) | (23,844) | (7,474) | (14,590) |
| Income before income tax expense | | 107,771 | 1,086,691 | 106,458 | 765,155 |
| Income tax expense from continuing operations | 23 | <u>22,208</u> | <u>137,154</u> | <u>24,271</u> | <u>65,300</u> |
| Net income from continuing operations | | 85,563 | 949,537 | 82,187 | 699,855 |
| Gain from discontinued operation | 26 | <u>72</u> | <u>30,937</u> | <u>3,664</u> | <u>9,636</u> |
| Net income | | <u>85,635</u> | <u>980,474</u> | <u>85,851</u> | <u>709,491</u> |
| Other comprehensive income: | | | | | |
| Items not to be reclassified to profit or loss in subsequent periods: | | | | | |
| Remeasurement loss on defined benefit plans | 15 | (2,487) | (7,813) | 2,610 | (2,608) |
| Net loss on financial assets measured at FVOCI | 7 | (1) | (1) | - | - |
| Items to be reclassified to profit or loss in subsequent periods: | | | | | |
| Net gain on available-for-sale financial assets | 7 | <u>-</u> | <u>-</u> | <u>(11,162)</u> | <u>3,397</u> |
| | | <u>(2,488)</u> | <u>(7,814)</u> | <u>(8,552)</u> | <u>789</u> |
| Total comprehensive income | | <u>\ 83,147</u> | <u>\ 972,660</u> | <u>\ 77,299</u> | <u>\ 710,280</u> |
| Earnings per share (Korean won): | 24 | | | | |
| Basic earnings per share | | \ 1,524 | \ 17,523 | \ 1,528 | \ 12,681 |
| Basic earnings per share from continuing operations | | 1,522 | 16,969 | 1,463 | 12,508 |

(Continued)

SK Holdings Co., Ltd.
Interim condensed separate statements of comprehensive income
for the three months and nine months ended September 30, 2018 and 2017 (cont'd)
(U.S. dollar in thousands except for earnings per share)

| | Notes | Translation into U.S. dollar (Note 2) | | | |
|---|------------|---------------------------------------|--------------------------|-------------------------|--------------------------|
| | | September 30, 2018 | | September 30, 2017 | |
| | | Three months | Nine months | Three months | Nine months |
| Operating revenue | 19, 25 | \$ 489,938 | \$ 1,934,041 | \$ 457,061 | \$ 1,794,585 |
| Operating expenses | 20, 21, 25 | <u>371,673</u> | <u>1,021,619</u> | <u>349,022</u> | <u>1,032,769</u> |
| Operating income | | 118,265 | 912,422 | 108,039 | 761,816 |
| Financial income | 7, 22 | 20,574 | 27,582 | (3,157) | 12,728 |
| Financial costs | 22 | (38,796) | (122,288) | (37,662) | (109,387) |
| Other non-operating income | 7, 22 | 374 | 180,339 | 35,172 | 35,611 |
| Other non-operating expenses | 22 | (3,563) | (21,429) | (6,717) | (13,112) |
| Income before income tax expense | | 96,854 | 976,626 | 95,675 | 687,656 |
| Income tax expense from continuing operations | 23 | <u>19,959</u> | <u>123,262</u> | <u>21,813</u> | <u>58,686</u> |
| Net income from continuing operations | | 76,895 | 853,364 | 73,862 | 628,970 |
| Gain from discontinued operation | 26 | <u>65</u> | <u>27,802</u> | <u>3,293</u> | <u>8,660</u> |
| Net income | | <u>76,960</u> | <u>881,166</u> | <u>77,155</u> | <u>637,630</u> |
| Other comprehensive income: | | | | | |
| Items not to be reclassified to profit or loss in subsequent periods: | | | | | |
| Remeasurement loss on defined benefit plans | 15 | (2,235) | (7,022) | 2,346 | (2,344) |
| Net loss on financial assets measured at FVOCI | 7 | (1) | (1) | - | - |
| Items to be reclassified to profit or loss in subsequent periods: | | | | | |
| Net gain on available-for-sale financial assets | 7 | - | - | (10,031) | 3,053 |
| | | <u>(2,236)</u> | <u>(7,023)</u> | <u>(7,685)</u> | <u>709</u> |
| Total comprehensive income | | <u>\$ 74,724</u> | <u>\$ 874,143</u> | <u>\$ 69,470</u> | <u>\$ 638,339</u> |
| Earnings per share (Korean won and U.S. dollar): | 24 | | | | |
| Basic earnings per share | | \$ 1.37 | \$ 15.75 | \$ 1.37 | \$ 11.40 |
| Basic earnings per share from continuing operations | | 1.37 | 15.25 | 1.31 | 11.24 |

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, 2018 and 2017

(Korean won in millions)

| | Issued capital | Other paid-in capital | Retained earnings | Other capital components | Total equity |
|---|-----------------|-----------------------|--------------------|--------------------------|---------------------|
| As of 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 of September 30, 2017 | <u>\ 15,385</u> | <u>\ 4,719,876</u> | <u>\ 7,681,440</u> | <u>\ 11,438</u> | <u>\ 12,428,139</u> |
| As of January 1, 2018 | \ 15,385 | \ 4,720,271 | \ 7,585,590 | \ 11,455 | \ 12,332,701 |
| Effect of changes in accounting policies | - | - | 1,156 | (13,696) | (12,540) |
| Beginning balance after amendment | <u>15,385</u> | <u>4,720,271</u> | <u>7,586,746</u> | <u>(2,241)</u> | <u>12,320,161</u> |
| Total comprehensive income: | | | | | |
| Net income | - | - | 980,474 | - | 980,474 |
| Remeasurement loss on defined benefits plans | - | - | (7,813) | - | (7,813) |
| Net loss on financial assets measured at FVOCI | - | - | - | (1) | (1) |
| Transaction with shareholders: | | | | | |
| Dividends including interim dividends | - | - | (281,971) | - | (281,971) |
| Business combination | - | (310,603) | - | - | (310,603) |
| Stock option | - | 1,190 | - | - | 1,190 |
| Acquisition of treasury shares | - | (1) | - | - | (1) |
| As of September 30, 2018 | <u>15,385</u> | <u>4,410,857</u> | <u>8,277,436</u> | <u>(2,242)</u> | <u>12,701,436</u> |

(Continued)

SK Holdings Co., Ltd.
Interim condensed separate statements of changes in shareholders' equity
for the nine months ended September 30, 2018 and 2017 (cont'd)

(U.S. dollar in thousands)

| | Issued capital | Other paid-in capital | Retained earnings | Other capital components | Total equity |
|---|------------------|-----------------------|---------------------|--------------------------|----------------------|
| As of January 1, 2017 | \$ 13,827 | \$ 4,241,082 | \$ 6,455,669 | \$ 7,227 | \$ 10,717,805 |
| Total comprehensive income: | | | | | |
| Net income | - | - | 637,630 | - | 637,630 |
| Remeasurement loss on defined benefits plans | - | - | (2,344) | - | (2,344) |
| Net gain on available-for-sale financial assets | - | - | - | 3,053 | 3,053 |
| Dividends | - | - | (187,531) | - | (187,531) |
| Stock option | - | 741 | - | - | 741 |
| As of September 30, 2017 | \$ 13,827 | \$ 4,241,823 | \$ 6,903,424 | \$ 10,280 | \$ 11,169,354 |
| As of January 1, 2018 | \$ 13,827 | \$ 4,242,178 | \$ 6,817,282 | \$ 10,295 | \$ 11,083,582 |
| Effect of changes in accounting policies | - | - | 1,039 | (12,309) | (11,270) |
| Beginning balance after amendment | 13,827 | 4,242,178 | 6,818,321 | (2,014) | 11,072,312 |
| Total comprehensive income: | | | | | |
| Net income | - | - | 881,166 | - | 881,166 |
| Remeasurement loss on defined benefits plans | - | - | (7,022) | - | (7,022) |
| Net loss on financial assets measured at FVOCI | - | - | - | (1) | (1) |
| Transaction with shareholders: | | | | | |
| Dividends including interim dividends | - | - | (253,410) | - | (253,410) |
| Business combination | - | (279,143) | - | - | (279,143) |
| Stock option | - | 1,069 | - | - | 1,069 |
| Acquisition of treasury shares | - | (1) | - | - | (1) |
| As of September 30, 2018 | \$ 13,827 | \$ 3,964,103 | \$ 7,439,055 | \$ (2,015) | \$ 11,414,970 |

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, 2018 and 2017

(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) | |
| | | 2018 | 2017 | 2018 | 2017 |
| Cash flows from operating activities: | | | | | |
| Net income | | 980,474 | 709,491 | \$ 881,166 | \$ 637,630 |
| Non-cash adjustments | 27 | (768,772) | (472,865) | (690,907) | (424,971) |
| Working capital adjustments | 27 | (33,234) | (1,105) | (29,868) | (993) |
| Interest received | | 4,660 | 3,533 | 4,188 | 3,175 |
| Interest paid | | (139,058) | (124,277) | (124,973) | (111,690) |
| Dividends received | | 829,215 | 690,196 | 745,228 | 620,289 |
| Income taxes paid | | (33,305) | (44,253) | (29,932) | (39,771) |
| Net cash flows provided by operating activities | | 839,980 | 760,720 | 754,902 | 683,669 |
| Cash flows from investing activities: | | | | | |
| Decrease (increase) in long-term and short-term financial instruments | | 11,296 | (19,113) | 10,152 | (17,177) |
| Decrease in long-term and short-term loans | | - | 203 | - | 182 |
| Proceeds from disposal of long-term investment securities | | 45,957 | - | 41,302 | - |
| Proceeds from disposal of available-for-sale financial assets | | - | 418 | - | 376 |
| Proceeds from disposal of investments in associates | | 7,069 | 5,001 | 6,353 | 4,494 |
| Proceeds from disposal of investments in subsidiaries | | 223,726 | 12,344 | 201,066 | 11,094 |
| Proceeds from disposal of property, plant and equipment | | 100 | 1,132 | 90 | 1,017 |
| Proceeds from disposal of intangible assets | | 5,609 | 2,286 | 5,041 | 2,054 |
| Acquisition of long-term investment securities | | (91,302) | - | (82,054) | - |
| Acquisition of available-for-sale financial assets | | - | (44,634) | - | (40,113) |
| Acquisition of investments in associates | | (126,813) | (485,691) | (113,969) | (436,498) |
| Acquisition of investments in subsidiaries | | (1,050,961) | (907,516) | (944,514) | (815,598) |
| Acquisition of property, plant and equipment | | (41,961) | (37,532) | (37,711) | (33,731) |
| Acquisition of intangible assets | | (32,617) | (25,430) | (29,313) | (22,854) |
| Increase in guarantee deposits, net | | (753) | (2,481) | (677) | (2,230) |
| Business transfer | | 187,970 | - | 168,931 | - |
| Cash inflows from other investing activities | | 36 | - | 34 | - |
| Net cash flows used in investing activities | | (862,644) | (1,501,013) | (775,269) | (1,348,984) |
| Cash flows from financing activities: | | | | | |
| Increase in short-term borrowings, net | | 300,000 | 380,000 | 269,614 | 341,512 |
| Repayment of current portion of long-term debt | | (710,000) | (450,000) | (638,088) | (404,422) |
| Issuance of bonds payable | | 966,074 | 1,095,603 | 868,225 | 984,635 |
| Payment of dividend | | (281,971) | (208,666) | (253,412) | (187,531) |
| Net cash flows provided by financing activities | | 274,103 | 816,937 | 246,339 | 734,194 |
| Net increase in cash and cash equivalents | | 251,439 | 76,644 | 225,972 | 68,879 |
| Net foreign exchange effects | | (32) | (1,037) | (29) | (932) |
| Cash and cash equivalents at the beginning of the period | | 84,482 | 158,963 | 75,925 | 142,862 |
| Cash and cash equivalents at the end of the period | | 335,889 | 234,570 | \$ 301,868 | \$ 210,809 |

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

1. Corporate information

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

Resulting from the acquisition of SK Holdings Co., Ltd. by SK C&C Co., Ltd. effective 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 of the acquisition date.

As of September 30, 2018, the issued capital of the Company amounts to \ 15,385 million (including \ 113 million of preferred shares) and major shareholders are Tae-won Chey, National Pension Service and Ki-won Choi, holding equity ownership of 23.40%, 8.37% and 7.46%, respectively.

2. Basis of preparation and summary of significant accounting policies

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 auditor's review report thereon, the Korean version, which used for regulatory reporting purposes, shall prevail.

The interim condensed separate financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual financial statements as of December 31, 2017.

The accompanying separate financial statements are stated in Korean won, the currency of the country in which the Company is incorporated and operates. The translation of Korean won amounts into U.S. dollar amounts is included solely for the convenience of readers of the separate financial statements and has been made at the rate of \ 1,112.7 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, 2018. 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.

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

2.2 Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed separate financial statements are consistent with those followed in the preparation of the Company's annual separate financial statements for the year ended December 31, 2017, except for the adoption of new standards and interpretations effective as of January 1, 2018.

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, 2018.

Amendments to KIFRS 1102 – *Share-based Payment*

The KASB issued amendments to KIFRS 1102 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. The adoption of the above amendments do not have a material impact on the financial position or management performance of the Company.

Amendments to KIFRS 1109 – *Financial Instruments*

The Company applied the amendments to KIFRS 1109 and other standards for the first time for the year beginning on January 1, 2018. The Standard replaces KIFRS 1039 *Financial Instruments: Recognition and Measurement*. KIFRS 1109 introduces new rules for the classification and measurement of financial assets and financial liabilities, impairment of financial assets, and hedge accounting.

The Company has recognized the cumulative effect of the initial application of this standard in the opening balances in accordance with the transitional provisions, and the comparative financial statements have not been restated. Accordingly, the comparative financial statements are presented in accordance with the previous accounting policies.

The major impact of the adoption of the standard on the Company's financial statements is as follows.

① Classification and measurement of financial assets

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

To eliminate or significantly reduce the accounting mismatch, the Company may irrevocably designate a financial asset as measured at FVTPL using the fair value option at initial recognition. On the other hand, equity instruments that are not held for trading may be irrevocably designated as FVOCI using the fair value option.

The Company measures its financial assets at fair value with the exception of specific trade receivables at the initial recognition date. Transaction costs directly attributable to the acquisition of financial assets or issuance of financial liabilities, unless they are financial assets measured at FVTPL, are added to fair value. Transaction costs of financial assets measured at FVTPL are accounted as expense under current gain or loss.

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

The Company classifies and measures debt instruments in the following three categories:

- Financial assets measured at amortized cost: Assets that hold financial assets under a business model that is intended to hold to receive contractual cash flows and whose contractual cash flows consist solely of principal are measured at amortized cost. The gain or loss on a financial asset measured at amortized cost, which is not subject to hedge accounting, is recognized in profit or loss when the financial asset is derecognized or impaired. Interest income on financial assets recognized under the effective interest rate method is included in finance income.

- Financial assets measured at FVOCI: Financial assets held under a business model that achieves the objective through both receipt of contractual cash flows and sale of financial assets and whose contractual cash flows consist of only principal payments are measured at FVOCI. Gain or loss on financial assets measured at FVOCI except for impairment loss (reversal), interest income, and foreign exchange gain or loss are recognized as other comprehensive income. Interest income and foreign exchange gains and losses on financial assets and impairment recognized in accordance with the effective interest rate method, are recognized as current profit or loss.

- Financial assets measured at FVTPL: Debt instruments not measured at amortized cost or FVOCI, are measured at FVTPL. Profit or loss on debt instruments measured at FVTPL not subject to the application of hedge accounting, are recognized as current profit or loss.

The Company subsequently measures investment in all equity instruments at fair value. For equity instruments for which changes in fair value are elected to be presented in other comprehensive income, amounts recognized in other comprehensive income are not reclassified to profit or loss even when equity instruments are eliminated. Dividend income on these equity instruments is recognized in profit or loss when the right to receive dividends is established.

② Classification and measurement of financial liabilities

The Company classifies the financial liabilities as financial liabilities measured at FVTPL and other financial liabilities based on the substance of terms and conditions of a contract and definition of financial liabilities and recognizes them in the statement of financial position when the Company becomes a party in the contract.

1) Financial liabilities measured at FVTPL

Financial liabilities measured at FVTPL include held-for-trading financial liabilities or financial liabilities designated as measured at FVTPL at initial recognition. Financial liabilities measured at FVTPL are measured at fair value after initial recognition, and changes in fair value are generally presented as follows:

- Changes in fair value due to changes in the credit risk of debt: Other comprehensive income
- Remaining fair value changes: Profit or loss

Transaction costs incurred at the time of initial recognition are recognized immediately in profit or loss as incurred.

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

2) Other financial liabilities

Non-derivative financial liabilities that are not classified as financial liabilities at fair value through profit or loss are classified as other financial liabilities. Other financial liabilities are measured initially at fair value, net of transaction costs directly attributable to the issue. Subsequently, other financial liabilities are measured at amortized cost using the effective interest rate method. Interest expense is recognized using the effective interest rate method.

3) Elimination of financial liabilities

A financial liability is derecognized only when the obligation has been fulfilled, canceled, or expired.

③ Impairment

KIFRS 1109 sets out a new 'expected credit loss' (ECL) impairment model which replaces the 'incurred loss' model under KIFRS 1039 for recognizing and measuring impairment. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments measured at FVOCI, but not to investments in equity instruments.

Expected credit losses are measured by discounting the difference between the contractual cash flows and all cash flows expected to be received by the Company at the initial effective interest rate of the asset.

At the end of each reporting period, the Company assesses the carrying amount of financial assets measured at amortized cost and debt securities measured at FVOCI for credit impairment. If there is more than one event that adversely affects the estimated future cash flows of the financial asset, the financial asset is impaired.

The allowance for losses on financial assets measured at amortized cost is deducted from the carrying amount of the asset. On the other hand, for debt instruments measured at FVOCI, instead of reducing the carrying amount of the asset, the loss allowance is recognized in other comprehensive income.

The Company measures the allowance for losses on trade and other receivables, contracts and lease receivables at amounts equivalent to the life time expected credit losses and applies a practical expedient by considering low credit risk at the reporting date as no significant increase in credit risk.

④ Hedge accounting

Derivatives are initially recognized at fair value at the inception of the derivative contract and subsequently remeasured to fair value at the end of each reporting period. Changes in the fair value of a derivative that is not a hedging instrument are recognized in profit or loss and derivatives that are a hedging instrument are accounted for based on the nature of the hedged item and the type of hedging relationship designated.

Changes in the basic capital of the Company as a result of the initial application of KIFRS 1109 are as follows (Korean won in millions):

| <u>Amendments</u> | <u>Retained earnings</u> | <u>Other capital components</u> |
|--------------------------------|--------------------------|---------------------------------|
| Classification and measurement | \ 1,165 | \ (13,696) |

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

Details of reclassification of financial assets based on the initial application of KIFRS 1109 are as follows (Korean won in millions):

| | Classification | | Book value | | |
|--------------------------------------|------------------------------------|----------------|------------------|------------------|-------------------|
| | KIFRS 1039 | KIFRS 1109 | KIFRS 1039 | KIFRS 1109 | Difference |
| Current financial assets: | | | | | |
| Cash and cash equivalents | Loans and receivables | Amortized cost | \ 84,482 | \ 84,482 | - |
| Short-term financial instruments | Loans and receivables | Amortized cost | 43,516 | 43,516 | - |
| Trade accounts receivable | Loans and receivables | Amortized cost | 399,748 | 399,748 | - |
| Other accounts receivable | Loans and receivables | Amortized cost | 1,767 | 1,767 | - |
| Accrued income | Loans and receivables | Amortized cost | 112 | 112 | - |
| Guarantee deposits | Loans and receivables | Amortized cost | 1 | 1 | - |
| Derivative financial assets | Financial assets at FVTPL | FVTPL | 599 | 599 | - |
| | | | <u>530,225</u> | <u>530,225</u> | - |
| Non-current financial assets: | | | | | |
| Long-term financial instruments | Loans and receivables | Amortized cost | 19 | 19 | - |
| Long-term investment securities (*1) | Available-for-sale financial asset | FVTPL | 73,653 | 62,616 | (11,037) |
| Long-term investment securities (*2) | Available-for-sale financial asset | FVOCI | 5,330 | 2,374 | (2,956) |
| Long-term loans | Loans and receivables | Amortized cost | 397 | 397 | - |
| Guarantee deposits | Loans and receivables | Amortized cost | 10,829 | 10,829 | - |
| Derivative financial assets (*1) | Financial assets at FVTPL | FVTPL | 3,015 | 477 | (2,538) |
| | | | <u>93,243</u> | <u>76,712</u> | <u>(16,531)</u> |
| | | | <u>\ 623,468</u> | <u>\ 606,937</u> | <u>\ (16,531)</u> |

(*1) As of January 1, 2018, available-for-sale financial assets such as beneficiary certificates and equity investments amounting to \ 60,733 million were reclassified to financial assets measured at FVTPL. In accordance with the Prohibition on Separation of Embedded Derivatives, available-for-sale financial assets of \ 12,920 million and derivative assets of \ 2,538 million related to convertible bonds were reclassified to financial assets measured at FVTPL. As the contractual terms of these assets do not give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, these assets were not qualified to be designated as financial assets measured at amortized cost. As a result of this reclassification, as of January 1, 2018, accumulated OCI of \ 11,455 million was reclassified to retained earnings and, due to its new classification to financial assets measured at FVTPL, retained earnings were decreased by \ 10,290 million.

(*2) As of January 1, 2018, available-for-sale financial assets such as marketable equity instruments amounting to \ 5,330 million were reclassified to equity investments measured at FVOCI. As a result, other comprehensive income decreased by \ 2,241 million (after the income tax effect) due to fair value assessment. The Company designated equity instruments that are not held for trading as FVOCI on initial application of KIFRS 1109 with no subsequent recycling of amounts from OCI to profit and loss.

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

KIFRS 1115 – Revenue from Contracts with Customers

The amendments are effective for the current period. The new standard will supersede the following KIFRS: KIFRS 1011 *Construction Contracts*, KIFRS 1018 *Revenue*, KIFRS 2113 *Customer Loyalty Programmes*, KIFRS 2115 *Agreements for the Construction of Real Estate*, KIFRS 2118 *Transfers of Assets from Customers*, and KIFRS 2031 *Revenue – Barter Transactions Involving Advertising Services*. If the contracts are not subject to the scope of other standards, the new standard applies to all revenue from contracts with customer.

The Company adjusted cumulative effect of the initial application of KIFRS 1115 to the beginning balance of retained earnings, and retrospectively applied the standard only to the contracts not completed as of January 1, 2018. Accordingly, the comparative information is not restated and prepared in accordance with KIFRS 1018 and KIFRS 1011.

The major impact of the adoption of the standard on the Company's financial statements is as follows.

① Identification of the separate performance obligations in the contract

Through the ownership of equity interests in subsidiaries, the Company is engaged in investment service that governs the business of the subsidiaries and the IT services business, which provides consulting services related to the information and communications business.

For IT services, multiple contractual obligations can be identified in a single contract. In such cases, the transaction price should be allocated to each performance obligation, and the revenue should be recognized for each obligation to perform.

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

② Allocation of the transaction price to the separate performance obligations

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

Upon first application of KIFRS 1115, beginning balance of retained decreased by ₩9 million.

Based on the application of KIFRS 1115, sales and operating income decreased by ₩290 million, respectively, and net income on the income statement as of September 30, 2018 decreased by ₩219 million.

KIFRS 1028 – Investments in Associates and Joint Ventures

The amendments clarify that:

An entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss.

If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments do not have any impact on the Company's financial position or management performance.

KIFRS 1040 – Investment Property

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. The Company should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the Company first applies the amendments. The Company should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with KIFRS 1008 is only permitted if it is possible without the use of hindsight. The adoption of the above amendments do not have a material impact on the Company's financial position or management performance.

KIFRS 2122 – Foreign Currency Transactions and Advance Consideration

The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If advance consideration is taken at multiple times, it is necessary to determine the date of each transaction due to the advance consideration. The adoption of the above amendments do not have a material impact on the Company's financial position or management 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 1116 – Leases

KIFRS 1116 Leases enacted in May 2017, is effective for annual periods beginning on or after January 1, 2019. Early application is permitted. This standard replaces KIFRS 1017 *Leases*, KIFRS 2104 *Determining whether an Arrangement contains a Lease*, KIFRS 2015 *Operating Leases-Incentives* and KIFRS 2027 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

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

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

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

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

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

① Lease accounting for lessees

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

② Lease accounting for lessors

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

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

3. Significant accounting judgements, estimates and assumptions

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

Those accounting judgments made by management in the preparation of the interim condensed separate financial statements for the nine months ended September 30, 2018, are consistent with those followed in the preparation of the separate financial statements for the year ended December 31, 2017.

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4. Financial instruments

4.1 Financial assets

Details of financial assets as of September 30, 2018 and December 31, 2017 are as follows (Korean won in millions):

| | September 30, 2018 | | | Total |
|----------------------------------|------------------------------------|------------------------------------|---|------------------|
| | Financial assets measured at FVTPL | Financial assets measured at FVOCI | Financial assets measured at amortized cost | |
| Current assets: | | | | |
| Cash and cash equivalents | \ - | \ - | \ 335,889 | \ 335,889 |
| Short-term financial instruments | - | - | 32,220 | 32,220 |
| Trade accounts receivable (*1) | - | - | 249,976 | 249,976 |
| Other accounts receivable | - | - | 11,240 | 11,240 |
| Accrued income | - | - | 558 | 558 |
| Guarantee deposits | - | - | 112 | 112 |
| Derivative financial assets | 35 | - | - | 35 |
| | <u>35</u> | <u>-</u> | <u>629,995</u> | <u>630,030</u> |
| Non-current assets: | | | | |
| Long-term financial instruments | - | - | 19 | 19 |
| Long-term loans | - | - | 397 | 397 |
| Long-term investment securities | 145,960 | 10,708 | 384 | 157,052 |
| Guarantee deposits | - | - | 11,474 | 11,474 |
| Derivative financial assets | 477 | - | - | 477 |
| | <u>146,437</u> | <u>10,708</u> | <u>12,274</u> | <u>169,419</u> |
| | <u>\ 146,472</u> | <u>\ 10,708</u> | <u>\ 642,269</u> | <u>\ 799,449</u> |

(*1) Contract assets (unbilled receivables) amounting to \ 185,608 million as of September 30, 2018 are not included in the financial instruments.

| | December 31, 2017 | | | Total |
|-------------------------------------|---------------------------|-------------------------------------|-----------------------|------------------|
| | Financial assets at FVTPL | Available-for-sale financial assets | Loans and receivables | |
| Current assets: | | | | |
| Cash and cash equivalents | \ - | \ - | \ 84,482 | \ 84,482 |
| Short-term financial instruments | - | - | 43,516 | 43,516 |
| Trade accounts receivable (*1) | - | - | 399,748 | 399,748 |
| Other accounts receivable | - | - | 1,767 | 1,767 |
| Accrued income | - | - | 112 | 112 |
| Guarantee deposits | - | - | 1 | 1 |
| Derivative financial assets | 599 | - | - | 599 |
| | <u>599</u> | <u>-</u> | <u>529,626</u> | <u>530,225</u> |
| Non-current assets: | | | | |
| Long-term financial instruments | - | - | 19 | 19 |
| Available-for-sale financial assets | - | 78,984 | - | 78,984 |
| Long-term loans | - | - | 397 | 397 |
| Guarantee deposits | - | - | 10,829 | 10,829 |
| Derivative financial assets | 3,015 | - | - | 3,015 |
| | <u>3,015</u> | <u>78,984</u> | <u>11,245</u> | <u>93,244</u> |
| | <u>\ 3,614</u> | <u>\ 78,984</u> | <u>\ 540,871</u> | <u>\ 623,469</u> |

(*1) Unbilled receivables amounting to \ 63,331 million as of December 31, 2017 are not included in the financial instruments.

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4.2 Financial liabilities

Details of financial liabilities as of September 30, 2018 and December 31, 2017 are as follows (Korean won in millions):

| | September 30, 2018 | | |
|--------------------------------------|--|-----------------------------|--------------------|
| | Financial liabilities measured at FVTPL | Other financial liabilities | Total |
| Current liabilities: | | | |
| Short-term borrowings | \ - | \ 1,080,000 | \ 1,080,000 |
| Trade accounts payable | - | 120,826 | 120,826 |
| Other accounts payable | - | 67,457 | 67,457 |
| Accrued expenses | - | 56,485 | 56,485 |
| Current portion of long-term debt | - | 1,173,645 | 1,173,645 |
| Derivative financial liabilities | 234 | - | 234 |
| | <u>234</u> | <u>2,498,413</u> | <u>2,498,647</u> |
| Non-current liabilities: | | | |
| Bonds payable | - | 5,158,148 | 5,158,148 |
| Leasehold deposits received | - | 11,764 | 11,764 |
| Derivative financial liabilities | 2,685 | - | 2,685 |
| | <u>2,685</u> | <u>5,169,912</u> | <u>5,172,597</u> |
| | <u>\ 2,919</u> | <u>\ 7,668,325</u> | <u>\ 7,671,244</u> |
| | | | |
| | December 31, 2017 | | |
| | Financial liabilities at FVTPL | Other financial liabilities | Total |
| Current liabilities: | | | |
| Short-term borrowings | \ - | \ 780,000 | \ 780,000 |
| Trade accounts payable | - | 125,590 | 125,590 |
| Other accounts payable | - | 98,155 | 98,155 |
| Accrued expenses | - | 58,695 | 58,695 |
| Current portion of long-term debt | - | 1,052,733 | 1,052,733 |
| Derivative financial liabilities | 51 | - | 51 |
| | <u>51</u> | <u>2,115,173</u> | <u>2,115,224</u> |
| Non-current liabilities: | | | |
| Bonds payable | - | 5,034,055 | 5,034,055 |
| Leasehold deposits received | - | 11,775 | 11,775 |
| Derivative financial liabilities | 2,685 | - | 2,685 |
| | <u>2,685</u> | <u>5,045,830</u> | <u>5,048,515</u> |
| | <u>\ 2,736</u> | <u>\ 7,161,003</u> | <u>\ 7,163,739</u> |

4.3 Fair values of financial instruments by hierarchy level

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

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

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5. Trade accounts receivable

Details of trade accounts receivable as of September 30, 2018 and December 31, 2017 are as follows (Korean won in millions):

| | <u>September 30, 2018</u> | <u>December 31, 2017</u> |
|--|---------------------------|--------------------------|
| Trade accounts receivable: | | |
| Trade accounts receivable | ₩ 250,540 | ₩ 400,252 |
| Contract assets (unbilled receivable) (*1) | <u>185,608</u> | <u>63,331</u> |
| | 436,148 | 463,583 |
| Allowance for doubtful accounts: | | |
| Trade accounts receivable | <u>(564)</u> | <u>(504)</u> |
| | <u>₩ 435,584</u> | <u>₩ 463,079</u> |

(*1) Unbilled receivables at the end of the prior reporting period are those applicable to KIFRS 1011.

6. Inventories

Details of inventories as of September 30, 2018 and December 31, 2017 are as follows (Korean won in millions):

| | <u>September 30, 2018</u> | | | <u>December 31, 2017</u> | | |
|----------------------|---------------------------|----------------------------|--------------|--------------------------|----------------------------|--------------|
| | <u>Cost</u> | <u>Valuation allowance</u> | | <u>Cost</u> | <u>Valuation allowance</u> | |
| | | <u>Book value</u> | | | <u>Book value</u> | |
| Merchandises | ₩ - | ₩ - | ₩ - | ₩ 604 | ₩ - | ₩ 604 |
| Raw material | 366 | - | 366 | 172 | - | 172 |
| Materials in transit | - | - | - | 9 | - | 9 |
| | <u>₩ 366</u> | <u>₩ -</u> | <u>₩ 366</u> | <u>₩ 785</u> | <u>₩ -</u> | <u>₩ 785</u> |

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7. Long-term investment securities and available-for-sale financial assets

(1) Details of long-term investment securities and available-for-sale financial assets as of September 30, 2018 and December 31, 2017 are as follows (Korean won in millions):

| | September 30, 2018 | | | | |
|-----------------------------------|--------------------|------------------------|-----------------------|--------------|------------------|
| | Acquisition Cost | Book Value | | | Total |
| Measured at FVTPL | | Measured at FVOCI (*1) | Measured at amortized | | |
| Equity instruments: | | | | | |
| Marketable equity instruments | ₩ - | ₩ - | ₩ - | ₩ - | ₩ - |
| Non-marketable equity instruments | <u>95,536</u> | <u>81,870</u> | <u>10,708</u> | - | <u>92,578</u> |
| | <u>95,536</u> | <u>81,870</u> | <u>10,708</u> | - | <u>92,578</u> |
| Debt instruments: | | | | | |
| Beneficiary securities | ₩ 152,088 | ₩ 47,790 | ₩ - | ₩ - | ₩ 47,790 |
| Debt securities (*2) | <u>15,392</u> | <u>16,300</u> | - | <u>384</u> | <u>16,684</u> |
| | <u>167,480</u> | <u>64,090</u> | - | <u>384</u> | <u>64,474</u> |
| | <u>₩ 263,016</u> | <u>₩ 145,960</u> | <u>₩ 10,708</u> | <u>₩ 384</u> | <u>₩ 157,052</u> |

(*1) The Company applied the irrevocable option to designate the equity instruments held for strategic investment, not for held-for-trading purpose, at the date of initial application, as items measured at FVOCI.

(*2) Represents convertible bonds of Socar, Inc.

| | December 31, 2017 | |
|-----------------------------------|-------------------|-----------------|
| | Acquisition cost | Book value |
| Marketable equity instruments | ₩ - | ₩ - |
| Non-marketable equity instruments | 156,285 | 65,498 |
| Debt securities (*1) | <u>13,078</u> | <u>13,486</u> |
| | <u>₩ 169,363</u> | <u>₩ 78,984</u> |

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

(2) Changes in long-term investment securities and available-for-sale financial assets for the nine months ended September 30, 2018 and 2017 are as follows (Korean won in millions):

| | For the nine months ended | |
|---|---------------------------|--------------------|
| | September 30, 2018 | September 30, 2017 |
| Beginning balance | ₩ 78,984 | ₩ 155,695 |
| Effect of changes in the accounting policies (*1) | (13,993) | - |
| Acquisitions | 91,722 | 44,634 |
| Gain on valuation | 839 | 19,207 |
| Disposals | (500) | (335) |
| Replacement (*2) | - | (51,859) |
| Ending balance | <u>₩ 157,052</u> | <u>₩ 167,342</u> |

(*1) Excludes the effect of deferred income tax of ₩3,386 million recognized directly to equity.

(*2) For the nine months ended September 30, 2017, the Company decided to sell entire shares in SK Securities Co., Ltd., which was held as available-for-sale securities, pursuant to the restriction on the holding companies in the Fair Trade Act and classified the assets as held for sale. The equity securities were sold to J&W BIG LLC on July 30, 2018.

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8. Investments in subsidiaries

(1) Details of investments in subsidiaries as of September 30, 2018 and December 31, 2017 are as follows (Korean won in millions):

| | Domicile | Principal Business activity | Equity ownership (*1) | September 30, 2018 | | December 31, 2017 |
|--|-------------------|---|-----------------------|---------------------|---------------------|---------------------|
| | | | | Acquisition cost | Book value | Book value |
| SK Innovation Co., Ltd. (*2) | Korea | Resource development | 33.40% | ₩ 3,072,937 | ₩ 3,072,937 | ₩ 3,072,937 |
| SK Telecom Co., Ltd. (*2) | Korea | Mobile Tele-communication | 25.22% | 5,080,681 | 5,080,681 | 5,080,681 |
| SK Networks Co., Ltd. (*2) | Korea | Trading and distribution | 39.14% | 706,229 | 706,229 | 706,229 |
| SKC Co., Ltd. (*2) | Korea | Petrochemicals manufacturing | 41.00% | 548,654 | 548,654 | 548,654 |
| SK Maritime Co., Ltd. (*3) | Korea | Shipping | - | - | - | 332,400 |
| SK Shipping Co., Ltd. (*3) | Korea | Shipping | 57.22% | 21,659 | 21,659 | - |
| SK E&S Co., Ltd. | Korea | City gas business | 90.00% | 2,600,000 | 2,600,000 | 2,600,000 |
| SK Engineering & Construction Co., Ltd. (*2) | Korea | Construction | 44.48% | 545,300 | 545,300 | 545,300 |
| SK Materials Co., Ltd. (*2) | Korea | Special-gas manufacturing and sales | 49.10% | 473,335 | 473,335 | 473,335 |
| SK Siltron Co., Ltd. (*4) | Korea | Manufacturing and sales of silicon thin sheet for electronic industry | 51.00% | 622,606 | 622,606 | 626,023 |
| SK Biopharmaceuticals Co., Ltd. (*5) | Korea | Life science | 100.00% | 478,702 | 478,702 | 328,702 |
| SK Biotek Co., Ltd. | Korea | Life science | 100.00% | 336,318 | 336,318 | 336,318 |
| SK Forest Co., Ltd. | Korea | Landscape construction | 100.00% | 61,387 | 61,387 | 61,387 |
| SK Infosec Co., Ltd. | Korea | Information | 100.00% | 37,905 | 44,077 | 44,077 |
| FSK L&S Co., Ltd. (*6) | Korea | Security services Conversion | - | - | - | 24,158 |
| SK China Company, Ltd. (*7) | Hong Kong | Logistics business Consulting and investment | 27.42% | 557,117 | 557,117 | 557,117 |
| Alchemy Acquisition Corp. | USA | Investment | 100.00% | 525,157 | 525,157 | - |
| Plutus Capital NY, Inc. (*8) | USA | Investment | 100.00% | 388,527 | 388,527 | 120,186 |
| SK South East Asia Investment Pte. Ltd. (*7) | Singapore | Investment | 20.00% | 110,880 | 110,880 | - |
| Plutus Fashion NY, Inc. | USA | Fashion | 100.00% | 36,813 | 36,813 | 36,813 |
| SK S.E.Asia Pte. Ltd. | Singapore | Investment | 100.00% | 25,847 | 25,847 | 25,847 |
| SK C&C Beijing Co., Ltd. | China | Computer system | 100.00% | 25,481 | 25,481 | 25,481 |
| SK GI Management | Cayman Islands | Investment | 100.00% | 9,523 | 9,523 | 9,523 |
| SK Investment Management Co., Ltd. | Hong Kong | Investment | 80.76% | 9,201 | 9,201 | 9,201 |
| Gemini Partners Pte. Ltd. (*7) | Singapore | Consulting investment | 20.00% | 6,018 | 6,018 | 6,018 |
| SK MENA Investment B.V. (*7) | Netherlands | Investment | 11.54% | 5,178 | 5,178 | 5,178 |
| SK Latin Americas Investment S.A. (*7) | Spain | Investment | 11.54% | 5,135 | 5,135 | 5,135 |
| SK C&C India Pvt. Ltd. | India | Computer system | 100.00% | 3,442 | 382 | 382 |
| SK Technology Innovation Company (*7) | Cayman Islands | Research and development | 2.12% | 1,876 | 1,876 | 1,876 |
| SK Computer and Communication LLC (*9) | UAE | Computer system | 49.00% | 380 | 380 | 380 |
| S&G Technology | Saudi Arabia | Computer system | 51.00% | 74 | 74 | 74 |
| Saturn Agriculture Investment Co., Ltd. | Hong Kong | Investment | 100.00% | 5 | 5 | 5 |
| | | | | <u>₩ 16,296,367</u> | <u>₩ 16,299,479</u> | <u>₩ 15,583,417</u> |

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

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

(*3) The Company merged SK Maritime Co., Ltd. and has possession of SK Shipping Co., Ltd., a subsidiary of extinct corporation (see Note 30 'Business combination').

(*4) During the current period, the book value decreased due to the refund of acquisition costs.

(*5) The Company participated in new share issue of SK Biopharmaceuticals Co., Ltd. and acquired \ 150,000 million additionally.

(*6) All equity shares were sold, during the current period.

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

(*8) During the nine months ended September 30, 2018, the Company invested additional \ 268,341 million in Plutus Capital NY, Inc., the subsidiary.

(*9) As the Company acquired voting rights of shares (51%), it classified SK Computer and Communication LLC as the Company's subsidiaries.

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8. Investments in subsidiaries (cont'd)

(2) Fair value of marketable investments in subsidiaries as of September 30, 2018 is as follows (Korean won in millions):

| | <u>September 30, 2018</u> | |
|-------------------------|---------------------------|-----------|
| SK Innovation Co., Ltd. | ₩ | 6,640,014 |
| SK Telecom Co., Ltd. | | 5,742,493 |
| SK Networks Co., Ltd. | | 534,286 |
| SKC Co., Ltd. | | 656,384 |
| SK Materials Co., Ltd. | | 945,083 |

9. Investments in associates and joint ventures

Details of investments in associates and joint ventures as of September 30, 2018 and December 31, 2017 are as follows (Korean won in millions):

| | <u>Domicile</u> | <u>Principal business activity</u> | <u>Equity ownership</u> | <u>September 30, 2018</u> | | <u>December 31, 2017</u> | |
|-----------------------------------|-----------------|--|-------------------------|---------------------------|-------------------|--------------------------|-------------------|
| | | | | <u>Acquisition cost</u> | <u>Book value</u> | <u>Book value</u> | <u>Book value</u> |
| Investments in associates: | | | | | | | |
| Socar. Inc. (*1) | Korea | Rental of cars | 23.57% | ₩ 91,800 | ₩ 91,800 | ₩ 91,800 | ₩ 91,800 |
| SMCore Inc. | Korea | Manufacturing and sales of automated logistic system | 26.65% | 39,419 | 39,419 | 39,419 | 39,419 |
| Begas Co., Ltd. (*1, 2, 3) | Korea | Management consulting | 17.86% | 5,000 | 5,000 | - | - |
| THiRA-UTECH Co., Ltd. (*1, 2, 3) | Korea | Service manufacturing | 18.07% | 4,200 | 4,200 | - | - |
| ACRYL Inc. (*1, 2, 3) | Korea | Information service | 18.40% | 2,500 | 2,500 | - | - |
| Daehan Kanggun BcN Co., Ltd. (*4) | Korea | Wired communication | 0.67% | 58 | 58 | 58 | 58 |
| Mobile TCS Co., Ltd. (*5) | Korea | Mobile service | - | - | - | - | 820 |
| ESR Cayman Limited (*2) | Cayman Island | Investment | 12.25% | 493,540 | 493,540 | 378,427 | 378,427 |
| Turo Inc. (*2, 6) | USA | Rental of cars | 4.47% | 39,728 | 39,728 | 39,762 | 39,762 |
| 9352-7281 Quebec Inc. | Canada | Investment | 40.09% | 31,558 | 31,558 | 31,558 | 31,558 |
| FSK Holdings Co., Ltd. | Hong Kong | IT service | 30.00% | 11,937 | 11,937 | 11,937 | 11,937 |
| Mozido Corfire, Inc. (*2) | USA | System consulting | 19.94% | 6,767 | - | - | - |
| | | | | <u>726,507</u> | <u>719,740</u> | <u>593,781</u> | <u>593,781</u> |
| Investments in joint ventures: | | | | | | | |
| Hana Land Chip PEF 33 (*4) | Korea | Real estate | 13.51% | ₩ 40,000 | ₩ 40,000 | ₩ 40,000 | ₩ 40,000 |
| Socar Mobility Malaysia, SDN BHD. | Malaysia | Rental of cars | 60.00% | 14,189 | 14,189 | 14,189 | 14,189 |
| | | | | <u>54,189</u> | <u>54,189</u> | <u>54,189</u> | <u>54,189</u> |
| | | | | <u>₩ 780,696</u> | <u>₩ 773,929</u> | <u>₩ 647,970</u> | <u>₩ 647,970</u> |

(*1) It is the equity share that takes preferred stock with voting rights into consideration.

(*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) During the current period, the Company newly acquired the investee.

(*4) 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.

(*5) During the current period, the Company disposed the entire equity shares in the investee.

(*6) During the current period, the book value decreased due to the refund of acquisition costs.

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10. Property, plant and equipment

(1) Details of property, plant and equipment as of September 30, 2018 and December 31, 2017 are as follows (Korean won in millions):

| | September 30, 2018 | | | December 31, 2017 | | |
|--------------------------|--------------------|--------------------------|----------------|-------------------|--------------------------|----------------|
| | Acquisition cost | Accumulated depreciation | Book value | Acquisition cost | Accumulated depreciation | Book value |
| Land | 169,505 | - | 169,505 | 169,505 | - | 169,505 |
| Buildings | 475,190 | (117,823) | 357,367 | 475,190 | (106,449) | 368,741 |
| Structures | 7,796 | (666) | 7,130 | 7,796 | (439) | 7,357 |
| Vehicles | 7,504 | (2,399) | 5,105 | 7,504 | (2,120) | 5,384 |
| Furniture and fixtures | 320,217 | (219,618) | 100,599 | 322,264 | (214,380) | 107,884 |
| Construction-in-progress | 38,688 | - | 38,688 | 12,787 | - | 12,787 |
| | <u>1,018,900</u> | <u>(340,506)</u> | <u>678,394</u> | <u>995,046</u> | <u>(323,388)</u> | <u>671,658</u> |

(2) Details of changes in property, plant and equipment for the nine months ended September 30, 2018 and 2017 are as follows (Korean won in millions):

| | For the nine months ended September 30, 2018 | | | | | |
|--------------------------|--|---------------|--------------|-----------------|----------|----------------|
| | Beginning balance | Acquisition | Disposal | Depreciation | Transfer | Ending balance |
| Land | 169,505 | - | - | - | - | 169,505 |
| Buildings | 368,741 | - | - | (11,374) | - | 357,367 |
| Structures | 7,357 | - | - | (227) | - | 7,130 |
| Vehicles | 5,384 | - | - | (279) | - | 5,105 |
| Furniture and fixtures | 107,884 | 17,838 | (169) | (24,983) | 29 | 100,599 |
| Construction-in-progress | 12,787 | 25,930 | - | - | (29) | 38,688 |
| | <u>671,658</u> | <u>43,768</u> | <u>(169)</u> | <u>(36,863)</u> | <u>-</u> | <u>678,394</u> |

| | For the nine months ended September 30, 2017 | | | | | |
|--------------------------|--|---------------|----------------|-----------------|----------|----------------|
| | Beginning balance | Acquisition | Disposal | Depreciation | 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 | (41) | (509) | - | 6,701 |
| Furniture and fixtures | 105,577 | 28,108 | (1,032) | (23,718) | 2 | 108,937 |
| Construction-in-progress | 1,891 | 7,183 | - | - | (2) | 9,072 |
| | <u>684,381</u> | <u>36,688</u> | <u>(1,073)</u> | <u>(35,972)</u> | <u>-</u> | <u>684,024</u> |

SK Holdings Co., Ltd.
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11. Investment property

(1) Details of investment properties as of September 30, 2018 and December 31, 2017 are as follows (Korean won in millions):

| | September 30, 2018 | | | December 31, 2017 | | |
|-----------|--------------------|--------------------------|---------------|-------------------|--------------------------|---------------|
| | Acquisition cost | Accumulated depreciation | Book value | Acquisition cost | Accumulated depreciation | Book value |
| Land | 31,395 | - | 31,395 | 31,395 | - | 31,395 |
| Buildings | 9,810 | (1,350) | 8,460 | 9,810 | (1,031) | 8,779 |
| | <u>41,205</u> | <u>(1,350)</u> | <u>39,855</u> | <u>41,205</u> | <u>(1,031)</u> | <u>40,174</u> |

(2) Changes in investment properties for the nine months ended September 30, 2018 and 2017 are as follows (Korean won in millions):

| | For the nine months ended September 30, 2018 | | | |
|-----------|--|-----------------------|----------------|-----------------|
| | Beginning balance | Acquisition /Disposal | Depreciation | Ending balance |
| Land | ₩ 31,395 | ₩ - | ₩ - | ₩ 31,395 |
| Buildings | 8,779 | - | (319) | 8,460 |
| | <u>₩ 40,174</u> | <u>₩ -</u> | <u>₩ (319)</u> | <u>₩ 39,855</u> |

| | 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> |

SK Holdings Co., Ltd.
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12. Intangible assets

(1) Details of intangible assets as of September 30, 2018 and December 31, 2017 are as follows (Korean won in millions):

| | September 30, 2018 | | | | December 31, 2017 | | | |
|----------------------|--------------------|--------------------------|------------------------|--------------------|--------------------|--------------------------|------------------------|--------------------|
| | Acquisition cost | Accumulated amortization | Accumulated impairment | Book value | Acquisition cost | Accumulated amortization | Accumulated impairment | Book value |
| Development costs | ₩ 116,330 | ₩ (55,924) | ₩ (2,688) | ₩ 57,718 | ₩ 101,530 | ₩ (50,445) | ₩ (2,688) | ₩ 48,397 |
| Memberships | 54,211 | - | (13,648) | 40,563 | 52,438 | - | (13,648) | 38,790 |
| Brand-related assets | 1,975,000 | - | - | 1,975,000 | 1,975,000 | - | - | 1,975,000 |
| Others | 36,441 | (3,957) | - | 32,484 | 29,731 | (1,619) | - | 28,112 |
| | <u>₩ 2,181,982</u> | <u>₩ (59,881)</u> | <u>₩ (16,336)</u> | <u>₩ 2,105,765</u> | <u>₩ 2,158,699</u> | <u>₩ (52,064)</u> | <u>₩ (16,336)</u> | <u>₩ 2,090,299</u> |

(2) Changes in intangible assets for the nine months ended September 30, 2018 and 2017 are as follows (Korean won in millions):

| | For the nine months ended September 30, 2018 | | | | |
|---------------------------|--|-----------------|------------------|-------------------|--------------------|
| | Beginning balance | Acquisition | Disposal | Depreciation | Ending balance |
| Development costs | ₩ 48,397 | ₩ 21,403 | ₩ (2,939) | ₩ (9,143) | ₩ 57,718 |
| Memberships (*1) | 38,790 | 4,215 | (2,442) | - | 40,563 |
| Brand-related assets (*1) | 1,975,000 | - | - | - | 1,975,000 |
| Others | 28,112 | 6,957 | (194) | (2,391) | 32,484 |
| | <u>₩ 2,090,299</u> | <u>₩ 32,575</u> | <u>₩ (5,575)</u> | <u>₩ (11,534)</u> | <u>₩ 2,105,765</u> |

| | For the nine months ended September 30, 2017 | | | | |
|---------------------------|--|-----------------|------------------|------------------|--------------------|
| | Beginning balance | Acquisition | Disposal | Depreciation | Ending balance |
| Goodwill | ₩ 4,639 | ₩ - | ₩ - | ₩ - | ₩ 4,639 |
| Development costs | 44,798 | 13,636 | (329) | (8,611) | 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>₩ (2,252)</u> | <u>₩ (9,502)</u> | <u>₩ 2,097,579</u> |

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

13. Borrowings and bonds payable

(1) Short-term borrowings

Details of short-term borrowings as of September 30, 2018 and December 31, 2017 are as follows (Korean won in millions):

| Description | Financial institution | Interest rate (%) | September 30, 2018 | December 31, 2017 |
|----------------------|-----------------------|-------------------|--------------------|-------------------|
| Working capital loan | Woori Bank | 2.71 | ₩ 140,000 | ₩ 250,000 |
| Working capital loan | Shinhan Bank | 2.71 | 200,000 | 220,000 |
| Working capital loan | Kookmin Bank | 2.72 ~ 2.83 | 240,000 | - |
| Working capital loan | KEB Hana Bank | - | - | 50,000 |
| Working capital loan | NH Bank | - | - | 10,000 |
| Commercial paper | Korea Investment | 1.8 | 300,000 | 250,000 |
| Commercial paper | Shinhan Bank | 1.8 | 200,000 | - |
| | | | <u>₩ 1,080,000</u> | <u>₩ 780,000</u> |

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13. Borrowings and bonds payable (cont'd)

(2) Bonds payable

Details of bonds payable as of September 30, 2018 and December 31, 2017 are as follows (Korean won in millions):

| Issuance number | Interest rate (%) | Maturity | Security | September 30, | December 31, |
|-----------------|-------------------|------------|-----------|---------------|--------------|
| | | | | 2018 | 2017 |
| 257-2nd | 3.36 | 2019-08-27 | 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 |
| 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 |
| 265-2nd | 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 |
| 269-2nd | 4.12 | 2019-06-14 | Unsecured | 150,000 | 150,000 |
| 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 |
| 271-2nd | 3.34 | 2020-02-27 | Unsecured | 100,000 | 100,000 |
| 272-2nd | 3.57 | 2018-08-30 | Unsecured | - | 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 |
| 276-2nd | 2.02 | 2021-03-07 | Unsecured | 120,000 | 120,000 |
| 276-3rd | 2.26 | 2023-03-07 | Unsecured | 150,000 | 150,000 |
| 277-1st | 1.70 | 2018-06-01 | Unsecured | - | 100,000 |
| 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 |
| 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 | 90,000 |
| 279-2nd | 2.34 | 2022-03-06 | Unsecured | 190,000 | 190,000 |
| 279-3rd | 2.58 | 2024-03-06 | Unsecured | 120,000 | 120,000 |
| 280-1st | 1.99 | 2020-06-01 | Unsecured | 90,000 | 90,000 |
| 280-2nd | 2.39 | 2022-06-01 | Unsecured | 200,000 | 200,000 |
| 280-3rd | 2.67 | 2024-06-01 | Unsecured | 110,000 | 110,000 |
| 281-1st | 1.90 | 2019-08-04 | Unsecured | 100,000 | 100,000 |
| 281-2nd | 2.40 | 2022-08-04 | Unsecured | 130,000 | 130,000 |
| 281-3rd | 2.62 | 2024-08-04 | Unsecured | 70,000 | 70,000 |
| 282-1st | 2.47 | 2020-10-25 | Unsecured | 70,000 | 70,000 |
| 282-2nd | 2.79 | 2022-10-25 | Unsecured | 150,000 | 150,000 |
| 282-3rd | 2.86 | 2024-10-25 | Unsecured | 80,000 | 80,000 |
| 283-1st | 2.88 | 2023-02-27 | Unsecured | 150,000 | - |
| 283-2nd | 2.99 | 2025-02-27 | Unsecured | 60,000 | - |
| 283-3rd | 3.26 | 2028-02-27 | Unsecured | 100,000 | - |
| 284-1st | 2.87 | 2023-06-08 | Unsecured | 170,000 | - |
| 284-2nd | 3.01 | 2025-06-08 | Unsecured | 60,000 | - |
| 284-3rd | 3.09 | 2028-06-08 | Unsecured | 100,000 | - |
| 285-1st | 2.36 | 2023-09-06 | Unsecured | 150,000 | - |
| 285-2nd | 2.47 | 2025-09-06 | Unsecured | 60,000 | - |
| 285-3rd | 2.55 | 2028-09-06 | Unsecured | 120,000 | - |
| Sub-total | | | | 6,320,000 | 6,060,000 |

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13. Borrowings and bonds payable (cont'd)

| | | |
|--|--------------------|--------------------|
| Addition & Deduction: premium on bonds payable | 11,793 | 26,788 |
| Less: current portion | <u>(1,173,645)</u> | <u>(1,052,733)</u> |
| Total | <u>₩ 5,158,148</u> | <u>₩ 5,034,055</u> |

(3) The Company's bonds payable repayment schedule as of September 30, 2018 is as follows (Korean won in millions):

| <u>Year ending</u> | <u>Amount of repayment</u> |
|--------------------------------------|----------------------------|
| October 1, 2018 ~ September 30, 2019 | ₩ 1,170,000 |
| October 1, 2019 ~ September 30, 2020 | 1,090,000 |
| October 1, 2020 ~ September 30, 2021 | 1,110,000 |
| October 1, 2021 ~ September 30, 2022 | 800,000 |
| October 1, 2022 and thereafter | <u>2,150,000</u> |
| | <u>₩ 6,320,000</u> |

14. Provisions

Changes in provisions for the nine months ended September 30, 2018 and 2017 are as follows (Korean won in millions):

| | <u>For the nine months ended September 30, 2018</u> | | | |
|----------------------------------|---|-----------------|------------------|-----------------------|
| | <u>Beginning balance</u> | <u>Increase</u> | <u>Decrease</u> | <u>Ending balance</u> |
| Provision for service warranties | ₩ 4,988 | ₩ 1,904 | ₩ (4,775) | ₩ 2,117 |
| Others | <u>2,961</u> | <u>226</u> | <u>(3,187)</u> | <u>-</u> |
| | <u>₩ 7,949</u> | <u>₩ 2,130</u> | <u>₩ (7,962)</u> | <u>₩ 2,117</u> |

| | <u>For the nine months ended September 30, 2017</u> | | | |
|----------------------------------|---|-----------------|------------------|-----------------------|
| | <u>Beginning balance</u> | <u>Increase</u> | <u>Decrease</u> | <u>Ending balance</u> |
| Provision for service warranties | ₩ 5,284 | ₩ 1,586 | ₩ (4,906) | ₩ 1,964 |
| Provision for sale warranties | <u>814</u> | <u>4,360</u> | <u>(3,928)</u> | <u>1,246</u> |
| | <u>₩ 6,098</u> | <u>₩ 5,946</u> | <u>₩ (8,834)</u> | <u>₩ 3,210</u> |

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

15. Retirement benefit obligation

(1) Defined contribution plans

The Company partly operates a defined contribution plan for certain employees. The expenses related to the defined contributions plans recognized for the nine months ended September 30, 2018, were \ 22 million.

(2) Defined benefit plans

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

(3) Details of retirement benefit obligation as of September 30, 2018 and December 31, 2017 are as follows (Korean won in millions):

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15. Retirement benefit obligation (cont'd)

| | <u>September 30, 2018</u> | <u>December 31, 2017</u> |
|---|---------------------------|--------------------------|
| Present value of defined benefit obligation | ₩ 283,970 | ₩ 254,398 |
| Fair value of plan assets | <u>(208,404)</u> | <u>(215,599)</u> |
| | <u>₩ 75,566</u> | <u>₩ 38,799</u> |

(4) Changes in the retirement benefit obligation for the nine months ended September 30, 2018 and 2017 are as follows (Korean won in millions):

| | <u>For the nine months ended September 30, 2018</u> | | |
|---|---|------------------------------|-----------------|
| | Present value of defined benefit obligation | Fair value of plan assets | Total |
| Beginning balance | ₩ 254,398 | ₩ (215,599) | ₩ 38,799 |
| Provision for pension benefits: | | | |
| Current service cost | 22,759 | - | 22,759 |
| Net interest expense (income) | 5,424 | (4,892) | 532 |
| Re-measurement: | | | |
| Return on plan assets (excluding amounts included in net interest expense) | - | 2,507 | 2,507 |
| Actuarial changes arising from changes in financial assumptions | 3,549 | - | 3,549 |
| Experience adjustments | 3,771 | - | 3,771 |
| Contributions by employer directly to plan assets | - | (500) | (500) |
| Benefit paid | (11,066) | 11,382 | 316 |
| Others | 5,135 | (1,302) | 3,833 |
| Ending balance | <u>₩ 283,970</u> | <u>₩ (208,404)</u> | <u>₩ 75,566</u> |

| | <u>For the nine months ended September 30, 2017</u> | | |
|---|---|------------------------------|-----------------|
| | Present value of defined benefit obligation | Fair value of plan assets | Total |
| Beginning balance | ₩ 237,311 | ₩ (204,244) | ₩ 33,067 |
| Provision for pension benefits: | | | |
| Current service cost | 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) |
| Benefit paid | (8,845) | 13,275 | 4,430 |
| Others | 6,814 | (4,943) | 1,871 |
| Ending balance | <u>₩ 265,857</u> | <u>₩ (200,161)</u> | <u>₩ 65,696</u> |

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16. Other assets and liabilities

(1) Details of other assets as of September 30, 2018 and December 31, 2017 are as follows (Korean won in millions):

| | <u>September 30, 2018</u> | <u>December 31, 2017</u> |
|---------------------------------|---------------------------|--------------------------|
| Current assets: | | |
| Accrued income | ₩ 558 | ₩ 112 |
| Advance payments | 9,424 | 1,572 |
| Prepaid expenses | 36,049 | 11,300 |
| Guarantee deposits | 112 | 1 |
| Derivative financial assets | 35 | 599 |
| Others | 335 | 19 |
| | <u>₩ 46,513</u> | <u>₩ 13,603</u> |
| Non-current assets: | | |
| Long-term financial instruments | ₩ 19 | ₩ 19 |
| Long-term loans | 397 | 397 |
| Long-term guarantee deposits | 11,474 | 10,829 |
| Derivative financial assets | 477 | 3,015 |
| Others | 127 | 125 |
| | <u>₩ 12,494</u> | <u>₩ 14,385</u> |

(2) Details of other liabilities as of September 30, 2018 and December 31, 2017 are as follows (Korean won in millions):

| | <u>September 30, 2018</u> | <u>December 31, 2017</u> |
|----------------------------------|---------------------------|--------------------------|
| Current liabilities: | | |
| Advance received | ₩ 76,537 | ₩ 88,807 |
| Withholdings | 14,168 | 23,600 |
| Income tax payable | 118,116 | 22,824 |
| Derivative financial liabilities | 234 | 51 |
| | <u>₩ 209,055</u> | <u>₩ 135,282</u> |
| Non-current liabilities: | | |
| Leasehold deposits received | ₩ 11,764 | ₩ 11,775 |
| Derivative financial liabilities | 2,685 | 2,685 |
| Long-term employee benefits | 8,915 | 6,720 |
| | <u>₩ 23,364</u> | <u>₩ 21,180</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 derivative assets and liabilities as of September 30, 2018 and December 31, 2017 are as follows (Korean won in millions):

| | <u>September 30, 2018</u> | | <u>December 31, 2017</u> | |
|--|---------------------------|--------------------|--------------------------|--------------------|
| | <u>Assets</u> | <u>Liabilities</u> | <u>Assets</u> | <u>Liabilities</u> |
| Forward contract | ₩ 35 | ₩ 234 | ₩ 599 | ₩ 51 |
| Embedded derivative | - | - | 2,538 | - |
| Shareholders' agreement (see Note 28) | 477 | 2,685 | 477 | 2,685 |
| | <u>₩ 512</u> | <u>₩ 2,919</u> | <u>₩ 3,614</u> | <u>₩ 2,736</u> |

18. Equity

18.1 Issued capital

Details of issued capital as of September 30, 2018 and December 31, 2017 are as follows (Korean won in millions):

| | <u>September 30, 2018</u> | <u>December 31, 2017</u> |
|--|---------------------------|--------------------------|
| Number of shares authorized for issued | 400,000,000 | 400,000,000 |
| Per share (Korean won) | \ 200 \ | 200 |
| Number of shares issued: | | |
| Ordinary share | 70,360,297 | 70,360,297 |
| Preferred share | 566,135 | 566,135 |
| Issued capital: | | |
| Ordinary share | \ 15,272 \ | 15,272 |
| Preferred share | 113 | 113 |
| | <u>\ 15,385 \</u> | <u>15,385</u> |

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

18.2 Other paid-in capital

Details of other paid-in capital as of September 30, 2018 and December 31, 2017 are as follows (Korean won in millions):

| | <u>September 30, 2018</u> | <u>December 31, 2017</u> |
|----------------------|---------------------------|--------------------------|
| Paid-in surplus (*1) | ₩ 5,605,831 | ₩ 5,605,831 |
| Treasury shares (*2) | (904,492) | (904,491) |
| Stock option | 2,410 | 1,220 |
| Others | (292,892) | 17,711 |
| | <u>₩ 4,410,857</u> | <u>₩ 4,720,271</u> |

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

(*2) As of September 30, 2018, treasury shares 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 (11,021,672 ordinary shares and 1,818 preferred shares) during the merger in 2015. Out of those shares, 3 ordinary shares were acquired during the current reporting period.

18.3 Retained earnings

Details of retained earnings as of September 30, 2018 and December 31, 2017 are as follows (Korean won in millions):

| | <u>September 30, 2018</u> | <u>December 31, 2017</u> |
|----------------------------------|---------------------------|--------------------------|
| Legal reserve (*1) | ₩ 7,693 | ₩ 7,693 |
| Voluntary reserve | 65,230 | 71,563 |
| Unappropriated retained earnings | 8,204,513 | 7,506,334 |
| | <u>₩ 8,277,436</u> | <u>₩ 7,585,590</u> |

18.3 Retained earnings (cont'd)

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

18.4 Other capital components

Details of other capital components as of September 30, 2018 and December 31, 2017 are as follows (Korean won in millions):

| | <u>September 30, 2018</u> | <u>December 31, 2017</u> |
|---|---------------------------|--------------------------|
| Gain on available-for-sale financial assets | ₩ - | ₩ 11,455 |
| Loss on financial assets measured at FVOCI | (2,242) | - |
| | <u>₩ (2,242)</u> | <u>₩ 11,455</u> |

18.5 Stock option

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

| | <u>1-1</u> | <u>1-2</u> | <u>1-3</u> |
|------------------------------|--|---------------------------------------|---------------------------------------|
| Grant date | 2017-03-24 | | |
| Types of shares to be issued | Ordinary shares | | |
| Grant method | Reissue of treasury shares, but if the stock option's exercise price is lower than the stock's real price (evaluated based on exercise date), the Company may settle the difference in cash or with treasury shares equivalent to the difference amount. | | |
| Number of shares (shares) | 41,429 | 41,430 | 41,431 |
| Exercise price (Korean won) | ₩ 226,290 | ₩ 224,400 | ₩ 263,950 |
| Contractual life of options | 2019.03.25 ~2022.03.24 | 2020.03.25 ~2023.03.24 | 2021.03.25 ~2024.03.24 |
| Vesting conditions | 2 year service from the grant date | 3 year service from the grant date | 4 year service from the grant date |

Share compensation expense recognized during the current reporting period is ₩ 1,190 million (accumulated share compensation expense: ₩ 2,410 million) and the remaining share compensation expense to be recognized in later periods are ₩ 1,877 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:

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

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19. Operating revenues

(1) Details of operating revenues for the three months and nine months ended September 30, 2018 and 2017 are as follows (Korean won in millions):

| | September 30, 2018 | | September 30, 2017 | |
|--|--------------------|--------------------|--------------------|--------------------|
| | Three months | Nine months | Three months | Nine months |
| Revenue from contracts with customers: | | | | |
| IT service (*1) | ₩ 402,896 | ₩ 1,109,224 | ₩ 380,655 | ₩ 1,133,218 |
| Trademark usage income | 58,954 | 176,324 | 46,428 | 138,752 |
| Others | 125 | 701 | 5 | 15 |
| | <u>461,975</u> | <u>1,286,249</u> | <u>427,088</u> | <u>1,271,985</u> |
| Revenue from other sources: | | | | |
| Dividend income | 71,440 | 830,877 | 69,778 | 690,193 |
| Rental income | 11,739 | 34,881 | 11,706 | 34,657 |
| | <u>83,179</u> | <u>865,758</u> | <u>81,484</u> | <u>724,850</u> |
| Total | <u>₩ 545,154</u> | <u>₩ 2,152,007</u> | <u>₩ 508,572</u> | <u>₩ 1,996,835</u> |

(*1) Includes contract revenue of ₩628,481 million recognized from the cost-based input method for the nine months ended September 30, 2018 and ₩309,256 million recognized from construction contract for the nine months ended September 30, 2017.

(2) Revenue from contracts with customers

| | September 30, 2018 | |
|----------------------------------|--------------------|--------------------|
| | Three months | Nine months |
| Type of goods or services: | | |
| IT service | ₩ 402,896 | ₩ 1,109,224 |
| Trademark usage income | 58,954 | 176,324 |
| Others | 125 | 701 |
| | <u>₩ 461,975</u> | <u>₩ 1,286,249</u> |
| Geographical location: | | |
| Korea | ₩ 439,677 | ₩ 1,231,393 |
| Asia | 18,600 | 43,976 |
| Europe | 3,047 | 6,522 |
| North America | 651 | 4,358 |
| | <u>₩ 461,975</u> | <u>₩ 1,286,249</u> |
| Timing of revenue recognition: | | |
| Recognized at a point in time | ₩ 31,342 | ₩ 82,357 |
| Recognized over a period of time | 430,633 | 1,203,892 |
| | <u>₩ 461,975</u> | <u>₩ 1,286,249</u> |

(3) Details of contract assets, contract liabilities related to revenue from contracts with customers as of September 30, 2018 and accumulated cost, accumulated profit, unbilled receivables, overbilled receivables related to construction contracts in progress as of December 31, 2017 are as follows (Korean won in millions):

| | |
|--|---------------------------|
| | <u>September 30, 2018</u> |
| Contract assets from IT service contract | ₩ 185,608 |
| Contract liabilities from IT service contract | 50,057 |
| | <u>December 31, 2017</u> |
| Accumulated cost and profit | ₩ 277,259 |
| Progress billings | 235,568 |
| Unbilled receivables (trade accounts receivable) | 63,331 |

19. Operating revenues (cont'd)

Overbilled receivables (advance receipts) 21,640

(4) Details of profit variation by changes of accounting estimates related to the cost-based input method contracts as of September 30, 2018 are as follows (Korean won in millions):

| | Change in estimated construction revenue | Change in estimated cost | Impact on current period profit (loss) | Impact on future period profit (loss) | Change in unbilled construction receivables (overbilled construction receivables) |
|---------------------------|---|-----------------------------|--|---|---|
| IT Service contracts (*1) | ₩ 19,182 | ₩ 23,650 | ₩ (4,951) | ₩ 483 | ₩ (4,951) |

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

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

(5) There are no contracts applying the cost-based input method to measure the percentage-of-completion with total contract revenue exceeding prior year's operating income by more than 5%

20. Operating expenses

Details of operating expenses for the nine months ended September 30, 2018 and 2017 are as follows (Korean won in millions):

| | September 30, 2018 | | September 30, 2017 | |
|--------------------------------|--------------------|-------------|--------------------|-------------|
| | Three months | Nine months | Three months | Nine months |
| Material costs | ₩ 42,183 | ₩ 90,869 | ₩ 52,344 | ₩ 192,606 |
| Outsourcing costs | 182,537 | 506,015 | 158,677 | 447,888 |
| Salaries | 88,277 | 242,138 | 79,813 | 232,057 |
| Provision for pension benefits | 7,018 | 23,927 | 6,013 | 22,034 |
| Depreciation | 12,033 | 35,846 | 11,187 | 33,419 |
| Rents | 10,950 | 31,600 | 9,971 | 29,514 |
| Communications | 4,925 | 15,603 | 5,243 | 16,317 |
| Employee welfare benefits | 13,056 | 37,897 | 11,633 | 35,470 |
| Commissions | 8,720 | 23,692 | 8,987 | 18,774 |
| Education and training | 3,495 | 10,801 | 3,676 | 10,577 |
| Research and development | 5,709 | 20,446 | 5,064 | 15,666 |
| Office management | 11,526 | 33,269 | 10,392 | 28,323 |
| Travel | 3,949 | 11,544 | 3,402 | 9,370 |
| Others | 19,182 | 53,109 | 21,955 | 57,147 |
| Total | ₩ 413,560 | ₩ 1,136,756 | ₩ 388,357 | ₩ 1,149,162 |

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21. Expenses classified based on nature of expense

Details of classification based on nature of expenses for the nine months ended September 30, 2018 and 2017 are as follows (Korean won in millions):

| | September 30, 2018 | | September 30, 2017 | |
|--------------------------------|--------------------|-------------|--------------------|-------------|
| | Three months | Nine months | Three months | Nine months |
| Material costs | ₩ 42,053 | ₩ 90,873 | ₩ 52,485 | ₩ 193,003 |
| Outsourcing costs | 182,757 | 506,615 | 158,882 | 448,691 |
| Salaries | 90,874 | 253,005 | 81,925 | 238,774 |
| Provision for pension benefits | 7,430 | 24,987 | 6,287 | 23,010 |
| Depreciation and amortization | 16,310 | 48,356 | 14,462 | 43,558 |
| Rents | 10,950 | 31,601 | 9,972 | 29,517 |
| Communications | 4,925 | 15,604 | 5,244 | 16,318 |
| Employee welfare benefits | 13,504 | 39,501 | 12,081 | 36,764 |
| Commissions | 8,781 | 23,755 | 9,087 | 19,041 |
| Education and training | 3,549 | 10,998 | 3,741 | 10,754 |
| Office management | 11,526 | 33,269 | 10,396 | 28,327 |
| Travel | 4,018 | 11,665 | 3,423 | 9,439 |
| Others | 16,883 | 46,527 | 20,372 | 51,966 |
| Total | ₩ 413,560 | ₩ 1,136,756 | ₩ 388,357 | ₩ 1,149,162 |

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

22.1 Financial income and costs

Details of financial income and costs for the nine months ended September 30, 2018 and 2017 are as follows (Korean won in millions):

| | September 30, 2018 | | September 30, 2017 | |
|--|--------------------|-------------|--------------------|-------------|
| | Three months | Nine months | Three months | Nine months |
| Financial income: | | | | |
| Interest income | ₩ 1,944 | ₩ 5,057 | ₩ 1,411 | ₩ 3,705 |
| Gain on foreign currency transactions | 5,789 | 7,673 | 1,148 | 4,480 |
| Gain on foreign currency translation | (985) | 214 | 575 | 935 |
| Gain on valuation of financial assets measured at FVTPL (*1) | 15,074 | 15,632 | - | - |
| Gain on valuation of derivative instruments | 1,042 | 1,236 | (7,245) | 2,527 |
| Gain on transactions of derivative instruments | 29 | 879 | 598 | 2,516 |
| Total | ₩ 22,893 | ₩ 30,691 | ₩ (3,513) | ₩ 14,163 |
| Financial costs: | | | | |
| Interest expenses | ₩ 43,910 | ₩ 128,252 | ₩ 38,829 | ₩ 110,950 |
| Loss on foreign currency transactions | 1,791 | 4,695 | 1,711 | 4,150 |
| Loss on foreign currency translation | 40 | 193 | 333 | 1,948 |
| Loss on valuation of financial assets measured at FVTPL (*1) | (3,142) | 66 | - | - |
| Loss on valuation of derivative instruments | - | 1,970 | 566 | 3,352 |
| Loss on transactions of derivative instruments | 569 | 894 | 467 | 1,315 |
| Total | ₩ 43,168 | ₩ 136,070 | ₩ 41,906 | ₩ 121,715 |

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(*1) Gain on valuation of financial assets measured at FVTPL includes ₩14,725 million of valuation gain on SK Securities incurred up to July 30, 2018, the date SK Securities, classified as assets held-for-sale as of December 31, 2017, was sold.

22.2 Other non-operating income and expenses

Details of other non-operating income and expenses for the nine months ended September 30, 2018 and 2017 are as follows (Korean won in millions):

| | September 30, 2018 | | September 30, 2017 | |
|---|--------------------|------------------|--------------------|-----------------|
| | Three months | Nine months | Three months | Nine months |
| Other non-operating income: | | | | |
| Dividends income | ₩ - | ₩ - | ₩ - | ₩ 3 |
| Gain on disposal of available-for-sale financial assets | - | - | 241 | 241 |
| Gain on disposal of investments in subsidiaries and associates (*1) | - | 198,440 | 38,691 | 38,691 |
| Gain on disposal of property, plant and equipment | 7 | 11 | 56 | 157 |
| Gain on disposal of intangible assets | - | 518 | - | 225 |
| Others | 409 | 1,694 | 148 | 307 |
| Total | <u>₩ 416</u> | <u>₩ 200,663</u> | <u>₩ 39,136</u> | <u>₩ 39,624</u> |
| Other non-operating expenses: | | | | |
| Loss on disposal of available-for-sale financial assets | ₩ - | ₩ - | ₩ 158 | ₩ 158 |
| Loss on disposal of property, plant and equipment | 12 | 133 | - | 22 |
| Loss on disposal of intangible assets | - | 101 | 17 | 42 |
| Loss on disposal of investments in subsidiaries and associates | (2) | 6,536 | 4,009 | 4,009 |
| Donations | 3,286 | 15,570 | 2,891 | 8,973 |
| Others | 668 | 1,504 | 399 | 1,386 |
| Total | <u>₩ 3,964</u> | <u>₩ 23,844</u> | <u>₩ 7,474</u> | <u>₩ 14,590</u> |

(*1) Gain on disposal of investments in subsidiaries and associates includes ₩192,191 million of gain on disposal of investments in subsidiaries incurred by the disposal of SK Encarsales.com Ltd. on January 19, 2018, which was classified as assets held-for-sale as of December 30, 2017.

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, 2018 and 2017 were 12.62% and 8.63%, respectively.

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24. Earnings per share

(1) Basic earnings per share for the nine months ended September 30, 2018 and 2017 are as follows (Korean won in millions, except per share information):

| | September 30, 2018 | | September 30, 2017 | |
|---|--------------------|-------------|--------------------|-------------|
| | Three months | Nine months | Three months | Nine months |
| Net income | ₩ 85,635 | ₩ 980,474 | ₩ 85,851 | ₩ 709,491 |
| Less: Preferred share dividends | (571) | (2,278) | (529) | (1,587) |
| Net income attributable to ordinary share owners of the Company | ₩ 85,064 | ₩ 978,196 | ₩ 85,322 | ₩ 707,904 |
| Weighted-average number of issued shares outstanding (*1) | 55,824,350 | 55,824,350 | 55,824,357 | 55,824,357 |
| Basic earnings per share (In Korean Won) | ₩ 1,524 | ₩ 17,523 | ₩ 1,528 | ₩ 12,681 |

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

The weighted-average number of issued shares outstanding for the nine months ended September 30, 2018 and 2017 are as follows:

| | September 30, 2018 | | September 30, 2017 | |
|--|--------------------|--------------|--------------------|--------------|
| | 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 | (14,535,947) | (14,535,947) | (14,535,940) | (14,535,940) |
| Weighted-average number of issued shares outstanding | 55,824,350 | 55,824,350 | 55,824,357 | 55,824,357 |

(2) Basic earnings per share from continuing operations

Basic earnings per share from continuing operations for the nine months ended September 30, 2018 and 2017 are as follows (Korean won in millions, except per share information):

| | September 30, 2018 | | September 30, 2017 | |
|---|--------------------|-------------|--------------------|-------------|
| | Three months | Nine months | Three months | Nine months |
| Net income attributable to ordinary shares | ₩ 85,064 | ₩ 978,196 | ₩ 85,322 | ₩ 707,904 |
| Less: gain from discontinued operations | (72) | (30,937) | (3,664) | (9,636) |
| Gain from continuing operations attributable to ordinary shares | ₩ 84,992 | ₩ 947,259 | ₩ 81,658 | ₩ 698,268 |
| Weighted-average number of Issued shares outstanding | 55,824,350 | 55,824,350 | 55,824,357 | 55,824,357 |
| Basic earnings per share from continuing operations (In Korean Won) | ₩ 1,522 | ₩ 16,969 | ₩ 1,463 | ₩ 12,508 |

SK Holdings Co., Ltd.
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24. Earnings per share (cont'd)

(3) Basic earnings per share from discontinued operations

Basic earnings per share from discontinued operations for the nine months ended September 30, 2018 and 2017 are as follows (Korean won in millions, except per share information):

| | September 30, 2018 | | September 30, 2017 | |
|--|--------------------|-------------|--------------------|-------------|
| | Three months | Nine months | Three months | Nine months |
| Gain from discontinued operations | ₩ 72 | ₩ 30,937 | ₩ 3,664 | ₩ 9,636 |
| Weighted-average number of issued shares outstanding | 55,824,350 | 55,824,350 | 55,824,357 | 55,824,357 |
| Basic earnings per share from discontinued operations (In Korean won) | ₩ 2 | ₩ 554 | ₩ 66 | ₩ 173 |

25. Transactions with related parties

Details of significant transactions with related parties for the nine months ended September 30, 2018 and 2017, and significant balances with related parties as of September 30, 2018 and December 31, 2017 are as follows (Korean won in millions):

(1) The subsidiaries of the Company as of September 30, 2018, are as follows:

| Ultimate controlling party | Subsidiary |
|-----------------------------------|--|
| Tae-won, Chey and related parties | |
| Subsidiary (total 322) | SK Innovation Co., Ltd., SK Energy Co., Ltd., Netruck Co., Ltd., Jeju United FC Corporation, SK Energy Road Investment Co., Ltd., SK Energy Hong Kong Co., Ltd., Shandong SK Hightech Oil 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 Asphalt (Shanghai) 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 Saran Americas LLC, SK Global Chemical China Co., Ltd., 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., SK Lubricants Co., Ltd., Yubase Manufacturing Asia Corporation, SK Energy Lubricants (Tianjin) Co., Ltd., PT. Patra SK, SK Lubricants Americas, Inc., SK Lubricants Europe B.V., SK Lubricants Japan Co., Ltd., SK Lubricants & Oils India Pte. Ltd., Iberian Lube Base Oils S.A., SK Lubricants Russia LLC, SK Mobile Energy Co., Ltd., SK Innovation Insurance (Bermuda), Ltd., SK USA, Inc., SK Battery Systems Co., Ltd., Blue Dragon Energy Co., Ltd. (formerly, SK Battery China Holdings Co., Ltd.), SK Battery Hungary Kft., SK E&P Company, SK E&P America, Inc., SK Plymouth, LLC, SK Permian, LLC, SK E&P Operations America, LLC, SK Nemaha, LLC, SK Telecom Co., Ltd., SK Telink Co., Ltd., NSOK Co., Ltd., SK Telink Vietnam Co., Ltd., SK Broadband Co., Ltd., Home&Service Co., Ltd., SK stoa Co., Ltd., PS&Marketing Corp., Serviceace Co., Ltd., Service Top Co., Ltd., Network O&S Co., Ltd., K-Net Culture & Contents Venture Fund, One store Co., Ltd., SK Communications Co., Ltd., SK Planet Co., Ltd., 11Street Co., Ltd, SK M & Service Co., Ltd., SK Planet Japan, K.K., SKP Global Holdings Pte. Ltd., SKP America, LLC, shopkick Management Company, Inc., shopkick, Inc., SK Telecom China Holdings Co., Ltd., SK Global Healthcare Business Group, Ltd., SKT Vietnam Pte. Ltd., SKT Americas Inc., YTK Investment Ltd., Atlas Investment Ltd., SK Telecom Innovation Fund, L.P., SK Telecom China Fund I L.P., iriver Co., Ltd., iriver Inc., iriver Enterprise Ltd., iriver China Co., Ltd., Dongguan iriver Electronics Co., Ltd., groovers Co., Ltd., groovers Japan Co., Ltd., Life |

25. Transactions with related parties (cont'd)

| Subsidiary | Subsidiary |
|---------------------------|---|
| Subsidiary (total 322) | <p>Design Company Inc. (formerly, S.M. Life Design Company Japan Inc.), SK telecom Japan Inc., id Quantique Ltd, SK Networks Co., Ltd., SK Networks Service Co., Ltd., SK Pinx Co., Ltd., SK Rent-A-car Service Co., Ltd. (formerly, Car Life Service Co., Ltd.), SK Magic Co., Ltd., SK Magic Service Co., Ltd., Mokgam Service, SK Networks (China) Holdings Co., Ltd., Liaoning SK Networks Real Estate Development Co., Ltd., Shenyang SK Bus Terminal Co., Ltd., SK Networks (Liaoning) Logistics Co., Ltd., SK Networks (Dandong) Energy Co., Ltd., Shenyang SK Networks Energy Co., Ltd., SK (GZ FreeZone) Co., Ltd., SK Networks (Shanghai) Co., Ltd., POSK (Pinghu) Steel Processing Center Co., Ltd., SK Networks Hong Kong Ltd., SK (Guangzhou) Metal Co., Ltd., SK Networks (Xiamen) Steel Processing Center Co., Ltd., SK Networks Japan Co., Ltd., SK Networks Deutschland GmbH, Daiyang SK Networks SAN. VE TIC. Ltd. STI, SK Networks Resources Australia Pty. Ltd., SK Networks Middle East FZE, SK Brasil Ltda, SK Networks Trading Malaysia Sdn Bhd, SK Networks America Inc., SK Networks Brasil Intermediacao De Negocios Ltda., Networks Tejarat Pars, SK Networks Retails Malaysia Sdn. Bhd., SKC Co., Ltd., SK Telesys Co., Ltd., SE (Jiangsu) Electronic Materials Co., Ltd., Techdream Co., Ltd., SKC Infra Service Co., Ltd., SKC Solmics Co., Ltd., Solmics Taiwan Co., Ltd., Solmics Shanghai Co., Ltd., SKW Co., Ltd., SKC (Jiangsu) High tech Plastics Co., Ltd., SKC, Inc., SKC Europe GmbH, SK Bioland Co., Ltd., Bioland Biotec Co., Ltd., Bioland Haimen Co., Ltd., SKC Hi-Tech&Marketing Co., Ltd., SKC Hi-Tech&Marketing (Suzhou) Co., Ltd., SKC Hi-Tech&Marketing Taiwan Co., Ltd., SKC Hi-Tech&Marketing Polska SP.Z.O.O, SKC Hi-Tech&Marketing USA LLC, SKC PU Specialty Co., Ltd., SKC (Nantong) PU Specialty Co., Ltd, SKC-ENF Electronic Materials Co., Ltd., SKC(Nantong) Semiconductor Materials Technology, Co., Ltd., SK Shipping Co., Ltd., Blueseaoccean 2nd LLC, Blueseaoccean 3rd LLC, Yukyungjiju 1ST LLC, Neptune Solution LLC, FSS 6TH Co., Ltd., SK Shipping Hong Kong Ltd., SK Shipping Singapore Pte. Ltd., SK B&T Pte. Ltd., Promise Shipholding S.A. and 58 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 Americacas, Inc., SK E&S LNG, LLC, DewBlaine Energy, LLC, CAILIP Gas Marketing, LLC, Prism Energy International Pte. Ltd., Fajar Energy International Pte. Ltd., Prism Energy International Hong Kong Ltd., PT SK E&S Nusantara, SK E&S Dominicana S.R.L., SK Engineering & Construction Co., Ltd., Seosuwon Development Company, SK TNS Co., Ltd., SKEC Nanjing Co., Ltd., SKEC (Thai), Ltd., Thai Woo Ree Engineering Co., Ltd., SKEC Anadolu, LLC, SK E&C Betek Corporation, Mesa Verde RE Ventures, LLC, SKEC Consultores Ecquador, S.A., Sunlake Co., Ltd., SK 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 Showa Denko Co., Ltd., SK Siltron Co., Ltd., SK Siltron America, Inc., SK Siltron Japan, Inc., SK Biopharmaceuticals Co., Ltd., SK Life Science, Inc., SK Biotek Co., Ltd., SK Biotek Ireland Limited, SK Biotek USA, Inc., SK Infosec Co., Ltd., SK S.E.Asia Pte. Ltd., Essencore Limited, Essencore (Shenzhen) Limited, SK China Company, Ltd., SKY Property Mgmt (Beijing) Co., Ltd., SK Bio Energy Hong Kong Co., Ltd., SK Property Investment Management Co., Ltd., SK Industrial Development China Co., Ltd., Shanghai SKY Real Estate Development Co., Ltd., SK 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., SK China (Beijing) Co., Ltd., SK Beijing Investment Management Ltd., SKY Property Management Ltd., SKY Investment Co., Ltd., SK China Real Estate Co., Ltd., SK China Creative Industry Development Co., Ltd., SK C&C Beijing Co., Ltd., SK C&C Chengdu Co., Ltd., SK C&C India Pvt. Ltd., S&G Technology, Saturn Agriculture Investment Co., Limited, SK Investment Management Co., Ltd., SK Semiconductor Investments Co., Ltd., SK Computer and Communication LLC, 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</p> |

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25. Transactions with related parties (cont'd)

| Subsidiary | Subsidiary |
|---------------------------|---|
| Subsidiary (total 322) | Investment S.A., Plutus Capital NY, Inc., Hudson Energy NY, LLC, Hudson Energy NY II, LLC, Plutus Fashion NY, Inc., Wonderland NY, LLC, SK Technology Innovation Company, SK South East Asia Investment Pte.Ltd., SK Investment Vina I Pte. Ltd., Alchemy Acquisition Corp., Abrasax Investment Inc., Fine Chemicals Holdings Corp., AMPAC Fine Chemicals, LLC, AMPAC Fine Chemicals Texas, LLC, AMPAC Fine Chemicals Virginia, LLC, 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, 2018 and 2017 are as follows (Korean won in millions):

| Subsidiary | Company name | September 30, 2018 | | | |
|------------|---|--------------------|------------------|---------------|---------------|
| | | Sales (*1) | | Purchase (*2) | |
| | | Three months | Nine months | Three months | Nine months |
| | | ₩ | ₩ | ₩ | ₩ |
| | SK Innovation Co., Ltd. | 73,354 | 313,038 | 237 | 2,237 |
| | SK Energy Co., Ltd. | 24,584 | 74,250 | - | 7 |
| | SK Global Chemical Co., Ltd. | 8,024 | 22,875 | - | - |
| | SK Incheon Petrochem Co., Ltd. | 5,600 | 16,494 | - | 3 |
| | SK Trading International Co., Ltd. | 1,054 | 3,154 | - | - |
| | SK Lubricants Co., Ltd. | 3,564 | 10,163 | - | - |
| | SK Biotek Co., Ltd. | 1,120 | 3,424 | - | 2 |
| | SK USA, Inc. | 11 | 34 | 539 | 1,816 |
| | SK Engineering & Construction Co., Ltd. | 7,124 | 20,539 | 1 | 2 |
| | SKC Co., Ltd. | 2,945 | 22,115 | - | - |
| | SK E&S Co., Ltd. | 4,084 | 248,572 | - | - |
| | SK Infosec Co., Ltd. | 1,055 | 19,082 | 5,225 | 13,245 |
| | SK C&C Beijing Co., Ltd. | 385 | 617 | 3,177 | 8,489 |
| | SK S.E.ASIA Pte. Ltd. | - | 78,979 | - | - |
| | ESSENCORE Limited | 1,448 | 3,606 | - | - |
| | SK Networks Co., Ltd. | 10,540 | 43,133 | 745 | 3,990 |
| | HAPPYNARAE Co., Ltd. | 1,187 | 3,463 | 2,035 | 4,888 |
| | SK Shipping Co., Ltd. | 575 | 3,411 | - | - |
| | SK Telecom Co., Ltd. | 115,031 | 470,255 | 2,625 | 9,350 |
| | SK Telink Co., Ltd. | 884 | 2,663 | 50 | 161 |
| | SK Broadband Co., Ltd. | 28,704 | 89,173 | 2,071 | 6,918 |
| | PS&Marketing Corp. | 703 | 3,822 | 164 | 367 |
| | SK Planet Co., Ltd. (*3) | 11,926 | 25,852 | 3 | 338 |
| | SK Matrics Co., Ltd. | 1,678 | 22,054 | - | - |
| | Others | 14,816 | 36,728 | 1,531 | 3,798 |
| Others | Hana Land Chip PEF 33 | 1,662 | 3,322 | 9,514 | 26,701 |
| | SK Securities Co., Ltd. (*4) | 2,097 | 12,964 | - | - |
| | SK Gas Co., Ltd. | 5,826 | 13,076 | - | - |
| | SK Discovery Co., Ltd. | - | - | - | - |
| | SK Chemicals Co., Ltd. | 1,184 | 3,552 | - | - |
| | SK hynix Inc. | 108,564 | 275,487 | 242 | 336 |
| | SK hynix Semiconductor (China) Ltd. | 15,003 | 31,564 | 1,078 | 1,106 |
| | Others | 1,721 | 5,252 | 674 | 2,770 |
| Total | | <u>456,453</u> | <u>1,882,713</u> | <u>29,911</u> | <u>86,524</u> |

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

| | | September 30, 2017 | | | |
|------------|---|--------------------|-------------|---------------|-------------|
| | | Sales (*1) | | Purchase (*2) | |
| | Company name | Three months | Nine months | Three months | Nine months |
| Subsidiary | SK Innovation Co., Ltd. | ₩ 70,359 | ₩ 302,610 | ₩ 841 | ₩ 2,238 |
| | SK Energy Co., Ltd. | 22,146 | 59,359 | 2 | 2 |
| | SK Global Chemical Co., Ltd. | 8,255 | 20,595 | - | - |
| | SK Incheon Petrochem Co., Ltd. | 4,264 | 11,713 | - | 10 |
| | SK Trading International Co., Ltd. | 1,098 | 3,191 | - | - |
| | SK Lubricants Co., Ltd. | 3,077 | 8,900 | - | - |
| | SK Biotek Co., Ltd. | 1,466 | 2,623 | - | - |
| | SK USA, Inc. | - | - | 614 | 1,617 |
| | SK Engineering & Construction Co., Ltd. | 6,794 | 20,424 | - | - |
| | SKC Co., Ltd. | 3,422 | 19,951 | - | - |
| | SK E&S Co., Ltd. | 3,628 | 161,555 | - | - |
| | SK Infosec Co., Ltd. | 1,036 | 3,057 | 4,846 | 14,459 |
| | SK C&C Beijing Co., Ltd. | 139 | 320 | 2,931 | 7,074 |
| | SK S.E.ASIA Pte. Ltd. | - | - | - | - |
| | ESSENCORE Limited | 959 | 2,694 | - | - |
| | SK Networks Co., Ltd. | 13,171 | 48,541 | 4,544 | 14,234 |
| | HAPPYNARAE Co., Ltd. | 117 | 520 | 1,482 | 3,526 |
| | SK Shipping Co., Ltd. | 1,395 | 2,712 | - | - |
| | SK Telecom Co., Ltd. | 114,571 | 490,311 | 3,495 | 9,125 |
| | SK Telink Co., Ltd. | 1,216 | 3,351 | 46 | 114 |
| | SK Broadband Co., Ltd. | 43,305 | 148,071 | 2,496 | 7,698 |
| | PS&Marketing Corp. | 806 | 2,177 | 325 | 1,534 |
| | SK Planet Co., Ltd. (*3) | 8,659 | 34,772 | 1,623 | 2,163 |
| | SK Matrics Co., Ltd. | 1,672 | 22,866 | - | - |
| | Others | 6,998 | 17,498 | 1,626 | 5,906 |
| Others | Hana Land Chip PEF 33 | - | 1,629 | 8,830 | 25,282 |
| | SK Securities Co., Ltd. | 5,491 | 19,442 | - | - |
| | SK Gas Co., Ltd. | 2,022 | 6,050 | - | 4 |
| | SK Discovery Co., Ltd. | 1,162 | 3,595 | - | - |
| | SK Chemicals Co., Ltd. | - | - | - | - |
| | SK hynix Inc. | 80,608 | 209,165 | 35 | 143 |
| | SK hynix Semiconductor (China) Ltd. | 705 | 2,145 | - | 443 |
| | Others | 1,852 | 11,688 | 634 | 2,228 |
| Total | | ₩ 410,393 | ₩ 1,641,525 | ₩ 34,370 | ₩ 97,800 |

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

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

(*3) SK Planet Co., Ltd. merged SK techx Co., Ltd. as of September 1, 2018. The transactions of SK techx Co., Ltd. are included in that of SK Planet Co., Ltd.

(*4) Although, not designated as related parties as defined in paragraph 9 of KIFRS 1024, the entity is designated as related parties based on the resolution made by the Securities and Futures Commission that conglomerate affiliates designated by the Fair Trade Commission are related parties based on the substance of relation as regulated by paragraph 10 of KIFRS 1024. The Company sold the entire shares in SK Securities Co., Ltd. to J&W BIG LLC on July 30, 2018, and thus SK Securities Co., Ltd. was excluded from the related parties.

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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 of September 30, 2018 and December 31, 2017 are as follows (Korean won in millions):

| | | September 30, 2018 | | | | | |
|--------------|---|--------------------|-------------------|----------------|----------------|----------------|---------------|
| | | Receivables | | | Payables | | |
| Company name | | Trade receivables | Other receivables | Total | Trade payables | Other payables | Total |
| Subsidiary | SK Innovation Co., Ltd. | 15,622 | 516 | 16,138 | - | 6,575 | 6,575 |
| | SK Energy Co., Ltd. | 2,510 | - | 2,510 | - | - | - |
| | SK Global Chemical Co., Ltd. | 24 | - | 24 | - | 767 | 767 |
| | SK Incheon Petrochem Co., Ltd. | 38 | - | 38 | - | 867 | 867 |
| | SK Trading International Co., Ltd. | - | - | - | - | 776 | 776 |
| | SK Lubricants Co., Ltd. | - | - | - | - | 676 | 676 |
| | SK USA, Inc. | - | - | - | - | 586 | 586 |
| | SK Engineering & Construction Co., Ltd. | 2,389 | - | 2,389 | - | 63 | 63 |
| | SKC Co., Ltd. | 1,853 | - | 1,853 | - | 280 | 280 |
| | SK E&S Co., Ltd. | 1,821 | 114 | 1,935 | - | 178 | 178 |
| | SK Infosec Co., Ltd. | 802 | 916 | 1,718 | 1,836 | 1,782 | 3,618 |
| | SK C&C Beijing Co., Ltd. | 431 | - | 431 | 6 | - | 6 |
| | Essencore Limited | 1,365 | - | 1,365 | - | 47 | 47 |
| | SK Networks Co., Ltd. | 5,140 | 20 | 5,160 | - | 861 | 861 |
| | Happynarae Co., Ltd. | 1,545 | - | 1,545 | 272 | 281 | 553 |
| | SK Shipping Co., Ltd. | 288 | - | 288 | - | - | - |
| | SK Telecom Co., Ltd. | 58,639 | 352 | 58,991 | 217 | 4,613 | 4,830 |
| | SK Telink Co., Ltd. | 250 | - | 250 | 5 | 15 | 20 |
| | SK Broadband Co., Ltd. | 47,683 | - | 47,683 | 496 | 1,154 | 1,650 |
| | PS&Marketing Corp. | 1,368 | - | 1,368 | - | - | - |
| | SK Planet Co., Ltd. | 4,979 | - | 4,979 | - | 298 | 298 |
| | SK Materials Co., Ltd. | 1,332 | 337 | 1,669 | - | 175 | 175 |
| | Others | 13,710 | 1,283 | 14,993 | 208 | 497 | 705 |
| Others | Hana Land Chip PEF 33 | - | 5,983 | 5,983 | - | - | - |
| | SK Securities Co., Ltd. | - | - | - | - | - | - |
| | SK Gas Co., Ltd. | 4,311 | - | 4,311 | - | 128 | 128 |
| | SK Chemicals Co., Ltd. | 886 | - | 886 | - | - | - |
| | SK Hynix Inc. | 147,798 | - | 147,798 | 17 | 23,677 | 23,694 |
| | SK Hynix Semiconductor (China) Ltd. | 10,047 | - | 10,047 | - | - | - |
| | Others | 651 | 143 | 794 | 538 | 1,669 | 2,207 |
| Total | | <u>325,482</u> | <u>9,664</u> | <u>335,146</u> | <u>3,595</u> | <u>45,965</u> | <u>49,560</u> |

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

| | | December 31, 2017 | | | | | |
|--------------|---|-------------------|-------------|---------|----------|----------|--------|
| | | Receivables | | | Payables | | |
| Company name | | Trade | Other | Total | Trade | Other | Total |
| | | receivables | receivables | | payables | payables | |
| Subsidiary | SK Innovation Co., Ltd. | 15,456 | 914 | 16,370 | - | 8,836 | 8,836 |
| | SK Energy Co., Ltd. | 1,166 | - | 1,166 | - | 1,876 | 1,876 |
| | SK Global Chemical Co., Ltd. | 6,042 | - | 6,042 | - | 4,097 | 4,097 |
| | SK Incheon Petrochem Co., Ltd. | 2,404 | - | 2,404 | - | 1,870 | 1,870 |
| | SK Trading International Co., Ltd. | 1,010 | - | 1,010 | - | 2,180 | 2,180 |
| | SK Lubricants Co., Ltd. | 559 | - | 559 | - | 1,282 | 1,282 |
| | SK USA, Inc. | - | - | - | - | 497 | 497 |
| | SK Engineering & Construction Co., Ltd. | 5,215 | - | 5,215 | - | 1 | 1 |
| | SKC Co., Ltd. | 2,193 | - | 2,193 | - | 11 | 11 |
| | SK E&S Co., Ltd. | 2,336 | - | 2,336 | - | 76 | 76 |
| | SK Infosec Co., Ltd. | 928 | - | 928 | 1,773 | 2,471 | 4,244 |
| | SK C&C Beijing Co., Ltd. | 120 | - | 120 | 477 | 201 | 678 |
| | Essencore Limited | 1,868 | - | 1,868 | - | 47 | 47 |
| | SK Networks Co., Ltd. | 6,624 | 72 | 6,696 | 45 | 395 | 440 |
| | Happynarae Co., Ltd. | 176 | - | 176 | 201 | 607 | 808 |
| | SK Shipping Co., Ltd. | 225 | - | 225 | - | - | - |
| | SK Telecom Co., Ltd. | 85,708 | 348 | 86,056 | 688 | 8,547 | 9,235 |
| | SK Telink Co., Ltd. | 276 | - | 276 | 8 | 8 | 16 |
| | SK Broadband Co., Ltd. | 66,562 | - | 66,562 | 621 | 8,967 | 9,588 |
| | PS&Marketing Corp. | 617 | - | 617 | - | - | - |
| | SK Planet Co., Ltd. | 8,508 | - | 8,508 | 72 | 212 | 284 |
| | SK Materials Co., Ltd. | 1,538 | - | 1,538 | - | 232 | 232 |
| | Others | 5,980 | 290 | 6,270 | 448 | 988 | 1,436 |
| Others | Hana Land Chip PEF 33 | - | 5,983 | 5,983 | - | - | - |
| | SK Securities Co., Ltd. | 2,923 | - | 2,923 | - | - | - |
| | SK Gas Co., Ltd. | 1,101 | - | 1,101 | - | 4 | 4 |
| | SK Chemicals Co., Ltd. | 1,530 | - | 1,530 | - | - | - |
| | SK Hynix Inc. | 132,492 | - | 132,492 | - | 10,557 | 10,557 |
| | SK Hynix Semiconductor (China) Ltd. | 1,843 | - | 1,843 | - | - | - |
| | Others | 67,930 | 4,524 | 72,454 | 100 | 1,137 | 1,237 |
| Total | | 423,330 | 12,131 | 435,461 | 4,433 | 55,099 | 59,532 |

(4) During the nine-month period ended September 30, 2018, there were additional investments 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 nine months ended September 30, 2018 and 2017 are as follows (Korean won in millions):

| | September 30, 2018 | | September 30, 2017 | |
|--------------------------------|--------------------|-------------|--------------------|-------------|
| | Three months | Nine months | Three months | Nine months |
| Salaries | 2,442 | 7,326 | 1,383 | 3,956 |
| Provision for pension benefits | 343 | 1,989 | 152 | 1,513 |
| Share compensation expense | 397 | 1,190 | 397 | 824 |
| Total | 3,182 | 10,505 | 1,932 | 6,293 |

Key management 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 28.

26. Discontinued operations

(1) Details of discontinued operations

In accordance with a resolution of the Board of Directors on November 17, 2017, the Company elected to sell Encar used car sales business, and the sale was completed on April 3, 2018. As of September 30, 2018, Encar used car sales business is classified as disposal groups and discontinued operations.

(2) Income and expenses from the discontinued operation for the nine months ended September 30, 2018 and 2017 are as follows (Korean won in millions):

| | <u>For the nine months ended September 30, 2018</u> | |
|-----------------------------------|--|---------|
| | <u>Encar used car sales business</u> | |
| Revenues (*1) | \ | 321,401 |
| Costs | | 281,262 |
| Income before income tax expense | | 40,139 |
| Income tax expenses | | 9,202 |
| Gain from discontinued operations | | 30,937 |
| | <u>For the nine month ended September 30, 2017</u> | |
| | <u>Encar used car sales business</u> | |
| Revenues | \ | 722,316 |
| Costs | | 710,929 |
| Income before income tax expense | | 11,387 |
| Income tax expenses | | 1,751 |
| Gain from discontinued operations | | 9,636 |

(*1) Income from disposal of discontinued operations of ₩71,920 million is included.

(3) Details of cash flows relating to discontinued operation for the nine months ended September 30, 2018 and 2017 are as follows (Korean won in millions):

| | <u>For the nine months ended September 30, 2018</u> | |
|--------------------------------------|---|---------|
| | <u>Encar used car sales business</u> | |
| Cash flows from operating activities | \ | 24,976 |
| Cash flows from investing activities | | 187,661 |
| Cash flows from financing activities | | (16) |
| | <u>For the nine months ended September 30, 2017</u> | |
| | <u>Encar used car sales business</u> | |
| Cash flows from operating activities | \ | 23,637 |
| Cash flows from investing activities | | (9,175) |
| Cash flows from financing activities | | 27 |

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27. Cash flow information

(1) Details of non-cash adjustments for the nine months ended September 30, 2018 and 2017 are as follows (Korean won in millions):

| | For the nine months ended | |
|---|---------------------------|--------------------|
| | September 30, 2018 | September 30, 2017 |
| Provision for pension benefits | \ 23,909 | \ 23,889 |
| Depreciation | 37,439 | 35,972 |
| Depreciation of investment property | 319 | 320 |
| Amortization | 11,857 | 9,502 |
| Bad debt expenses | 140 | 172 |
| Loss on valuation of inventories | - | 54 |
| Outsourcing fees (provision for service warranties) | 3,475 | 5,946 |
| Interest expenses | 128,252 | 110,950 |
| Loss on foreign currency translation | 198 | 2,004 |
| Loss on valuation of derivative instruments | 1,970 | 3,352 |
| Loss on disposal of available-for-sale financial assets | - | 158 |
| Loss on valuation of financial assets measured at FVTPL | 66 | - |
| Loss on disposal of investments in associates | - | 3,553 |
| Loss on disposal of investments in subsidiaries | 6,536 | 456 |
| Loss on disposal of property, plant and equipment | 138 | 49 |
| Loss on disposal of intangible assets | 101 | 42 |
| Share compensation expense | 1,190 | 824 |
| Income tax expense | 137,154 | 67,051 |
| Reversal of service warranties | (304) | (297) |
| Income from disposal of discontinued operations | (71,920) | - |
| Dividends income | (830,877) | (690,196) |
| Interest income | (5,109) | (3,817) |
| Gain on foreign currency translation | (214) | (935) |
| Gain on valuation of derivative instruments | (1,236) | (2,527) |
| Gain on valuation of financial assets measured at FVTPL | (15,632) | - |
| Gain on disposal of available-for-sale financial assets | - | (241) |
| Gain on disposal of investments in subsidiaries | (198,440) | (38,791) |
| Gain on disposal of property, plant and equipment | (18) | (167) |
| Gain on disposal of intangible assets | (518) | (225) |
| Others | 2,752 | 37 |
| Total | \ (768,772) | \ (472,865) |

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27. Cash flow information (cont'd)

(2) Details of working capital adjustments for the nine months ended September 30, 2018 and 2017 are as follows (Korean won in millions):

| | For the nine months ended | |
|----------------------------------|---------------------------|--------------------|
| | September 30, 2018 | September 30, 2017 |
| Trade accounts receivable | \ 28,943 | \ 84,608 |
| Other accounts receivable | (7,707) | (8,222) |
| Inventories | 18,397 | (6,234) |
| Advance payments | (10,480) | 4,640 |
| Prepaid expenses | (24,603) | (3,557) |
| Trade accounts payable | (4,854) | (57,157) |
| Advance received | 17,192 | 4,155 |
| Withholdings | (9,655) | (3,108) |
| Other accounts payable | (33,860) | (24,784) |
| Accrued expenses | (514) | 13,735 |
| Leasehold deposits received | (27) | (681) |
| Provision for service warranties | (8,951) | (8,537) |
| Retirement benefit obligation | (5,934) | (2,031) |
| Plan assets | 9,580 | 7,332 |
| Others | (761) | (1,264) |
| Total | \ (33,234) | \ (1,105) |

(3) Details of significant non-cash transactions for the nine months ended September 30, 2018 and 2017 are as follows (Korean won in millions):

| | For the nine months ended | |
|---|---------------------------|--------------------|
| | September 30, 2018 | September 30, 2017 |
| Transfer of investment instruments based on the changes in accounting policies | \ 75,179 | \ - |
| Transfer of long-term bonds payable to current-portion | 833,226 | 500,792 |
| Accounts payable regarding the acquisition of property, plant and equipment and intangible assets | (2,128) | (5,666) |
| Transfer of available-for-sale financial assets to assets held for sale | - | 51,859 |

28. Commitments and contingencies

(1) Guarantees provided by others for the Company's obligations and indebtedness as of September 30, 2018 and December 31, 2017 are as follows (Korean won in millions, USD in thousands):

| | Currency | September 30, 2018 | December 31, 2017 |
|--------------------------------------|----------|--------------------|-------------------|
| Korea Software Financial Cooperative | KRW | 255,156 | 238,871 |
| Seoul Guarantee Insurance | KRW | 1,091 | 2,477 |
| The Export-Import Bank of Korea | USD | 1,225 | 1,225 |
| Korea Trade Insurance Corporation | USD | 1,077 | 1,077 |

28. Commitments and contingencies (cont'd)

(2) Pending litigation

Details of significant pending litigations as of September 30, 2018 is as follows (Korean won in millions, USD in thousands):

| | <u>Plaintiff</u> | <u>Defendant</u> | <u>Description</u> | <u>Claim amount</u> | <u>Current status</u> |
|-----------|---|------------------------|--------------------|---------------------|--------------------------|
| Defendant | Samsung Card Co., Ltd. | Company | Claim for damages | KRW 3,587 | Second trial in progress |
| | Korea Minting Security Printing & ID Card operating Corp. | Company | Claim for damages | KRW 2,000 | Second trial in progress |
| Plaintiff | Company | Samsung Card Co., Ltd. | Claim for damages | KRW 5,555 | Second trial in progress |

As of September 30, 2018, the Company is unable to determine the ultimate outcomes of the above litigations.

(3) Significant commitments

- 1) SK Innovation Co., Ltd., SK Energy Co., Ltd., SK Global Chemical Co., Ltd., SK Lubricants Co., Ltd., SK Incheon Petrochem Co., Ltd. and SK Trading International Co., Ltd., are collectively responsible for any obligations arising before the spin-off on July 1, 2007. The Company and SK Biopharmaceuticals Co., Ltd. are collectively responsible for any obligations that occurred before the spin-off on April 1, 2011.
- 2) The Company entered into a contract to lease the headquarters building from National Agricultural Cooperative Federation ("NACF"), the trustee of Hana Asset Management Co., Ltd. Under the terms of the lease, the lease period is until March 27, 2021, and the Company has the preemptive right to purchase the building at the fair value when the lessor elects to dispose the property.
- 3) The Company holds IT outsourcing and IT system maintenance agreements to provide hardware and information systems maintenance, and development service entered into between the Company and the affiliates of SK Group and others.
- 4) The Company entered into a contract with Gyeonggi province on May 31, 2011 to purchase land located in Pangyo Land Development District. The total agreement amount is \ 82,964 million (the Company's portion: \ 45,536 million (54.9%)), which will be used for the construction of urban infrastructure facilities ("designated purpose" of the land). The contract includes requirements to be complied with and restrictions in transfer of ownership of the land. Should there be non-compliance, the contract may be terminated or cancelled.

28. Commitments and contingencies (cont'd)

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

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

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

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

28. Commitments and contingencies (cont'd)

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

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

- 8) As of September 28, 2017, the Company entered into a cash deficiency support agreement with Hudson Energy NY, LLC, a subsidiary of Plutus Capital NY, Inc., to lend funds for the shortfall of payment for loans and credit limit of USD 226,000 thousand.
- 9) SK E&S LNG, LLC, one of the subsidiaries, is scheduled to be provided with liquefaction service amounting to 115 million MMBtu per year for 20 years from FLNG Liquefaction 3, LLC, Which plans to operate natural gas liquefaction plants in Texas starting from 2019. As of September 30, 2018, SK E&S Co., Ltd., one of the subsidiaries, is responsible for performance guarantee in case of SK E&S LNG, LLC's inability to make payments for service or for claims against breach of obligation. In regard to this, the Company provides performance guarantee for SK E&S Co., Ltd.'s guarantee.
- 10) The Company provided performance guarantee to SK Shipping Co., Ltd., a subsidiary. Amount of guarantee provided to SK Shipping Co., Ltd. by the Company was \ 35,841 million, and contingent liabilities less the estimated value of ships owned by SK Shipping Co., Ltd. was \ 0.
- 11) The Company offers guarantee of debt amounting to USD 6,000,000 for SK Computer and Communication LLC, one of its subsidiaries.
- 12) The Company entered into a cash deficiency support agreement with Abrasax Investment Inc., a subsidiary of Alchemy Acquisition Corp., which was included in the consolidation as of August 8, 2018, to lend funds for the shortfall of payment for loans and credit of up to USD 315,000 thousand.
- (4) The Company has provided 7 blank checks and 12 blank notes as collateral in relation to sales and other transactions as of September 30, 2018.

29. Financial risk management

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

29.1 Market risk

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

29.1.1 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company expects that the effect of the changes in market interest rates is not significant.

29.1.2 Foreign currency risk

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

Significant monetary assets and liabilities denominated in foreign currencies as of September 30, 2018 and December 31, 2017 are as follows (Korean won in millions, and USD, EUR and Others in thousands):

| | Currency | September 30, 2018 | | December 31, 2017 | |
|-------------|----------|--------------------|----------------------|--------------------|----------------------|
| | | Foreign currencies | Korea won equivalent | Foreign currencies | Korea won equivalent |
| Assets | USD | 12,750 | \ 14,187 | 9,374 | \ 10,044 |
| | EUR | 1,502 | 1,945 | 707 | 904 |
| | Others | | 1,684 | | 2,009 |
| | | | \ 17,816 | | \ 12,957 |
| Liabilities | USD | 2,362 | \ 2,628 | 4,226 | \ 4,528 |
| | Others | | 6 | | 1,157 |
| | | | \ 2,634 | | \ 5,685 |

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

| | September 30, 2018 | | December 31, 2017 | |
|--|--------------------|-----------------|-------------------|-----------------|
| | Increase by 10% | Decrease by 10% | Increase by 10% | Decrease by 10% |
| Increase (decrease) in income before tax expense | \ 1,518 | \ (1,518) | \ 727 | \ (727) |

29.1.3 Other price risk

Other price risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices other than from interest rate risk and foreign currency risk. The Company expects that the effect of fluctuation in the price of marketable equity instruments is not significant.

29.2 Credit risk

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

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk as of September 30, 2018 and December 31, 2017 is as follows and for cash and cash equivalents, credit risk exposure is low (Korean won in millions):

| | <u>September 30, 2018</u> | <u>December 31, 2017</u> |
|--|---------------------------|--------------------------|
| Short-term and long-term financial instruments | \ 32,239 | \ 43,534 |
| Trade accounts receivable | 249,976 | 399,748 |
| Other accounts receivable | 11,240 | 1,767 |
| Accrued income | 558 | 112 |
| Long-term investment securities | 16,684 | - |
| Available-for-sale financial assets | - | 13,486 |
| Short-term and long-term guarantee deposits | 11,586 | 10,830 |
| long-term loan | 397 | 397 |
| | <u>\ 322,680</u> | <u>\ 469,874</u> |

29.2.1 Trade and other accounts receivable

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

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

29.2.2 Other financial assets

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

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29.3 Liquidity risk

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

The contractual maturity of financial liabilities as of September 30, 2018 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 |
|-----------------------------------|--------------------|-----------------------|--------------------|--------------------|--------------------|--------------------|
| Borrowings | \ 1,080,000 | \ 1,083,370 | \ 883,340 | \ 200,030 | \ - | \ - |
| Bonds payable | 6,331,793 | 6,553,393 | 341,520 | 841,241 | 4,264,110 | 1,106,522 |
| Financial derivatives liabilities | 2,919 | 2,919 | 125 | 109 | 2,685 | - |
| Trade accounts payable | 120,826 | 120,826 | 120,826 | - | - | - |
| Other liabilities | 135,706 | 135,706 | 102,549 | 21,393 | 11,764 | - |
| | <u>\ 7,671,244</u> | <u>\ 7,896,214</u> | <u>\ 1,448,360</u> | <u>\ 1,062,773</u> | <u>\ 4,278,559</u> | <u>\ 1,106,522</u> |

29.4 Capital management

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

The Company maintains a debt ratio of 64.77% as of September 30, 2018. 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 of September 30, 2018 and December 31, 2017 is as follows (Korean won in millions):

| | September 30, 2018 | December 31, 2017 |
|-------------------|--------------------|-------------------|
| Total liabilities | \ 8,227,344 | \ 7,626,360 |
| Total equity | 12,701,436 | 12,332,701 |
| Debt ratio | 64.77% | 61.84% |

30. Business combination

(1) Details of significant information related to merger for the nine months ended September 30, 2018 are as follows:

| | Details |
|--|--|
| Existing company after the acquisition | SK Holdings Co., Ltd. |
| Extinct company after the acquisition | SK Maritime Co., Ltd. |
| Effective date | March 1, 2018 |
| Registration date | March 5, 2018 |
| Purpose | Management efficiency |
| Ratio of acquisition | Ordinary shares of SK Holdings Co., Ltd.: ordinary shares of SK Maritime Co., Ltd. = 1:0.0000000 |

(2) Details of adjustments related to merger for the nine months ended September 30, 2018 are as follows (Korean won in millions):

| | Amount |
|--------------------------------------|-----------|
| Consideration transferred: | ₩ 332,400 |
| Identifiable assets and liabilities: | |
| Current assets | 101 |
| Cash and cash equivalents | 4 |
| Other accounts receivable | 97 |
| Non-current assets | 21,696 |
| Long-term investment securities | 37 |
| Investments in subsidiaries | 21,659 |
| Net assets | 21,797 |
| Capital surplus: | 310,603 |

31. Subsequent events

31.1 Capital increase of SK Shipping Co., Ltd.

SK Shipping Co., Ltd., the subsidiary, plans to issue 61,392,448 shares of common stock and 4,977,766 shares of convertible stock through third-party allotment on November 30, 2018 based on the resolution made by the Board of Directors on October 8, 2018. Hahn & Co. 14 plans to acquire the entire shares issued and SK Shipping Co., Ltd. will be excluded from the Company's consolidation upon completion of the acquisition.

31.2 Transaction under common control in relation to SK Infosec Co., Ltd.

On October 31, 2018, the Company entered into a comprehensive share exchange agreement to transfer entire stock of SK Infosec Co., Ltd. to SK Telecom Co., Ltd. in exchange for SK Telecom Co., Ltd.'s treasury stock (1,260,668 shares of SK Telecom Co., Ltd.). The objective of this agreement is to create synergies in the security business for SK Telecom Co., Ltd. The stocks will be exchanged at the ratio of 1: 0.0997678 and on December 27, 2018, SK Infosec Co., Ltd. will become a subsidiary of SK Telecom Co., Ltd.