

SK E&S Co., Ltd.
and Subsidiaries
Consolidated Interim Financial Statements
June 30, 2018 and 2017

SK E&S Co., Ltd. and Subsidiaries

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June 30, 2018 and 2017

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Report on Review of Interim Financial Statements
(English Translation of a Report Originally Issued in Korean)

To the Board of Directors and Shareholders of
SK E&S Co., Ltd.

Reviewed Financial Statements

We have reviewed the accompanying consolidated interim financial statements of SK E&S Co., Ltd. and its subsidiaries (collectively referred to as the “Group”). These consolidated interim financial statements consist of the consolidated interim statement of financial position of the Group as at June 30, 2018, and the related consolidated interim statements of profit or loss and consolidated statements of comprehensive income for the three-month and six-month periods ended June 30, 2018 and 2017, and consolidated interim statements of changes in equity and consolidated statements of cash flows for the six-month periods ended June 30, 2018 and 2017, and a summary of significant accounting policies and other explanatory notes, expressed in Korean won.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to issue a report on these consolidated interim financial statements based on our review.

We conducted our review in accordance with quarterly or semi-annual review standards established by the Securities and Futures Commission of 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 Korean Standards on Auditing 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 the accompanying consolidated interim financial statements are not presented fairly, in all material respects, in accordance with Korean IFRS 1034 *Interim Financial Reporting*.

Other Matters

We have audited the consolidated statement of financial position of the Group as at December 31, 2017, and the related consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, in accordance with Korean Standards on Auditing. We expressed an unqualified opinion on those financial statements, not presented herein, in our audit report dated March 8, 2018. The consolidated statement of financial position as at December 31, 2017, presented herein for comparative purposes, is consistent, in all material respects, with the above audited statement of financial position as at December 31, 2017.

Review standards and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to review such financial statements may differ from those generally accepted and applied in other countries.

The logo for Samit PricewaterhouseCoopers, written in a stylized, cursive script.

Seoul, Korea
August 14, 2018

This report is effective as of August 14, 2018, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying consolidated interim financial statements and notes thereto. Accordingly, the readers of the review report should understand that there is a possibility that the above review report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

SK E&S Co., Ltd. and Subsidiaries
Consolidated Interim Statements of Financial Position
June 30, 2018 and December 31, 2017

(in thousands of Korean won)

	Notes	June 30, 2018 (Unaudited)	December 31, 2017
Assets			
Non-current assets			
Property, plant and equipment	10	₩ 5,010,611,995	₩ 4,934,621,925
Investment properties		96,331,184	96,371,334
Intangible assets	10	857,385,880	768,417,071
Investments in joint ventures and associates	11	1,000,168,741	874,635,300
Deferred tax assets		10,095,722	29,028,623
Available-for-sale financial assets	4,5,18	-	110,771,878
Financial assets at fair value through profit or loss	4,5,6,18	131,358,900	-
Financial assets at fair value through other comprehensive income	4,5,6,18	2,898,242	-
Derivative assets	4,5	289,176	-
Net defined benefit assets	13	-	879,261
Other financial assets	4,5,18	23,374,762	21,933,037
Other assets		10,153,656	11,355,790
		<u>7,142,668,258</u>	<u>6,848,014,219</u>
Current assets			
Inventories		42,223,418	110,459,028
Trade receivables	4,5,6	446,043,641	834,178,541
Derivative assets	4,5	11,301,710	393,164
Other financial assets	4,5,18	137,890,960	159,634,686
Other assets	17	275,732,540	252,463,826
Cash and cash equivalents	4,5	703,546,323	1,137,775,579
		<u>1,616,738,592</u>	<u>2,494,904,824</u>
Total assets		<u>₩ 8,759,406,850</u>	<u>₩ 9,342,919,043</u>
Liabilities			
Non-current liabilities			
Borrowings	4,5,12	₩ 3,021,580,372	₩ 2,842,488,919
Derivative liabilities	4,5	10,542,227	17,532,536
Other financial liabilities	4,5	7,459,402	5,380,628
Deferred tax liabilities		160,880,985	129,114,996
Net defined benefit liabilities	13	13,736,635	-
Unearned revenue	18	426,170,634	397,687,934
Other liabilities		4,562,131	3,361,465
		<u>3,644,932,386</u>	<u>3,395,566,478</u>
Current liabilities			
Trade payables		362,094,158	943,780,832
Derivative liabilities	4,5	6,477,352	5,653,779
Other financial liabilities	4,5	168,990,499	440,112,962
Other liabilities	17,18	97,106,392	63,974,004
Current income tax liabilities		56,208,711	69,975,466
Borrowings	4,12	554,096,185	663,735,907
		<u>1,244,973,297</u>	<u>2,187,232,950</u>
Total liabilities		<u>4,889,905,683</u>	<u>5,582,799,428</u>
Equity			
Share capital		244,259,955	244,259,955
Share premium		1,074,497,810	1,074,562,299
Retained earnings		1,056,296,027	1,048,316,558
Other components of equity		1,075,587,394	984,497,102
Equity attributable to owners of the Controlling Company		<u>3,450,641,186</u>	<u>3,351,635,914</u>
Non-controlling interest		<u>418,859,981</u>	<u>408,483,701</u>
Total equity		<u>3,869,501,167</u>	<u>3,760,119,615</u>
Total liabilities and equity		<u>₩ 8,759,406,850</u>	<u>₩ 9,342,919,043</u>

The above consolidated interim statements of financial position should be read in conjunction with the accompanying notes.

SK E&S Co., Ltd. and Subsidiaries
Consolidated Interim Statements of Profit or Loss
Three-Month and Six-Month Periods Ended June 30, 2018 and 2017

		Period Ended June 30					
(in thousands of Korean won, except per share amounts)	Notes	2018 (Unaudited)		2017 (Unaudited)			
		Three months	Six months	Three months	Six months		
Revenue	9,17	₩ 1,301,347,423	₩ 3,432,274,448	₩ 1,153,796,060	₩ 2,819,198,660		
Cost of sales		1,078,128,576	2,829,792,981	955,490,082	2,345,512,258		
Gross profit		223,218,847	602,481,467	198,305,978	473,686,402		
Selling and administrative expenses	17	126,129,824	244,837,848	116,314,997	228,341,577		
Operating profit		97,089,023	357,643,619	81,990,981	245,344,825		
Other income		23,490,177	48,528,418	27,554,001	50,409,112		
Other expenses		8,622,740	16,905,109	9,393,854	16,026,437		
Share of profit of associates and others	11	61,502,005	64,093,497	54,317,380	75,223,232		
Finance income		23,631,727	31,444,867	1,766,967	22,274,812		
Finance costs		51,438,976	85,224,481	27,681,325	52,949,325		
Profit before income tax		145,651,216	399,580,811	128,554,150	324,276,219		
Income tax expense	14	33,994,976	89,396,193	25,311,166	66,461,346		
Profit for the period		₩ 111,656,240	₩ 310,184,618	₩ 103,242,984	₩ 257,814,873		
Profit attributable to:							
Owners of the Controlling Company		₩ 105,323,635	₩ 293,807,751	₩ 96,925,897	₩ 241,667,445		
Non-controlling interests		6,332,606	16,376,868	6,317,087	16,147,428		
Earnings per share attributable to the equity holders of the Controlling Company during the period							
Basic and diluted earnings per share		₩ 2,270	₩ 6,332	₩ 2,321	₩ 5,787		

The above consolidated interim statements of profit or loss should be read in conjunction with the accompanying notes.

SK E&S Co., Ltd. and Subsidiaries
Consolidated Interim Statements of Comprehensive Income
Three-Month and Six-Month Periods Ended June 30, 2018 and 2017

		Period Ended June 30			
		2018		2017	
		(Unaudited)		(Unaudited)	
	Notes	Three months	Six months	Three months	Six months
Profit for the period		₩ 111,656,241	₩ 310,184,619	₩ 103,242,984	₩ 257,814,873
Other comprehensive income					
Items that will not be reclassified subsequently to profit or loss:					
Remeasurements of net defined benefit liabilities	13	(158,460)	(4,760,170)	(57,787)	(3,397,958)
Items that will be reclassified subsequently to profit or loss:					
Changes in the fair value of available-for-sale financial assets	4	-	-	251,542	199,543
Share of other comprehensive income of associates	11	53,241,921	53,173,771	(16,572,548)	(12,924,441)
Exchange differences on translation of foreign operations		48,360,789	43,392,966	11,033,843	(43,271,648)
Cash flow hedges		(2,806,163)	(1,935,939)	1,574,208	4,118,743
Total comprehensive income for the period		<u>₩ 210,294,328</u>	<u>₩ 400,055,247</u>	<u>₩ 99,472,242</u>	<u>₩ 202,539,112</u>
Attributable to:					
Owners of the Controlling Company		₩ 202,315,345	₩ 382,434,134	₩ 94,112,985	₩ 187,619,955
Non-controlling interests		7,978,983	17,621,113	5,359,257	14,919,157
Total comprehensive income for the period		<u>₩ 210,294,328</u>	<u>₩ 400,055,247</u>	<u>₩ 99,472,242</u>	<u>₩ 202,539,112</u>

The above consolidated interim statements of comprehensive income should be read in conjunction with the accompanying notes.

SK E&S Co., Ltd. and Subsidiaries
Consolidated Interim Statements of Changes in Equity
Six-Month Periods Ended June 30, 2018 and 2017

(in thousands of Korean won)

Notes	Attributable to owners of the Controlling Company					Non-controlling interests	Total equity
	Share capital	Share premium	Retained earnings	Other components of equity	Total		
Balance at January 1, 2017	₩ 221,058,960	₩ 420,107,124	₩ 878,188,234	₩ 1,052,991,840	₩ 2,572,346,158	₩ 436,588,538	₩ 3,008,934,696
Comprehensive income							
Profit for the period	-	-	241,667,445	-	241,667,445	16,147,428	257,814,873
Remeasurements of the net defined benefit liability	-	-	(3,335,218)	-	(3,335,218)	(62,739)	(3,397,957)
Changes in the fair value of available-for-sale financial assets	4	-	-	199,544	199,544	-	199,544
Share of other comprehensive income of associates	11	-	-	(12,469,186)	(12,469,186)	(455,255)	(12,924,441)
Exchange differences on translation of foreign operations	-	-	-	(42,561,372)	(42,561,372)	(710,276)	(43,271,648)
Cash flow hedges	-	-	-	4,118,742	4,118,742	-	4,118,742
Total comprehensive income for the period	-	-	238,332,227	(50,712,272)	187,619,955	14,919,158	202,539,113
Transactions with owners							
Cash dividends	15	-	(150,843,589)	-	(150,843,589)	(1,297,799)	(152,141,388)
Interest paid on hybrid bonds	-	-	(16,041,744)	-	(16,041,744)	(5,982,843)	(22,024,587)
Others	-	-	336,273	49,680	385,953	(336,273)	49,680
Total transactions with owners	-	-	(166,549,060)	49,680	(166,499,380)	(7,616,915)	(174,116,295)
Balance at June 30, 2017 (Unaudited)	₩ 221,058,960	₩ 420,107,124	₩ 949,971,401	₩ 1,002,329,248	₩ 2,593,466,733	₩ 443,890,781	₩ 3,037,357,514
Balance at January 1, 2018	₩ 244,259,955	₩ 1,074,562,299	₩ 1,048,316,558	₩ 984,497,102	₩ 3,351,635,914	₩ 408,483,701	₩ 3,760,119,615
Changes in accounting policy	18	-	(1,464,384)	(2,155,695)	(3,620,079)	-	(3,620,079)
Comprehensive income							
Profit for the period	-	-	293,807,751	-	293,807,751	16,376,868	310,184,619
Remeasurements of the net defined benefit liability	-	-	(4,520,716)	-	(4,520,716)	(239,454)	(4,760,170)
Share of other comprehensive income of associates	11	-	-	51,936,001	51,936,001	1,237,770	53,173,771
Exchange differences on translation of foreign operations	-	-	-	43,148,327	43,148,327	244,639	43,392,966
Cash flow hedges	-	-	-	(1,937,229)	(1,937,229)	1,290	(1,935,939)
Total comprehensive income for the period	-	-	289,287,035	93,147,099	382,434,134	17,621,113	400,055,247
Transactions with owners							
Cash dividends	15	-	(264,212,931)	-	(264,212,931)	(1,297,799)	(265,510,730)
Interest paid on hybrid bonds	-	-	(15,652,719)	-	(15,652,719)	(5,950,685)	(21,603,404)
Others	-	(64,490)	22,467	98,889	56,866	3,649	60,515
Total transactions with owners	-	(64,490)	(279,843,183)	98,889	(279,808,784)	(7,244,835)	(287,053,619)
Balance at June 30, 2018 (Unaudited)	₩ 244,259,955	₩ 1,074,497,809	₩ 1,056,296,026	₩ 1,075,587,395	₩ 3,450,641,185	₩ 418,859,979	₩ 3,869,501,164

The above consolidated interim statements of changes in equity should be read in conjunction with the accompanying notes.

SK E&S Co., Ltd. and Subsidiaries
Consolidated Interim Statements of Cash Flows
Six-Month Periods Ended June 30, 2018 and 2017

(in thousands of Korean won)	Notes	Six-Month Period Ended June 30	
		2018 (Unaudited)	2017 (Unaudited)
Cash flows from operating activities			
Cash generated from operations			
Profit for the period		₩ 310,184,619	₩ 257,814,873
Adjustments to reconcile profit for the period			
to net cash provided by operating activities		246,442,026	172,458,238
Changes in operating assets and liabilities		(300,253,905)	(162,150,313)
		256,372,740	268,122,798
Interest received		5,189,949	2,910,241
Interest paid		(51,916,688)	(51,024,788)
Dividends received		9,110,667	6,179,898
Income tax paid		(67,920,094)	(15,834,991)
Net cash inflow from operating activities		150,836,574	210,353,158
Cash flows from investing activities			
Disposal of property, plant and equipment	10	7,494,855	4,106,126
Disposal of intangible assets	10	431,375	302,000
Disposal of available-for-sale financial assets	4	-	93,194
Disposal of financial assets at fair value through profit or loss		53,334	-
Decrease in other financial assets		15,940,861	212,479
Others		813,017	36,090,662
Purchases of property, plant and equipment	10	(272,073,233)	(321,957,690)
Purchases of intangible assets	10	(62,470,116)	(90,160,471)
Purchases of available-for-sale financial assets	4	-	(522,032)
Purchases of financial assets at fair value through profit or loss	4	(25,831,614)	-
Increase in other financial assets		(149,182)	(22,363,882)
Others		(2,000)	-
Net cash outflow from investing activities		(335,792,703)	(394,199,614)
Cash flows from financing activities			
Proceeds from borrowings	12	409,973,885	915,900,460
Repayments of borrowings	12	(374,194,550)	(454,001,215)
Cash dividends	15	(265,510,730)	(152,141,388)
Interest paid on hybrid bonds		(21,603,404)	(22,024,587)
Others		(64,489)	(121,519)
Net cash inflow (outflow) from financing activities		(251,399,288)	287,611,751
Changes in cash and cash equivalents from currency translation		2,126,161	(1,603,760)
Net increase (decrease) in cash and cash equivalents		(434,229,256)	102,161,535
Cash and cash equivalents at the beginning of period		1,137,775,579	558,483,039
Cash and cash equivalents at the end of period		₩ 703,546,323	₩ 660,644,574

The above consolidated interim statements of cash flows should be read in conjunction with the accompanying notes.

SK E&S Co., Ltd. and Subsidiaries

Notes to the Consolidated Interim Financial Statements

June 30, 2018 and 2017 (Unaudited), and December 31, 2017

1. General Information

SK E&S Co., Ltd. (the "Controlling Company") and its subsidiaries (collectively referred to as the "Group") were established on January 13, 1999 as a holding company of city gas companies and engages in city gas, power generation, mass energy, renewable energy and foreign resource development. As at June 30, 2018, the Controlling Company's share capital amounting to ₩244,259,955 thousand are owned by SK Holdings Co., Ltd., MD Prime 1st Co., Ltd. and MD Prime 2nd Co., Ltd., and their shareholding rates are 90%, 5.9% and 4.1%, respectively.

1.1 Subsidiaries

The consolidated subsidiaries as at June 30, 2018, are as follows:

	Industry	Location	Closing month	Percentage of ownership
Gangwon City Gas Co., Ltd.	City gas	Korea	December	100.0%
Yeongnam Energy Service Co., Ltd.	City gas	Korea	December	100.0%
Ko-one Energy Service Co., Ltd.	City gas	Korea	December	100.0%
Busan City Gas Co., Ltd. ⁶	City gas	Korea	December	67.3%
Jeonbuk Energy Service Co., Ltd.	City gas	Korea	December	100.0%
Jeonnam City Gas Co., Ltd.	City gas	Korea	December	100.0%
Chungcheong Energy Service Co., Ltd.	City gas	Korea	December	100.0%
Paju Energy Service Co., Ltd.	Power generation	Korea	December	100.0%
Wirye Energy Service Co., Ltd.	Mass energy	Korea	December	95.2%
Narae Energy Service Co., Ltd.	Mass energy	Korea	December	100.0%
SK E&S Hong Kong Co., Ltd. ¹	City gas	Hong Kong	December	87.0%
Prism Energy International Pte., Ltd. ²	Wholesale LNG	Singapore	December	100.0%
PT SK E&S Nusantara ³	Management consulting	Indonesia	December	100.0%
SK E&S Australia Pty Ltd.	Resource development	Australia	December	100.0%
SK E&S Americas, Inc.	Holding Company	USA	December	100.0%
SK E&S LNG, LLC ⁴	Sale LNG	USA	December	100.0%
DewBlaine Energy, LLC ⁴	Resource development	USA	December	100.0%
CAILIP Gas Marketing, LLC ⁴	Sale and purchase LNG	USA	December	100.0%
Fajar Energy International Pte., Ltd. ⁵	Sale LNG	Singapore	December	100.0%
Prism Energy International Hong Kong Ltd. ⁷	Trade LNG	Hong Kong	December	100.0%
SK E&S Dominicana, S.R.L ⁸	Import LNG	Dominican Republic	December	100.0%

¹ Includes 50% ownership of Busan City Gas Co., Ltd.

² SK LNG Trading Pte., Ltd. changed its name to Prism Energy International Pte., Ltd.

³ Includes 40.08% ownership of Prism Energy International Pte., Ltd.

⁴ SK E&S Americas, Inc., a subsidiary, has 100% ownership.

⁵ Prism Energy International Pte., Ltd., a subsidiary, has 100% ownership.

⁶ Treasury stocks held by Busan City Gas Co., Ltd. are excluded from percentage of ownership.

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⁷ Prism Energy International Pte., Ltd., a subsidiary, has 100% ownership.

⁸ Includes 16.06% ownership of Prism Energy International Pte., Ltd.

1.2 Changes in Scope of Consolidation

Subsidiaries newly included in the consolidation during the six-month period ended June 30, 2018:

Name of Subsidiary	Reason
Prism Energy International Hong Kong Ltd.	Newly established
SK E&S Dominicana, S.R.L	

2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated interim financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2.1 Basis of Preparation

The Group maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangul) in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS). The accompanying consolidated interim financial statements have been condensed, restructured and translated into English from the Korean language financial statements.

Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Group's financial position, financial performance or cash flows, is not presented in the accompanying consolidated interim financial statements.

The Group's condensed consolidated interim financial statements for the six-month period ended June 30, 2018, have been prepared in accordance with Korean IFRS 1034 *Interim Financial Reporting*. These condensed consolidated interim financial statements have been prepared in accordance with Korean IFRS which is effective or early adopted as at June 30, 2018.

(a) New and Amended Standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2018.

- Amendments to Korean IFRS 1028 *Investments in Associates and Joint Ventures*

When an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organization, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss in accordance with Korean IFRS 1109. The amendment does not have a significant impact on the financial statements because the Group is not a venture capital organization.

- Amendments to Korean IFRS 1102 *Share-based Payment*

Amendments to Korean IFRS 1102 clarify accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to

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equity-settled. Amendments also clarify that the measurement approach should treat the terms and conditions of a cash-settled award in the same way as for an equity-settled award. The amendment does not have a significant impact on the financial statements.

- Enactment of Interpretation 2122 *Foreign Currency Transaction and Advance Consideration*

According to the enactment, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. The enactment does not have a significant impact on the financial statements.

- Korean IFRS 1109 *Financial Instruments*

The Group has applied Korean IFRS 1109 *Financial Instruments* on January 1, 2018, the date of initial application. In accordance with the transitional provisions in Korean IFRS 1109, comparative figures have not been restated, and the differences between previous book amounts and book amounts at the date of initial application are recognized to retained earnings (or equity). See Note 18 for further details on the impact of the application of the standard.

- Korean IFRS 1115 *Revenue from Contracts with Customers*

The Group has elected to apply Korean IFRS 1115 *Revenue from Contracts with Customers*. In accordance with the transition provisions in Korean IFRS 1115, comparative figures have not been restated. The Group elected the modified retrospective approach, and recognized the cumulative impact of initially applying the revenue standard as an adjustment to retained earnings (or equity) as at January 1 2018, the period of initial application. See Note 18 for further details on the impact of the application of the standard.

(b) New Standards and Interpretations not yet adopted by the Group

Certain new accounting standards and interpretations that have been published that are not mandatory for annual reporting period commencing January 1, 2018 and have not been early adopted by the Group are set out below.

- Korean IFRS 1116 *Leases*

Korean IFRS 1116 *Leases* issued on May 22, 2017 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. This standard will replace Korean IFRS 1017 *Leases*. The Group will apply the standards for annual periods beginning on or after January 1, 2019.

Under the new standard, with implementation of a single lease model, lessee is required to recognize assets and liabilities for all lease which lease term is 12 months or more and underlying assets are not low value assets. A lessee is required to recognize a right-of-use asset and a lease liability representing its obligation to make lease payments.

The Group is analyzing the effect on the financial statements based on the available information as at June 30, 2018 to assess the financial impact of applying Korean IFRS 1116.

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Notes to the Consolidated Interim Financial Statements
June 30, 2018 and 2017 (Unaudited), and December 31, 2017

2.2 Accounting Policies

Significant accounting policies and method of computation used in the preparation of the condensed consolidated interim financial statements are consistent with those of the consolidated financial statements for the year ended December 31, 2017, except for the changes due to the application of amendment and enactments of standards described in Note 2.1 (a) and the ones described below.

2.2.1 Income Tax Expense

Income tax expense for the interim period is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate is applied to the pre-tax income for the interim period.

2.2.2 Financial Assets

(a) Classification

From January 1, 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortized cost

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For financial assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. The Group reclassifies debt investments when and only when its business model for managing those assets changes.

For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income. Changes in fair value of the investments in equity instruments that are not accounted for as other comprehensive income are recognized in profit or loss.

(b) Measurement

At initial recognition, the Group measures a financial asset, in the case of a financial asset not at fair value through profit or loss, at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset or the issuance of the financial liabilities. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Hybrid (combined) contracts with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group classifies its debt instruments into one of the following three measurement categories:

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- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in 'finance income' using the effective interest rate method.
- Fair value through other comprehensive income: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment loss (and reversal of impairment loss), interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Interest income from these financial assets is included in 'finance income' using the effective interest rate method. Foreign exchange gains and losses are presented in 'other income or other expenses' and impairment loss in 'other expenses'.
- Fair value through profit or loss: Assets that do not meet the criteria for amortized cost or fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented net in the statement of profit or loss within 'other income or other expenses' in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss as 'finance income' when the Group's right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognized in 'other income or other expenses' in the statement of profit or loss as applicable. Impairment loss (and reversal of impairment loss) on equity investments measured at fair value through other comprehensive income are not reported separately from other changes in fair value.

(c) Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost and fair value through other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Group applies the simplified approach, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

(Note 19 provides more detail of how the Group determines whether there has been a significant increase in credit risk.)

2.2.3 Revenue Recognition

From January 1, 2018, the Group has applied Korean IFRS 1115 *Revenue from Contracts with Customers*.

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-Presentation of contract liabilities

The Group has also voluntarily changed the presentation of certain amounts in the statements of financial position to reflect the terminology of Korean IFRS 1115.

Contract liabilities in relation to construction of gas and heat pipelines were previously presented as unearned revenues.

3. Critical Accounting Estimates and Assumptions

The preparation of financial statements requires the Group to make estimates and assumptions concerning the future. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Critical accounting estimates and assumptions applied in the preparation of these condensed consolidated interim financial statements are the same as those applied to the consolidated financial statements for the year ended December 31, 2017, except for the estimates used to determine income tax expense.

4. Fair Value

There are no significant changes in the business and economic environments that affect the fair value of the Group's financial assets and liabilities for the six-month period ended June 30, 2018.

4.1 Fair Value of Financial Instruments by Category

Carrying amount and fair value of financial instruments by category as at June 30, 2018 and December 31, 2017, are as follows:

	June 30, 2018		December 31, 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
<i>(in thousands of Korean won)</i>				
Financial assets				
Cash and cash equivalents	₩ 703,546,323	₩ 703,546,323	₩ 1,137,775,579	₩ 1,137,775,579
Financial assets at fair value through profit or loss	131,358,900	131,358,900	-	-
Available-for-sale financial assets ¹	-	-	23,462,475	23,462,475
Financial assets at fair value through other comprehensive income	2,898,242	2,898,242	-	-
Derivative assets	11,590,885	11,590,885	393,164	393,164
Trade receivables	446,043,641	446,043,641	834,178,541	834,178,541
Other financial assets	161,265,722	161,265,722	181,567,723	181,567,723
	<u>₩ 1,456,703,713</u>	<u>₩ 1,456,703,713</u>	<u>₩ 2,177,377,482</u>	<u>₩ 2,177,377,482</u>
Financial liabilities				
Trade payables	₩ 362,094,158	₩ 362,094,158	₩ 943,780,832	₩ 943,780,832
Borrowings	3,575,676,558	3,595,402,567	3,506,224,826	3,517,548,161
Derivative liabilities	17,019,579	17,019,579	23,186,316	23,186,316
Other financial liabilities	176,449,902	176,449,902	445,493,590	445,493,590
	<u>₩ 4,131,240,197</u>	<u>₩ 4,150,966,206</u>	<u>₩ 4,918,685,564</u>	<u>₩ 4,930,008,899</u>

¹ Share and other investments that do not have a quoted price in an active market are measured at cost because their fair value cannot be measured reliably, and excluded from the fair value disclosures.

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4.2 Fair Value Hierarchy

The table below analyzes financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- All inputs other than quoted prices included in level 1 that are observable (either directly that is, prices, or indirectly that is, derived from prices) for the asset or liability (Level 2).
- Unobservable inputs for the asset or liability (Level 3).

The following table presents the Group's financial assets that are measured at fair value as at June 30, 2018 and December 31, 2017:

<i>(in thousands of Korean won)</i>	June 30, 2018			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Financial assets at fair value through profit or loss	₩ -	₩ 26,292,164	₩ 105,066,736	₩ 131,358,900
Debt instruments at fair value through other comprehensive income	-	-	40,217	40,217
Equity instruments at fair value through other comprehensive income	-	-	2,858,025	2,858,025
Derivative assets	-	11,590,885	-	11,590,885
Derivative liabilities	-	(17,019,579)	-	(17,019,579)

<i>(in thousands of Korean won)</i>	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements	₩	₩	₩	₩
Available-for-sale financial assets	-	-	23,462,475	23,462,475
Derivative assets	-	393,164	-	393,164
Derivative liabilities	-	(23,186,316)	-	(23,186,316)

4.3 Details of derivative instruments as at June 30, 2018 and December 31, 2017, are as follows:

<i>(in thousands of Korean won)</i>	June 30, 2018		December 31, 2017	
	Assets	Liabilities	Assets	Liabilities
Currency forward ¹	₩ 7,801,298	₩ 9,818,352	₩ -	₩ 20,779,905
Interest rate swap ²	176,431	2,369,241	-	2,134,747
Commodity swap ³	3,478,951	4,820,902	174,866	261,860
Others ⁴	134,205	11,084	218,298	9,803
	<u>₩ 11,590,885</u>	<u>₩ 17,019,579</u>	<u>₩ 393,164</u>	<u>₩ 23,186,315</u>

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Details of derivative instruments for the six-month periods ended June 30, 2018 and 2017, are as follows:

(in thousands of Korean won)

	2018		2017	
	Gain on valuation	Other comprehensive income (loss)	Gain (loss) on valuation	Other comprehensive income
Currency forward ¹	₩ 18,762,851	₩ -	₩ (6,458,161)	₩ -
Interest rate swap ²	-	(58,064)	-	2,102,064
Commodity swap ³	644,632	(1,659,578)	595,413	944,449
Others ⁴	17,155	(218,298)	389,976	1,072,230
	₩ 19,424,638	₩ (1,935,940)	₩ (5,472,772)	₩ 4,118,743

¹ Foreign currency forwards to hedge the risk of foreign currency fluctuations of long term borrowings in foreign currency of USD 286,975 thousand (December 31, 2017: USD 217,600 thousand) and short-term borrowing in foreign currency of USD 163,355 thousand (December 31, 2017: USD 57,858 thousand).

² The interest rate swap exchanges a floating interest for a fixed interest to hedge an interest rate risk of a borrowing of ₩432,500 million of Narae Energy Service Co., Ltd.

³ The commodity swaps are to hedge cash flow risks derived from the LNG purchase agreements of CAILIP Gas Marketing and Prism Energy International Pte., Ltd.

⁴ Derivatives of CAILIP Gas Marketing, LLC and others to fix the sales price of gas in advance.

4.4 Transfers between Fair Value Hierarchy Levels of Recurring Fair Value Measurements

The Group's policy is to recognize transfers between levels of the fair value at the date of the event or change in circumstances that caused the transfer.

Details of transfers between levels of each fair value hierarchy of financial instruments are as follows:

There were no transfers between Levels 1 and 2 for recurring fair value measurements during the six-month period ended June 30, 2018.

Changes in Level 3 for recurring fair value measurements for the six-month periods ended June 30, 2018 and 2017, are as follows:

(in thousands of Korean won)

	2018		
	Financial assets		
	Debt instruments at fair value through other comprehensive income	Equity instruments at fair value through other comprehensive income	Financial assets at fair value through profit or loss
Beginning balance	₩ 40,217	₩ 2,858,105	₩ 104,253,476
Total profit or loss			
Amount recognized in profit or loss	-	-	274,943
Purchases	-	-	591,651
Sales	-	(80)	(53,334)
Ending balance	₩ 40,217	₩ 2,858,025	₩ 105,066,736

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	2017	
	Available-for-sale financial assets	
Beginning balance	₩	21,215,000
Total profit or loss		
Amount recognized in other comprehensive income		263,250
Ending balance	₩	21,478,250

5. Financial Instruments by Category

5.1 Carrying Amounts of Financial Instruments by Category

Carrying amount and fair value of financial instruments by category as at June 30, 2018 and December 31, 2017, are as follows:

(in thousands of Korean won)

	June 30, 2018		December 31, 2017	
Financial assets				
Financial assets at fair value through profit or loss	₩	131,358,900	₩	-
Financial assets at fair value through other comprehensive income		2,898,242		-
Available-for-sale financial assets		-		110,771,878
Financial assets at amortized cost				
Trade receivables		446,043,641		834,178,541
Other financial assets		161,265,722		181,567,723
Cash and cash equivalents		703,546,323		1,137,775,579
Derivative instruments				
Held for trading		11,414,455		174,866
Hedging instruments		176,430		218,298
	₩	1,456,703,713	₩	2,264,686,885

(in thousands of Korean won)

	June 30, 2018		December 31, 2017	
Financial liabilities				
Financial liabilities at amortized cost				
Trade payables	₩	362,094,158	₩	943,780,832
Other financial liabilities		176,449,902		445,493,590
Borrowings		3,575,676,558		3,506,224,826
Derivative instruments				
Held for trading		14,650,338		21,051,569
Hedging instruments		2,369,241		2,134,747
	₩	4,131,240,197	₩	4,918,685,564

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5.2 Net Gains or Losses by Category of Financial Instruments

Net gains or losses on each category of financial instruments for the six-month periods ended June 30, 2018 and 2017, are as follows:

<i>(in thousands of Korean won)</i>	2018	2017
Dividend income		
Available-for-sale financial assets	₩ -	₩ 407,281
Financial assets at fair value through profit or loss	414,926	-
Interest income		
Financial assets at amortized cost	6,263,288	3,343,305
Interest expenses		
Financial liabilities at amortized cost	(53,628,416)	(41,448,929)
Gain on valuation of financial assets at fair value through profit or loss		
Debt instruments	274,943	-
Loss on valuation of securities		
Financial assets at fair value through other comprehensive income	(80)	-
Net impairment loss		
Trade receivables	(1,466,082)	(940,012)
Financial assets at amortized cost	(1,067)	132
Gain (loss) on valuation of derivative instruments (profit or loss)		
Held for trading	19,424,638	(5,472,772)
Gain (loss) on valuation of derivative instruments (other comprehensive income)		
Hedge ineffectiveness	(1,935,939)	4,118,743
Gain (loss) on transaction of derivative instruments		
Held for trading	(4,465,782)	1,223,065
Net gain (loss) on foreign currency translation	(19,376,105)	7,658,506
	₩ (54,495,676)	₩ (31,110,681)

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6. Financial Assets

6.1 Financial Assets at Fair Value through Profit or Loss

As explained in Note 2, the Group has applied Korean IFRS 1109 *Financial Instruments* from January 1, 2018. See Note 18 for the impact of the changes in accounting policies on the classification of financial assets and financial statements.

(a) Financial assets at fair value through profit or loss

Financial assets mandatorily measured at fair value through profit or loss include the following classes of financial assets:

<i>(in thousands of Korean won)</i>	June 30, 2018	December 31, 2017¹
Hana Land Chip Private Real Estate No.33	₩ 11,451,400	₩ -
Plus Future Plan Private Securities Investment Trust No.5	11,283,714	-
SK Mutual Funds	1,000,000	-
Prostar Energy Infra Fund	21,691,733	-
Contemporary Painting Art Trust No.1	495,041	-
Construction Guarantee Cooperative	101,681	-
Hana Power generation infrastructure Investment Private Equity Fund	59,000,000	-
Plant & Mechanical contractors financial cooperative of Korea	43,167	-
BlueSky	26,292,164	-
	₩ 131,358,900	₩ -

¹ These investments were classified as available-for-sale financial assets as at December 31, 2017.

(b) Amounts recognized in profit or loss

<i>(in thousands of Korean won)</i>	2018	2017
Gain (loss) from debt instruments at fair value through profit or loss	₩ 274,943	₩ -
	₩ 274,943	₩ -

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6.2 Financial Assets at Fair Value through Other Comprehensive Income

(a) Equity investments at fair value through other comprehensive income

Equity investments at fair value through other comprehensive income comprise the following individual investments:

<i>(in thousands of Korean won)</i>	June 30, 2018	December 31, 2017¹
SK Technology Innovation Company	₩ 2,808,024	₩ -
Jeonnam Dragons Football Club	50,000	-
Powertel TRS Co., Ltd.	1	-
	<u>₩ 2,858,025</u>	<u>₩ -</u>

¹ As at December 31, 2017, the Group had designated the equity investments as available-for-sale financial assets where management intended to hold them for the medium to long-term.

Upon disposal of these equity investments, any balance within the accumulated other comprehensive income for these equity investments is reclassified to retained earnings and is not reclassified to profit or loss.

(b) Debt investments at fair value through other comprehensive income

Debt investments at fair value through other comprehensive income comprise the following investments in bonds with their cash flows representing solely payments of principal and interest:

<i>(in thousands of Korean won)</i>	June 30, 2018	December 31, 2017¹
Government bonds	₩ 40,217	₩ -
	<u>₩ 40,217</u>	<u>₩ -</u>

¹ These investments were classified as available-for-sale financial assets as at December 31, 2017.

Upon disposal of these debt investments, any balance within the accumulated other comprehensive income for these debt investments is reclassified to profit or loss.

6.3 Trade Receivables and Other Financial Assets at Amortized Cost

(a) Trade receivables and provision for impairment

Trade receivables and its provisions for impairment as at June 30, 2018 and December 31, 2017, are as follows:

<i>(in thousands of Korean won)</i>	June 30, 2018	December 31, 2017
Trade receivables	₩ 453,946,825	₩ 841,257,987
Less: provision for impairment	(7,903,184)	(7,079,446)
Trade receivables - net	<u>₩ 446,043,641</u>	<u>₩ 834,178,541</u>

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(b) Other financial assets at amortized cost

Other financial assets at amortized cost include the following debt investments:

*(in thousands of
Korean won)*

	June 30, 2018			December 31, 2017		
	Current	Non-current	Total	Current	Non-current	Total
Long and short-term financial instruments	₩ 95,992,888	₩ 242,108	₩ 96,234,996	₩ 111,248,299	₩ 227,433	₩ 111,475,732
Loans	-	41,677	41,677	26,760	3,685,550	3,712,310
Non-trade receivables	11,956,967	160,000	12,116,967	20,233,823	160,000	20,393,823
Accrued income	29,594,533	-	29,594,533	27,835,463	-	27,835,463
Guarantee deposits provided	364,745	23,010,977	23,375,722	310,767	21,578,447	21,889,214
	137,909,133	23,454,762	161,363,895	159,655,112	25,651,430	185,306,542
Less: provision for impairment	(18,174)	(80,000)	(98,174)	(20,426)	(3,718,393)	(3,738,819)
	₩ 137,890,959	₩ 23,374,762	₩ 161,265,721	₩ 159,634,686	₩ 21,933,037	₩ 181,567,723

(c) Impairment

See Note 19 for the impairment of trade receivables, other financial assets at amortized cost and the Group's exposure to credit risk.

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7. Contract Liabilities

As explained in Note 2, the Group has applied Korean IFRS 1115 *Revenue from Contracts with Customers* from January 1, 2018. See Note 18 for the impact of the changes in accounting policies on the financial statements.

The Group has recognized the following revenue-related contract liabilities:

<i>(in thousands of Korean won)</i>	<u>June 30, 2018</u>	<u>January 1, 2018</u>
Contract liabilities – unearned revenues of customers' contribution to construction costs	₩ 432,208,488	₩ 402,733,398
Total contract liabilities	₩ 432,208,488	₩ 402,733,398

(b) Revenue recognized in relation to contract liabilities

The following table shows how much of the revenue recognized in the current reporting period relates to carried-forward contract liabilities and how much relates to performance obligations that were satisfied in the prior year.

<i>(in thousands of Korean won)</i>	<u>2018</u>
Revenue recognized that was included in the contract liability balance at the beginning of the period	
Unearned revenues of customers' contribution to construction costs	₩ 12,250,108

(c) The following table shows unsatisfied performance obligations in relation to customers' contribution to construction costs received from applicants for city gas supply.

<i>(in thousands of Korean won)</i>	<u>2018</u>
Aggregate amount of the transaction price allocated to unearned revenues of customers' contribution to construction costs that are partially or fully unsatisfied as at June 30, 2018	₩ 432,208,488

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8. Seasonality of Business

The city gas sales, which is the major operating activity of the Group, is concentrated in the winter season (from December to March of the following year). Accordingly, the results of the Group's operating activities during the six-month period ended June 30, 2018, may not be indicative of the results for the full financial year ended December 31, 2018.

9. Operating Segment Information

The Group has determined the operating segments based on the information reviewed by the Group's chief operating decision maker. For the purposes of allocating resources and assessing performance, chief operating decision maker reviews the information based on segment profit (loss) before income tax.

The Group's operating segments consist of the power generation, LNG, city gas and other segments as at June 30, 2018. The segment for the six-month periods ended June 30, 2018 and 2017, is presented after considering the distribution of intra-company transactions, adjustments of depreciation cost, interest income, interest expense, share of profit (loss) and profit (loss) before tax. Assets and liabilities of each operating segment are excluded as such information has not been provided regularly to the chief operating decision maker.

The following table presents segment profit (loss) for the three-month and six-month periods ended June 30, 2018 and 2017:

(in thousands of Korean won)	Six-month period ended June 30, 2018					
	Electric power	LNG	City gas	Other segments	Adjustment for consolidation	Total
Total segment revenue	₩1,415,985,010	₩ 895,706,045	₩ 1,962,306,361	₩ -	₩ (841,722,968)	₩ 3,432,274,448
Inter-segment revenue	-	(841,722,968)	-	-	841,722,968	-
Net-segment revenue	1,415,985,010	53,983,077	1,962,306,361	-	-	3,432,274,448
Segment profit before income tax	130,941,282	123,841,338	140,503,075	4,295,118	-	399,580,813
(in thousands of Korean won)	Three-month period ended June 30, 2018					
	Electric power	LNG	City gas	Other segments	Adjustment for consolidation	Total
Total segment revenue	₩ 640,801,490	₩ 475,358,262	₩ 627,810,834	₩ -	₩ (442,623,161)	₩ 1,301,347,425
Inter-segment revenue	-	(442,623,161)	-	-	442,623,161	-
Net-segment revenue	640,801,490	32,735,101	627,810,834	-	-	1,301,347,425
Segment profit before income tax	14,778,102	75,098,079	29,421,327	26,353,709	-	145,651,217
(in thousands of Korean won)	Six-month period ended June 30, 2017					
	Electric power	LNG	City gas	Other segments	Adjustment for consolidation	Total
Total segment revenue	₩ 870,698,108	₩ 321,613,004	₩ 1,908,704,822	₩ -	₩ (281,817,274)	₩ 2,819,198,660
Inter-segment revenue	-	(281,817,274)	-	-	281,817,274	-
Net-segment revenue	870,698,108	39,795,730	1,908,704,822	-	-	2,819,198,660
Segment profit before income tax	54,246,443	122,052,013	118,207,654	29,770,109	-	324,276,219

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(in thousands of Korean won)	Three-month period ended June 30, 2017					
	Electric power	LNG	City gas	Other segments	Adjustment for consolidation	Total
Total segment revenue	₩ 507,655,271	₩ 149,618,866	₩ 627,798,506	₩ -	₩ (131,276,583)	₩ 1,153,796,060
Inter-segment revenue	-	(131,276,583)	-	-	131,276,583	-
Net-segment revenue	507,655,271	18,342,283	627,798,506	-	-	1,153,796,060
Segment profit before income tax	15,255,240	62,970,261	23,437,811	26,890,838	-	128,554,150

Breakdown of the Group's revenue for the three-month and six-month periods ended June 30, 2018 and 2017, are as follows:

(in thousands of Korean won)	2018		2017	
	Three months	Six months	Three months	Six months
Sales-Finished Goods	₩ 661,138,821	₩ 1,458,030,178	₩ 525,046,694	₩ 909,172,960
Sales-Trading	623,963,650	1,944,106,901	621,960,693	1,896,082,513
Sales-Others	14,396,620	26,556,647	5,026,991	10,404,176
Revenue-Rental	1,848,333	3,580,722	1,761,682	3,539,011
	<u>₩ 1,301,347,424</u>	<u>₩ 3,432,274,448</u>	<u>₩ 1,153,796,060</u>	<u>₩ 2,819,198,660</u>

Revenues of ₩ 1,379,770,305 thousand (2017: ₩ 847,749,695 thousand) for the six-month period ended June 30, 2018, which are more than 10% of the Group revenue, are derived from Korea Power Exchange, and these revenues are attributable to the electric power segment.

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10. Property, Plant and Equipment, and Intangible Assets

Changes in property, plant and equipment for the six-month periods ended June 30, 2018 and 2017, are as follows:

(in thousands of Korean won)	2018						
	Beginning balance	Acquisitions	Disposals	Reclassification	Depreciation	Net exchange differences	Ending Balance
Land	₩ 660,613,636	₩ 563,849	₩ -	₩ 1,978,280	₩ -	₩ -	₩ 663,155,765
Buildings	323,516,215	1,021,157	(587,997)	47,671	(6,485,570)	-	317,511,476
Structures	358,981,149	380,740	(7,043,043)	4,039,962	(10,631,933)	-	345,726,875
Machinery	2,156,398,081	10,383,400	-	25,915,434	(67,543,639)	-	2,125,153,276
Vehicles	7,085,397	1,120,313	(30,976)	-	(670,525)	2,435	7,506,644
Tools and equipment	16,718,371	4,020,207	(7,936)	546,651	(3,496,297)	6,316	17,787,312
Pipelines	1,048,289,695	11,786,848	(134,230)	26,934,330	(46,354,063)	-	1,040,522,580
Others	288,223,146	604,545	-	78,607,820	(30,383,405)	15,591,581	352,643,687
Construction- in- progress	74,796,235	201,071,280	-	(138,840,726)	-	3,577,591	140,604,380
	<u>₩4,934,621,925</u>	<u>₩ 230,952,339</u>	<u>₩ (7,804,182)</u>	<u>₩ (770,578)</u>	<u>₩ (165,565,432)</u>	<u>₩ 19,177,923</u>	<u>₩ 5,010,611,995</u>

(in thousands of Korean won)	2017						
	Beginning balance	Acquisitions	Disposals	Reclassification	Depreciation	Net exchange differences	Ending Balance
Land	₩ 658,215,051	₩ 1,400,875	₩ (1,805,788)	₩ 7,714,665	₩ -	₩ -	₩ 665,524,803
Buildings	150,695,598	784,053	(297,990)	178,905,042	(5,312,772)	-	324,773,931
Structures	119,295,364	83,320	-	259,706,926	(8,768,297)	-	370,317,313
Machinery	659,575,478	532,134	(1,770,197)	1,645,366,553	(52,489,978)	-	2,251,213,990
Vehicles	6,446,412	1,284,408	(116,165)	-	(656,604)	(3,335)	6,954,716
Tools and equipment	13,139,282	2,381,249	(5,259)	2,426,510	(3,174,238)	(18,523)	14,749,021
Pipelines	1,011,641,623	10,990,897	(100,027)	33,471,447	(45,050,449)	-	1,010,953,491
Others	237,624,206	83,588,089	(20)	-	(27,037,952)	(13,612,676)	280,561,647
Construction- in- progress	1,871,406,884	332,967,152	-	(2,127,846,943)	-	(1,301,143)	75,225,950
	<u>₩4,728,039,898</u>	<u>₩434,012,177</u>	<u>₩ (4,095,446)</u>	<u>₩ (255,800)</u>	<u>₩ (142,490,290)</u>	<u>₩ (14,935,677)</u>	<u>₩ 5,000,274,862</u>

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Changes in intangible assets for the six-month periods ended June 30, 2018 and 2017, are as follows:

		2018							
(in thousands of Korean won)	Beginning balance	Acquisitions	Disposals	Reclassification	Amortization	Impairment	Net exchange differences	Ending Balance	
Development costs	₩ 556,613	₩ -	₩ -	₩ -	₩ (81,684)	₩ -	₩ -	₩ 474,929	
Goodwill	42,801,147	-	-	-	-	-	-	42,801,147	
Exploration and evaluation assets	694,785,252	61,572,093	-	(5,843,243)	-	-	35,018,058	785,532,160	
Industrial property rights	41,925	-	(2,611)	-	(3,742)	-	-	35,572	
Memberships	16,951,336	92,341	(586,969)	-	-	(46,000)	-	16,410,708	
Others	13,280,798	789,755	-	301,313	(2,244,060)	-	3,557	12,131,363	
	<u>₩ 768,417,071</u>	<u>₩ 62,454,189</u>	<u>₩ (589,580)</u>	<u>₩ (5,541,930)</u>	<u>₩ (2,329,486)</u>	<u>₩ (46,000)</u>	<u>₩ 35,021,615</u>	<u>₩ 857,385,879</u>	

		2017							
(in thousands of Korean won)	Beginning balance	Acquisitions	Disposals	Reclassification	Amortization	Net exchange differences	Ending Balance		
Development costs	₩ 380,991	₩ 644	₩ -	₩ 255,800	₩ (72,948)	₩ -	₩ 564,487		
Goodwill	42,801,147	-	-	-	-	-	42,801,147		
Exploration and evaluation assets	628,581,459	88,515,581	-	-	-	(36,027,868)	681,069,172		
Industrial property rights	75,385	-	(17,389)	-	(6,448)	-	51,548		
Memberships	15,265,185	1,468,662	(312,500)	-	-	-	16,421,347		
Others	14,382,252	139,284	-	-	(3,255,296)	-	11,266,240		
	<u>₩ 701,486,419</u>	<u>₩ 90,124,171</u>	<u>₩ (329,889)</u>	<u>₩ 255,800</u>	<u>₩ (3,334,692)</u>	<u>₩ (36,027,868)</u>	<u>₩ 752,173,941</u>		

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11. Investments in Joint Ventures and Associates

Details of investments in joint ventures and associates as at June 30, 2018 and December 31, 2017, are as follows:

(in thousands of Korean won)

(in thousands of Korean won)

				June 30, 2018			December 31, 2017		
	Location	percentage of ownership	Closing month	Acquisition cost	Net asset value	Book amount	Acquisition cost	Net asset value	Book amount
Joint ventures									
Boryeong LNG Terminal Co.,Ltd	Korea	50.0%	Dec.	₩ 110,000,000	₩ 90,470,805	₩ 119,207,221	₩ 110,000,000	₩ 84,947,287	₩ 113,683,703
China Gas-SK E&S LNG Trading Ltd.	Hong Kong	50.0%	Mar.	1,189,110	1,100,917	1,100,917	1,189,110	1,055,735	1,055,735
				111,189,110	91,571,722	120,308,138	111,189,110	86,003,022	114,739,438
Associates									
China Gas Holdings Ltd. ¹	Hong Kong	15.7%	Mar	471,451,662	624,775,082	857,408,763	471,451,662	514,753,782	737,849,693
Global Opportunities Fund	Cayman Islands	20.7%	Dec.	6,534,151	1,092,183	1,092,183	6,534,151	1,134,633	1,134,633
Shinan Green Energy	Korea	22.2%	Dec.	8,559,000	6,050,786	6,818,886	8,559,000	7,234,614	8,002,714
Busan Green Energy	Korea	28.5%	Dec.	5,152,800	8,933,574	8,933,574	5,152,800	7,239,715	7,239,715
Gemini Partners Pte., Ltd.	Singapore	20.0%	Dec.	7,889,084	2,371,625	5,607,197	7,889,084	2,433,534	5,669,107
				499,586,697	643,223,250	879,860,603	499,586,697	532,796,278	759,895,862
				₩ 610,775,807	₩ 734,794,972	₩ 1,000,168,741	₩ 610,775,807	₩ 618,799,300	₩ 874,635,300

¹ Although the Group holds less than 20% ownership, the Group exercises significant influence as the Group's director can exercise its voting rights at the Board of Directors of this entity, and thus, the Group classifies this entity as an associate.

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Changes in investments in joint ventures and associates for the six-month periods ended June 30, 2018 and 2017, are as follows:

(in thousands of Korean won)

	2018				
	Beginning balance	Dividends	Share of profit (loss)	Other changes in equity	Ending balance
Joint ventures					
Boryeong LNG Terminal Co.,Ltd	₩ 113,683,703	₩ -	₩ 5,523,518	₩ -	₩ 119,207,221
China Gas-SK E&S LNG Trading Ltd.	1,055,735	-	45	45,137	1,100,917
Associates					
China Gas Holdings Ltd.	737,849,693	(8,695,741)	58,225,624	70,029,187	857,408,763
Global Opportunities Fund	1,134,633	-	(42,450)	-	1,092,183
Shinan Green Energy	8,002,714	-	(1,183,828)	-	6,818,886
Busan Green Energy	7,239,715	-	1,693,858	-	8,933,573
Gemini Partners Pte., Ltd.	5,669,107	-	(123,269)	61,359	5,607,197
	₩ 874,635,300	₩ (8,695,741)	₩ 64,093,498	₩ 70,135,683	₩ 1,000,168,740

(in thousands of Korean won)

	2017				
	Beginning balance	Dividends	Share of profit (loss)	Other changes in equity	Ending balance
Joint ventures					
Boryeong LNG Terminal Co.,Ltd	₩ 105,006,373	₩ -	₩ 6,282,939	₩ -	₩ 111,289,312
China Gas-SK E&S LNG Trading Ltd.	1,231,358	-	(27,464)	(77,581)	1,126,313
Associates					
China Gas Holdings Ltd.	649,234,675	(5,772,356)	71,268,611	(17,046,513)	697,684,417
Global Opportunities Fund	2,909,324	-	(1,723,290)	-	1,186,034
Shinan Green Energy	8,249,294	-	(46,552)	85,620	8,288,362
Busan Green Energy	13,564,868	-	(191,517)	-	13,373,351
Gemini Partners Pte., Ltd.	6,458,571	-	(339,495)	(14,806)	6,104,270
	₩ 786,654,463	₩ (5,772,356)	₩ 75,223,232	₩ (17,053,280)	₩ 839,052,059

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12. Borrowings

Borrowings as at June 30, 2018 and December 31, 2017, are as follows:

<i>(in thousands of Korean won)</i>	<u>June 30, 2018</u>	<u>December 31, 2017</u>
Non-current		
Bank borrowings	₩ 1,361,179,064	₩ 1,222,558,254
Debentures	1,660,401,309	1,619,930,665
	<u>₩ 3,021,580,373</u>	<u>₩ 2,842,488,919</u>
Current		
Bank borrowings	₩ 454,119,694	₩ 283,842,203
Debentures	99,976,491	379,893,704
	<u>554,096,185</u>	<u>663,735,907</u>
	<u>₩ 3,575,676,558</u>	<u>₩ 3,506,224,826</u>

Details of bank borrowings as at June 30, 2018 and December 31, 2017, are as follows:

<i>(in thousands of Korean won)</i>		<u>Interest rate (%) as at June 30, 2018</u>	<u>June 30, 2018</u>	<u>December 31, 2017</u>
	<u>Creditor</u>			
Loans for exploration of petroleum	Korea Energy Agency	0.75	₩ 25,154,211	₩ 25,672,144
Loans for construction of pipelines	Korea Development Bank and others	1.75	8,634,000	12,512,000
Loans for a safety management business	NH Bank	1.75	804,600	1,121,150
Loans for energy rationalization	Hana Bank	1.75	3,660,000	3,660,000
CP borrowings	Shinhan Bank and others	1.91~2.18	184,921,507	65,000,000
Loans for facility	Korea Development Bank and others	CD 90days+1.14 MOR+1.60~1.75	431,507,569	456,368,629
PF borrowings	Korea Development Bank and others	3.3~3.90	326,522,045	326,358,207
General borrowings	Korea Exim Bank and others	2.72~3.50	18,664,659	294,511,033
Borrowing in foreign currency	Korea Exim Bank and others	2.73~3.24 Libor(3M)+1.2~1.74	815,430,167	321,197,294
			<u>1,815,298,758</u>	<u>1,506,400,457</u>
Less: Current portion of borrowings			<u>(454,119,694)</u>	<u>(283,842,203)</u>
			<u>₩ 1,361,179,064</u>	<u>₩ 1,222,558,254</u>

In accordance with the PF arrangement, the Group provided it's subsidiaries' issued shares, cash and cash equivalents, insurance contractual rights and PP&E to PF syndicate as collaterals (Note 16).

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Details of debentures as at June 30, 2018 and December 31, 2017, are as follows:

				Interest rate (%) as at June 30, 2018		
(in thousands of Korean won)	Bonds	Issuance date	Maturity date		June 30, 2018	December 31, 2017
SK E&S Co., Ltd.	Public offering bonds No.10-1	2013.02.26	2018.02.26	3.02	₩ -	₩ 200,000,000
	Public offering bonds No.10-2	2013.02.26	2020.02.26	3.18	100,000,000	100,000,000
	Public offering bonds No.11-2	2013.10.04	2018.10.04	3.46	100,000,000	100,000,000
	Public offering bonds No.11-3	2013.10.04	2020.10.04	3.65	50,000,000	50,000,000
	Public offering bonds No.12-1	2016.08.29	2019.08.29	1.48	100,000,000	100,000,000
	Public offering bonds No.12-2	2016.08.29	2021.08.29	1.60	140,000,000	140,000,000
	Public offering bonds No.12-3	2016.08.29	2023.08.29	1.70	100,000,000	100,000,000
	Public offering bonds No.13-1	2017.04.12	2022.04.12	2.39	150,000,000	150,000,000
	Public offering bonds No.13-2	2017.04.12	2024.04.12	2.62	50,000,000	50,000,000
	Public offering bonds No.13-3	2017.04.12	2027.04.12	2.88	50,000,000	50,000,000
Paju Energy Service Co., Ltd.	Public offering bonds No.1-1	2015.03.18	2022.03.18	2.53	100,000,000	100,000,000
	Public offering bonds No.1-2	2015.03.18	2025.03.18	2.92	190,000,000	190,000,000
	Public offering bonds No.1-3	2015.03.18	2027.03.18	3.01	60,000,000	60,000,000
	Public offering bonds No.2-1	2015.09.04	2022.09.04	2.54	50,000,000	50,000,000
	Public offering bonds No.2-2	2015.09.04	2025.09.04	2.77	50,000,000	50,000,000
	Public offering bonds No.2-3	2015.09.04	2027.09.04	2.97	50,000,000	50,000,000
Wirye Energy Service Co., Ltd.	Public offering bonds No.1-1	2014.12.09	2024.12.09	3.45	200,000,000	200,000,000
	Public offering bonds No.1-2	2014.12.09	2026.12.09	3.68	50,000,000	50,000,000
	Public offering bonds No.2-1	2017.10.27	2020.10.27	3.32	125,000,000	125,000,000
	Public offering bonds No.2-2	2017.10.27	2022.10.27	3.82	10,000,000	10,000,000
Narae Energy Service Co., Ltd.	Public offering bonds No.1	2013.02.13	2018.02.13	3.28	-	80,000,000
	Non-guaranteed private bonds	2018.02.13	2021.02.13	3.70	40,000,000	-
					1,765,000,000	2,005,000,000
	Less: Discount on bonds				(4,622,200)	(5,175,631)
	Less: Current portion of bonds				(99,976,491)	(379,893,704)
					₩1,660,401,309	₩1,619,930,665

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13. Net Defined Benefit Liabilities

Details of net defined benefit liabilities as at June 30, 2018 and December 31, 2017, are as follows:

<i>(in thousands of Korean won)</i>	<u>June 30, 2018</u>	<u>December 31, 2017</u>
Present value of defined benefit obligations	₩ 146,396,726	₩ 134,701,059
Fair value of plan assets	<u>(132,660,092)</u>	<u>(135,580,320)</u>
Net defined benefit liabilities (assets)	<u>₩ 13,736,634</u>	<u>₩ (879,261)</u>

Changes in the present values of defined benefit obligations for the six-month periods ended June 30, 2018 and 2017, are as follows:

<i>(in thousands of Korean won)</i>	<u>2018</u>	<u>2017</u>
Beginning balance	₩ 134,701,058	₩ 128,115,660
Current service costs	7,330,427	7,520,266
Interest costs	1,774,868	1,492,281
Remeasurements	4,432,294	3,716,039
Benefits paid	(3,363,617)	(2,948,062)
Transfer from	<u>1,521,696</u>	<u>1,978,097</u>
Ending balance	<u>₩ 146,396,726</u>	<u>₩ 139,874,281</u>

Changes in the fair value of plan assets for the six-month periods ended June 30, 2018 and 2017, are as follows:

<i>(in thousands of Korean won)</i>	<u>2018</u>	<u>2017</u>
Beginning balance	₩ 135,580,320	₩ 121,571,805
Interest income	2,060,419	1,600,779
Remeasurements	(1,537,432)	(615,505)
Benefits paid	(7,073,509)	(2,604,868)
Transfer from	<u>3,630,294</u>	<u>1,790,533</u>
Ending balance	<u>₩ 132,660,092</u>	<u>₩ 121,742,744</u>

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14. Income Tax Expenses

Income tax expense is recognized based on the best estimate of weighted average annual income tax rate expected for the full financial year. The estimated average annual income tax rate used for the year ending December 31, 2018, is 22.4% (the estimated tax rate for the six-month period ended June 30, 2017: 20.5%).

15. Dividends

The dividends of the Controlling Company in respect of the year ended December 31, 2017, were ₩ 264,212,931 thousand (2016: ₩ 150,843,589 thousand) that were paid in March 2018.

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16. Contingencies and Commitments

Details of commitments on borrowings as at June 30, 2018, are as follows:

*(in thousands of Korean won, in
thousands of US dollars)*

	Financial institution	Details	Amount of Limit	
SK E&S Co., Ltd.	Hana Bank	Line of Credit	₩	20,000,000
	Kookmin Bank and others	Consumer loans		52,000,000
	Hana Bank and others	Line of Credit		215,000,000
	Korea Exim Bank and others	Line of Credit	USD	670,000
	Korea Development Bank and others	Derivative contract	USD	577,236
Gangwon City Gas Co., Ltd.	NH Bank and others	Bank overdrafts	₩	6,000,000
	Kookmin Bank and others	Line of Credit		18,000,000
Ko-one Energy Service Co., Ltd.	Woori Bank	Consumer loans		20,000,000
	Shinhan Bank	Bank overdrafts		5,000,000
Busan City Gas Co., Ltd.	Kookmin Bank and others	Line of Credit		5,000,000
Yeongnam Energy Service Co., Ltd.	NH Bank and others	Bank overdrafts		11,000,000
	Kookmin Bank and others	Consumer loans		26,000,000
Chungcheong Energy Service Co., Ltd.	Citibank Korea and others	Bank overdrafts		12,000,000
	Woori Bank and others	Line of Credit		23,000,000
Jeonnam City Gas Co., Ltd.	NH Bank and others	Bank overdrafts		13,000,000
Jeonbuk Energy Service Co., Ltd.	NH Bank	Bank overdrafts		5,000,000
	Kookmin Bank	Line of Credit		5,000,000
	Kookmin Bank and others	Line of Credit		105,000,000
Wirye Energy Service Co., Ltd.	Hana Bank	Consumer loans		10,000,000
	Kookmin Bank and others	Derivative contract		70,000,000
Paju Energy Service Co., Ltd.	Korea Development Bank and others	PF contract		579,500,000
		Line of Credit		362,500,000
Narae Energy Service Co., Ltd.	Korea Development Bank and others	Consumer loans		2,000,000
		Derivative contract		362,500,000
Prism Energy International Pte., Ltd.	Citibank Singapore and others	Letter of Credit	USD	215,000
	J.ARON&COMPANY(SINGAPORE)	Derivative contract	USD	119,000
	PTE and others			
SK E&S Australia Pty Ltd.	Bank of America and others	Line of Credit	USD	140,000
SK E&S Americas, Inc.	Korea Exim Bank	Line of Credit	USD	160,000
CAILIP Gas Marketing, LLC	JP Morgan Chase Bank, National Association and others	Derivative contract	USD	76,000
SK E&S LNG, LLC	Citi Group Energy Inc.	Derivative contract	USD	15,000
			₩	1,927,500,000
			USD	1,972,236

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Details of payment guarantees provided by and to the Group as at June 30, 2018, are as follows:

<i>(in thousands of Korean won)</i>	Provided by	Beneficiary	Guaranteed by	Details	Amounts
Payment guarantees	Seoul Guarantee Insurance Co., Ltd.	SK E&S Co., Ltd.	-	Performance guarantee and others	₩ 392,713
		Yeongnam Energy Service Co., Ltd.	-	Maintenance performance guarantee and license guarantee	1,271,380
		Chungcheong Energy Service Co. Ltd.	-	Maintenance performance guarantee and execution of construction	1,266,293
		Ko-one Energy Service Co., Ltd.	-	Performance guarantee	1,090,669
		Busan City Gas Co., Ltd.	-	Management and operation of group energy facilities	2,352,525
		Jeonnam City Gas Co., Ltd.	-	Performance guarantee and license guarantee	64,573
		Jeonbuk Energy Service Co., Ltd.	-	Maintenance performance guarantee and performance guarantee	116,129
		Paju Energy Service Co., Ltd.	-	Deposit guarantee for management of construction safety and others	477,370
		Wirye Energy Service Co., Ltd.	-	Management of group safety and others	3,439,570
		Narae Energy Service Co., Ltd.	-	Performance guarantee	75,974
Fund supplement	SK E&S Co., Ltd.	Boryeong LNG Terminal Co., Ltd	Holders of public offering bonds	Principle and related interest on borrowing	360,000,000
			PF syndicate	PF contract ¹	Excess costs
Performance guarantee	SK Holdings Co., Ltd.	SK E&S Co., Ltd.	FLNG Liquefaction 3, LLC	Usage of liquefaction	Service fee
	Prism Energy International Pte., Ltd.	SK Shipping Co., Ltd.	HHIENS1 Shipholding S.A. HHIENS2 Shipholding S.A.	BBCHP	Charterage

¹ The Group has an obligation to replenish the funds, in case of shortage.

² The Group provides a commitment to use LNG Tank for expansion of Boryeong LNG Terminal Co., Ltd.

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Details of significant pending litigations as at June 30, 2018, are as follows:

(in thousands of Korean won)

	Defendant	Details	Amounts	Progress
The Group as a plaintiff				
SK E&S Co., Ltd.	Head of Seoul customs office	Cancellation of tariff imposition	₩ 2,251,754	Second trial
Ko-one Energy Service Co., Ltd.	Industrial Bank of Korea	Compensation for non-performance and damages	10,000,000	Second trial ¹
The Group as a defendant				
	Plaintiff	Details	Amounts	Progress
Busan City Gas Co., Ltd.	Korea Veterans Health Service	Claim for return of payment on over-measuring	₩ 1,455,146	Ruled in favor of the Group in the first trial. The plaintiff appealed the case.

¹ The Group withdrew the case after entering into the agreement with the defendant in July 2018, after the reporting period. Settlements received in excess of the principal amount was recognized as other income for the six-month period ended June 30, 2018.

The outcome of these pending litigations and the effects on the financial statements cannot be reasonably determined as at June 30, 2018.

Blank notes and checks provided by the Group as collaterals as at June 30, 2018, are as follows:

	Provided to	Type	Quantity	Purpose
SK E&S Co., Ltd.	Korea Energy Agency	Blank notes	3	Collateral for long-term borrowings
SK E&S Co., Ltd.	Korea Energy Agency	Blank check	6	Collateral for long-term borrowings
Gangwon City Gas Co., Ltd.	Korea Gas Corporation	Blank check	1	Collateral for natural gas supply agreement

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Assets pledged as collaterals by the Group as at June 30, 2018, are as follows:

(in thousands of Korean won)

Collateral	Provided by	Provided to	Book amount	Maximum credit amount	Details
Property, plant and equipment	Gangwon City Gas Co., Ltd.	Korea Development Bank	₩ 5,931,161	₩ 11,710,000	Borrowings
Land and buildings	Jeonnam City Gas Co., Ltd.	Dongbu insurance Co., Ltd. and others	4,850,249	219,761	Deposits received
Investment properties	Busan City Gas Co. Ltd.	Megamart Co., Ltd. and others	70,653,191	3,990,000	Deposits
Cash and cash equivalents	Paju Energy Service Co., Ltd.	Korea Development Bank and others, the Project Financing syndicate	136,509,607		
Short-term investments	Paju Energy Service Co., Ltd.	Korea Development Bank and others, the Project Financing syndicate	94,918,267	840,000,000	PF borrowings ¹
Property, plant and equipment	Paju Energy Service Co., Ltd.	Korea Development Bank and others, the Project Financing syndicate	1,422,241,511		
Property, plant and equipment	Wirye Energy Service Co., Ltd.	Kookmin Bank and others	702,404,822	84,000,000	Facility loans
Short-term financial instruments	Narae Energy Service Co., Ltd.	Korea Development Bank and others	1,074,621		Facility loans
Property, plant and equipment	Narae Energy Service Co., Ltd.	Korea Development Bank and others	606,358,111	505,000,000	Facility loans

¹ The Group provided the right to claim insurance premiums as collateral in relation to PF loans.

Details of collaterals provided by the Group for the financial supports to the related parties as at June 30, 2018, are as follows:

(in thousands of Korean won)

	Secured assets	Provided to	Contribution amount	Collateral limit amount	Details
Subsidiaries	Equity securities of Paju Energy Service Co., Ltd	Korea Development Bank and others, the Project Financing syndicate	₩ 550,000,000	₩840,000,000	Collateral for PF borrowings
	Equity securities of Narae Energy Service Co., Ltd.	Korea Development Bank and Woori Bank	192,348,307	480,000,000	Collateral for facility loans
Joint venture	Equity securities of Boryeong LNG Terminal Co., Ltd.	Woori Bank and others, the Project Financing syndicate	110,000,000	1,034,000,000	Collateral for PF borrowings
Associate	Equity securities of Busan Green Energy	Shinhan Bank and others, the Project Financing syndicate	8,933,574	8,933,574	Collateral for PF borrowings

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The details of commitments as at June 30, 2018, are as follows:

Commitment	Company	Counterparty	Contract period
Long-term natural gas supply agreement ¹	Gangwon City Gas Co., Ltd. and seven other subsidiaries	Korea Gas Corporation	-
Agreement to purchase LNG	SK E&S Co., Ltd.	Tangguh PSC Contractor Parties	2006.1~2026.7
Gas turbine maintenance and repair agreement	SK E&S Co., Ltd.	GE International Inc.	2004.6~2026.12(estimate)
Natural gas storage and vaporization service agreement	SK E&S Co., Ltd.	Posco Co., Ltd.	2005.6~2025.12
Lease agreement on the power generator and pylon site	SK E&S Co., Ltd.	Posco Co., Ltd.	2003.8~2028.12
Longterm Maintenance Program	Paju Energy Service Co., Ltd.	Siemens AG and others	2014.6~2031.6(estimate)
Longterm Maintenance Program	Wirye Energy Service Co., Ltd.	Siemens AG and others	2015.1~2032.1 (estimate)
Longterm Maintenance Program	Narae Energy Service Co., Ltd	Doosan Heavy Industries & Construction Co., Ltd	12 years from 2012
Natural gas storage and liquefaction service agreement	SK E&S LNG, LLC	FLNG Liquefaction 3, LLC	20 years from 2019
Use of pipe facility	Wirye Energy Service Co., Ltd., Paju Energy Service Co., Ltd.	Korea Gas Corporation	20 years from 2017
Use of pipelines	SK E&S LNG, LLC	Kinder Morgan, Inc.	20 years from 2019
Natural gas storage and vaporization service agreement	SK E&S Co., Ltd Wirye Energy Service Co., Ltd., Paju Energy Service Co., Ltd.	Boryeong LNG Terminal Co., Ltd.	20 years from 2017
Agreement to purchase LNG	Prism Energy International Pte., Ltd (formerly, SK LNG Trading Pte. Ltd.)	Chevron Australia Pty Ltd and others	2017.1~2022.3
Long-term ship chartering agreement	Prism Energy International Pte., Ltd (formerly, SK LNG Trading Pte. Ltd.)	SK Shipping Co., Ltd.	20 years from delivery date
Operation and maintenance agreement	Narae Energy Service Co., Ltd.	Jeonbuk co-generation Co., Ltd., Gimcheon energy service Co., Ltd.	2015.1~2025.1
LNG supply agreement	Narae Energy Service Co., Ltd.	Korea Gas Corporation	20 years from 2015.5

¹ The supply quantities are determined annually, and the supply price of natural gas is approved by the Minister of Trade, Industry and Energy.

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The details of purchasing construction contracts as at June 30, 2018, are as follows:

(in thousands of Korean won)

Contract	Company	Counterparty	Contract period	Contract amount
Heat pipeline construction and others	Narae Energy Service Co., Ltd.	Eulmyo Construction Co., Ltd. and others	2017.5 ~ 2019.2	₩ 8,244,390
Construction on the undelivered works and heat pipelines for additional users in the 3 rd and 4 th zones of Wirye	Wirye Energy Service Co., Ltd.	Darim Construction Co., Ltd. and others	2018.05~2019.04	2,948,000
Gamil booster station construction	Wirye Energy Service Co., Ltd.	Construction division, HANJIN HEAVY INDUSTRIES & CONSTRUCTION CO.,LTD	2017.12~2018.10	9,818,000

The details of resource development contracts as at June 30, 2018, are as follows:

(in thousands of US dollars)

Contact	Company	Counterparty	Percentage of ownership	Contract amount	Executing amount
Australian Barossa-Caldita Gas field	SK E&S Australia Pty Ltd.	ConocoPhillips Company and others	37.5%	USD 310,000	USD 280,000
USA Woodford field	DewBlaine Energy, LLC	Continental Resources, Inc.	49.9%	USD 360,000	USD 303,764

Apart from the above contract amount, the Group has the obligation to pay the development costs attributable to the Group's share of ownership.

In December 2017, the tax authorities imposed value-added tax related to the LNG import price amounting to ₩ 161,919,407 thousand on the Group. As at June 30, 2018, the Group recognized ₩ 160,575,100 thousand of the imposed amount as advance payments in the statement of financial position.

As at June 30, 2018 and December 31, 2017, the Group meets the requirements of financial ratios and others in relation to financial arrangements of borrowings, corporate bonds and derivative instruments.

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17. Related Party Transactions

As at June 30, 2018, the ultimate controlling company is SK Holdings Co., Ltd.

Sales and purchases with related parties for the six-month periods ended June 30, 2018 and 2017, are as follows:

(in thousands of Korean won)

	2018		
	Sales and others	Purchase and others	Acquisition of tangible and intangible assets
Ultimate controlling company			
SK Holdings Co., Ltd.	₩ 30,884	₩ 8,945,142	₩ 961,233
Joint venture			
Boryeong LNG Terminal Co., Ltd.	-	45,381,063	-
Associates			
Shinan Green Energy	-	1,143,117	-
Busan Green Energy	15,202,849	-	-
Other related parties			
SK Innovation Co., Ltd.	5,706,713	4,618,059	-
SK Networks Co., Ltd.	47,253	2,438,281	-
SK Engineering & Construction Co., Ltd.	315,645	209,000	820,000
SK Hynix Inc.	11,509,264	-	-
SKC Co., Ltd.	2,798,932	-	-
M&Service Co., Ltd.	-	2,682,427	-
SK Energy Co., Ltd.	24,122,099	7,757,179	-
SK Siltron Co., Ltd.	3,902,434	-	-
SK Incheon Petrochem Co., Ltd	-	8,295,456	-
SK Chemicals Co., Ltd.	-	3,782,500	-
SK Global Chemical Co., Ltd	-	2,165,225	-
SK TNS Co., Ltd.	529	-	3,710,000
SK Telecom Co., Ltd. and others	1,489,412	4,928,036	293,670
	<u>₩ 65,126,014</u>	<u>₩ 92,345,485</u>	<u>₩ 5,784,903</u>

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	2017					
	Sales and others		Purchase and others		Acquisition of tangible and intangible assets	
Ultimate controlling company						
SK Holdings Co., Ltd.	₩	82,374	₩	8,927,284	₩	209,349
Joint venture						
Boryeong LNG Terminal Co., Ltd.		127,700		53,108,878		-
Associates						
Busan Green Energy		6,257,317		-		-
Other related parties						
SK Innovation Co., Ltd.		4,751,210		3,432,868		-
SK Networks Co., Ltd.		75,149		2,323,180		-
SK Engineering & Construction Co., Ltd.		421,875		-		72,451,477
SK Hynix Inc.		10,617,136		-		-
SKC Co., Ltd.		3,008,221		-		-
M&Service Co., Ltd.		-		2,937,435		-
SK Energy Co., Ltd.		22,639,166		101,006		-
SK Chemicals Co., Ltd.		274,971		-		-
SK TNS Co., Ltd.		1,662		-		-
SK Telecom Co., Ltd. and others		1,338,918		3,882,513		183,868
	₩	49,595,699	₩	74,713,164	₩	72,844,694

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Details of receivables and payables with related parties as at June 30, 2018 and December 31, 2017, are as follows:

(in thousands of Korean won)	June 30, 2018				December 31, 2017			
	Trade receivables	Other receivables	Trade payables	Other payables	Trade receivables	Other receivables	Trade payables	Other payables
Ultimate controlling company								
SK Holdings Co., Ltd.	₩ 12,694	₩ 126	₩ -	₩ 1,336,222	₩ 3,262	₩ 126	₩ -	₩ 2,153,655
Joint venture								
Boryeong LNG Terminal Co., Ltd.	-	18,393,239	-	406,285	-	5,104,345	-	-
Associates								
Busan Green Energy	2,505,244	-	-	-	2,861,407	-	-	-
Other related parties								
SK Innovation Co., Ltd.	870,933	693,287	-	145,077	1,047,431	764,480	-	230,488
SK Networks Co., Ltd.	1,271	160,082	-	1,014,904	8,022	160,082	-	1,090,483
SK Engineering & Construction Co., Ltd.	2,857	15,670,588	-	9,900,000	26,619	15,660,199	-	57,059,660
M&Service Co., Ltd.	-	-	-	436,837	-	-	-	483,348
SK Hynix Inc.	811,518	839	-	-	2,561,227	855	-	11,000
SKC Co., Ltd.	507,612	-	-	-	339,553	-	-	-
SK Shipping Co., Ltd.	-	20,055,783	-	-	-	19,156,428	-	-
SK Energy Co., Ltd.	2,212,909	924	-	6,744	5,335,407	764	-	-
SK Siltron Co., Ltd.	-	-	-	-	511,126	-	-	-
SK China Co., Ltd.	-	-	-	-	-	-	-	2,261,446
SK TNS Co., Ltd.	-	-	-	4,081,000	-	-	-	-
SK Telecom Co., Ltd. and others	181,197	87,541	-	698,605	255,059	48,716	4,897	779,628
	₩ 7,106,235	₩ 55,062,409	₩ -	₩ 18,025,674	₩ 12,949,113	₩ 40,895,995	₩ 4,897	₩ 64,069,708

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Major transactions between the Group and its related parties for the six-month periods ended June 30, 2018 and 2017, are as follows

<i>(in thousands of Korean won)</i>	2018		
	Company name	Amount	Details
Ultimate controlling company	SK Holdings Co., Ltd.	₩ 237,791,638	Dividends paid
	MD Prime 1st Co., Ltd.	15,592,951	Dividends paid
Other shareholders	MD Prime 2nd Co., Ltd.	10,828,342	Dividends paid
Associates	China Gas Holdings Ltd.	8,695,741	Dividend income
<i>(in thousands of Korean won)</i>	2017		
	Company name	Amount	Details
Ultimate controlling company	SK Holdings Co., Ltd.	₩ 150,843,589	Dividends paid
	MD Prime 1st Co., Ltd.	-	Dividends paid
Other shareholders	MD Prime 2nd Co., Ltd.	-	Dividends paid
Associates	China Gas Holdings Ltd.	5,772,356	Dividend income

Compensation for key management of the Controlling Company for the six-month periods ended June 30, 2018 and 2017, consists of:

<i>(in thousands of Korean won)</i>	2018	2017
Salaries	₩ 2,394,053	₩ 1,706,696
Post-employment benefits	984,128	2,149,332
Share-based compensation	99,361	49,680
	<u>₩ 3,477,542</u>	<u>₩ 3,905,708</u>

Key management includes executive directors and members of the Executive Committee.

As at June 30, 2018, the Controlling Company provides payment guarantees, financial support agreements, and performance guarantees for subsidiaries, joint venture and associates (Note 16).

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18. Changes in Accounting Policies

18.1 Adoption of Korean IFRS 1109 *Financial Instruments*

As explained in Note 2, the Group has applied Korean IFRS 1109 *Financial Instruments* on January 1, 2018, the date of initial application. In accordance with the transitional provisions in Korean IFRS 1109, comparative figures have not been restated. The application of Korean IFRS 1109 has following impacts on the financial statements.

(a) Classification and Measurement of Financial Instruments

The total impact on the Group's retained earnings due to classification and measurement of financial instruments as at January 1, 2018, is as follows:

<i>(in thousands of Korean won)</i>	Notes	January 1, 2018
Retained earnings		
Beginning balance - Korean IFRS 1039		₩ 1,048,316,558
Reclassification of available-for-sale securities to financial assets at fair value through profit or loss	18.1(a)(i)(ii)	(1,464,384)
Beginning balance of retained earnings - Korean IFRS 1109		₩ 1,046,852,174

On the date of initial application of Korean IFRS 1109, January 1, 2018, the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate Korean IFRS 1109 categories. The main effects resulting from this reclassification are as follows:

<i>(in thousands of Korean won)</i>	Notes	Fair value through profit or loss	Fair value through other comprehensive income (Available-for-sale financial assets in 2017)	Amortized cost (Held-to-maturity financial assets, loans and receivables in 2017)¹	Total
Financial assets – January 1, 2018					
Beginning balance – Korean IFRS 1039		₩ -	₩ 110,771,878	₩ 2,153,521,843	₩ 2,264,293,721
Reclassification from available-for-sale financial assets to financial assets at fair value through profit or loss	(i)(ii)	104,253,477	(107,873,556)	-	(3,620,079)
Reclassification of equity investments that are not held for trading from available-for-sale financial assets to financial assets at fair value through other comprehensive income	(iii)	-	-	-	-
Reclassification of listed and unlisted debt securities from available-for-sale financial assets to financial assets at fair value through other comprehensive income	(iv)	-	-	-	-
Beginning balance - Korean IFRS 1109		₩ 104,253,477	₩ 2,898,322	₩ 2,153,521,843	₩ 2,260,673,642

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¹ The amount includes cash and cash equivalents.

The impact of these changes on the Group's equity is as follows:

<i>(in thousands of Korean won)</i>	Notes	Effect on accumulated other comprehensive income	Effects on fair value through other comprehensive income reserve	Effect on retained earnings
Beginning balance – Korean IFRS 1039		₩ 73,318,088	₩ -	₩ 1,048,316,558
Reclassification from available-for-sale financial assets (Level 3) to financial assets at fair value through profit or loss	(i)	(1,866,556)	-	1,866,556
Reclassification from available-for-sale financial assets (amortized cost) to financial assets at fair value through profit or loss	(ii)	-	-	(3,620,079)
Reclassification from available-for-sale financial assets (amortized cost) to equity investments at fair value through other comprehensive income	(iii)	(289,139)	-	289,139
		<u>(2,155,695)</u>	<u>-</u>	<u>(1,464,384)</u>
Beginning balance - Korean IFRS 1109		₩ 71,162,393	₩ -	₩ 1,046,852,174

(i) Reclassification from available-for-sale financial assets (Level 3) to financial assets at fair value through profit or loss

As at January 1, 2018, previously classified as available-for-sale financial assets (Level 3) amounting to ₩ 23,462,475 thousand were reclassified from available-for-sale financial assets to financial assets at fair value through profit or loss. They do not meet the criteria to be classified as at amortized cost in accordance with Korean IFRS 1109, because their cash flows do not represent solely payments of principal and interest. Related accumulated other comprehensive income of ₩ 1,866,556 thousand were transferred from the available-for-sale financial assets to retained earnings on January 1, 2018. For the six-month period ended June 30, 2018, fair value gains related to these investments amounting to ₩ 272,639 thousand were recognized in profit or loss, along with related deferred tax expense of ₩ 65,979 thousand.

(ii) Reclassification from available-for-sale financial assets (cost method) to financial assets at fair value through profit or loss

As at January 1, 2018, previously measured as available-for-sale financial assets (amortized cost) amounting to ₩ 84,411,080 thousand were reclassified from available-for-sale financial assets to financial assets at fair value through profit or loss. As at January 1, 2018, the accumulated amount of ₩ 3,620,079 thousand as a result of the fair value valuation of the financial assets was recognized as beginning balance of retained earnings. For the six-month period ended June 30, 2018, fair value gains related to these investments amounting to ₩ 2,304 thousand were recognized in profit or loss, along with related deferred tax expense of ₩ 558 thousand.

(iii) Reclassification from available-for-sale financial assets to equity investments at fair value through other comprehensive income

The Group elected to present changes in the fair value of all its equity investments previously classified as available-for-sale, because these investments are not held for trading, in other comprehensive income. As a result, assets with a fair value of ₩ 2,858,105 thousand were

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reclassified from available-for-sale financial assets to financial assets at fair value through other comprehensive income. And, impairment loss on equity investments of ₩ 289,139 thousand were reclassified to the accumulated other comprehensive income.

(iv) Reclassification from available-for-sale financial assets to debt investments at fair value through other comprehensive income

Listed and unlisted bonds were reclassified from available-for-sale financial assets to financial assets at fair value through other comprehensive income, as the Group's business model is achieved both by collecting contractual cash flows and selling of these assets. The contractual cash flows of these investments are solely principal and interest. As a result, listed and unlisted bonds with a fair value of ₩ 40,217 thousand were reclassified from available-for-sale financial assets to financial assets at fair value through other comprehensive income on January 1, 2018.

On the date of initial application, January 1, 2018, the financial instruments of the Group with any reclassifications noted, were as follows:

(in thousands of Korean won)

	Measurement category		Carrying amount		
	Korean IFRS 1039	Korean IFRS 1109	Korean IFRS 1039	Korean IFRS 1109	Difference
Current financial assets					
Trade receivables	Amortized costs	Amortized costs	₩ 834,178,541	₩ 834,178,541	₩ -
Cash and cash equivalents	Amortized costs	Amortized costs	1,137,775,579	1,137,775,579	-
Derivatives	Financial assets at fair value through profit or loss ²	Fair value through profit or loss ²	393,164	393,164	-
Other receivables	Amortized costs	Amortized costs	159,634,686	159,634,686	-
Non-current financial assets					
Equity instruments	Available-for-sale financial assets	Fair value through other comprehensive income ¹	₩ 2,858,105	₩ 2,858,105	₩ -
Listed and unlisted equity securities	Available-for-sale financial assets	Fair value through other comprehensive income ¹	40,217	40,217	-
Fund and others	Available-for-sale financial assets	Fair value through profit or loss ²	107,873,555	104,253,476	(3,620,079)
Other receivables	Amortized costs	Amortized costs	21,933,037	21,933,037	-
Current financial liabilities					
Derivatives	Financial assets at fair value through profit or loss ²	Fair value through profit or loss ²	₩ 5,653,779	₩ 5,653,779	₩ -
Non-current financial liabilities					
Derivatives	Financial assets at fair value through profit or loss ²	Fair value through profit or loss ²	₩ 17,532,536	₩ 17,532,536	₩ -

¹ Financial instruments measured at fair value through other comprehensive income: investments in equity instruments and debt instruments.

² Financial assets measured at fair value through profit or loss.

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(b) Impairment of Financial Assets

The Group has three types of financial assets subject to Korean IFRS 1109's new expected credit loss model:

- trade receivables for sales of inventory
- debt investments carried at fair value through other comprehensive income, and
- debt investments carried at amortized cost.

Upon adoption of Korean IFRS 1109, accounting policies for recognition of impairment have changed. The impact of the change in impairment methodology on the Group's beginning balance of retained earnings is disclosed in the table on (a) above.

(i) Trade receivables

The Group applies the simplified approach to measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables.

(ii) Debt instruments

Debt investments at amortized cost and those at fair value through other comprehensive income are considered to be low risk, and thus the provision for impairment is determined as 12 months expected credit losses.

18.2 Adoption of Korean IFRS 1115 Revenue from Contracts with Customers

As explained in Note 2, Group has applied Korean IFRS 1115 *Revenue from Contracts with Customers* from January 1, 2018. In accordance with the transitional provisions in Korean IFRS 1115, comparative figures have not been restated. The application of Korean IFRS 1115 has impact on the financial statements as follows.

In summary, the following adjustments were made to the amounts recognized in the statements of financial position at the date of initial application (January 1, 2018):

<i>(in thousands of Korean won)</i>	December 31, 2017		January 1, 2018
	(before adjustments)	Adjustments	(after adjustments)
Total assets	₩ 9,342,919,043	₩ -	₩ 9,342,919,043
Contract liabilities ¹	-	402,733,398	402,733,398
Unearned revenues ¹	402,733,398	(402,733,398)	-
Total liabilities	5,582,799,427	-	5,582,799,427
Total equity	₩ 3,760,119,616	₩ -	₩ 3,760,119,616

¹ The total amount of the current and non-current balances.

As at January 1, 2018, the Group reclassified the long-term unearned revenues related to customers' contribution to construction costs received from applicants for city gas supply to contract liabilities to reflect the terminology of Korean IFRS 1115.

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Financial statement line items affected by the adoption of the new rules in the current period are as follows:

Statement of financial position

<i>(in thousands of Korean won)</i>	Reported amount¹		Adjustments	Amount before application of Korean IFRS 1115		
Total assets	₩	8,759,406,849	₩	-	₩	8,759,406,849
Contract assets ²		-		432,208,488		432,208,488
Unearned revenues ²		432,208,488		(432,208,488)		-
Total liabilities		4,889,905,683		-		4,889,905,683
Total equity	₩	3,869,501,166	₩	-	₩	3,869,501,166

¹ Amounts include adjustments arising from adoption of Korean IFRS 1109.

² The contract liabilities recognized in relation to city gas pipelines contributions are the amount that were previously presented as unearned revenues (current and non-current).

Statement of profit or loss and total comprehensive income

<i>(in thousands of Korean won)</i>	Reported amount		Adjustments		Amount before application of Korean IFRS 1115	
Sales	₩	3,432,274,448	₩	(14,939,996)	₩	3,417,334,452
Cost of sales		2,829,792,982		(6,600,081)		2,823,192,901
Selling and administrative expenses		244,837,848		1,566,563		246,404,411
Other income		48,528,418		14,939,996		63,468,414
Other expenses		16,905,109		5,033,518		21,938,627
Share of profit (loss) of associates		64,093,498		-		64,093,498
Finance income		31,444,868		-		31,444,868
Finance costs		85,224,481		-		85,224,481
Income tax expenses		89,396,193		-		89,396,193
Profit for the period		310,184,619		-		310,184,619
Total comprehensive income		400,054,775		-		400,054,775

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Statement of cash flows

<i>(in thousands of Korean won)</i>	Reported amount		Adjustments	Amount before application of Korean IFRS 1115	
Cash flows from operating activities					
Profit for the period	₩	310,184,619	₩	-	₩ 310,184,619
Adjustments for income and expenses		246,442,027		(6,378,935)	240,063,092
Changes in operating assets and liabilities		(300,253,906)		(28,102,551)	(328,356,457)
Interest paid		(105,536,167)		-	(105,536,167)
		<u>150,836,573</u>		<u>(34,481,486)</u>	<u>116,355,087</u>
Cash flows from investing activities		(335,792,702)		34,481,486	(301,311,216)
Cash flows from financing activities		(251,399,288)		-	(251,399,288)
Changes in cash and cash equivalents from currency translation		2,126,160		-	2,126,160
Net increase in cash and cash equivalents	₩	(434,229,257)	₩	-	₩ (434,229,257)

With the application of Korean IFRS 1115, cash flows have been adjusted resulting in increase in cash flows from operating activities of ₩ 34,481,486 thousand and a decrease in cash flows from investing activities of ₩ 34,481,486 thousand compared to cash flows according to the previous standard; however, the net change in cash and cash equivalents is unaffected by adoption of IFRS 1115.

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June 30, 2018 and 2017 (Unaudited), and December 31, 2017

19. Financial Risk Management

19.1 Credit Risk

The Group is exposed to credit risk if counterparties fail to make payments as they fall due in respect of:

- payment of trade receivables as invoices fall due 30 days after being raised
- contractual cash flows of debt investments carried at amortized cost, and
- contractual cash flows of debt investments carried at fair value through other comprehensive income.

(a) Trade receivables

The Group applies the simplified approach to measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables. To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The loss allowance provision as at June 30, 2018, is determined as follows; the expected credit losses below also include forward looking information.

(in thousands of Korean won)

	June 30, 2018					
	Less than 3 months past due and within due	More than 3 months past due	More than 6 months past due	More than 9 months past due	More than 12 months past due	Total
Expected loss rate	0.15%	17.18%	85.35%	84.72%	98.67%	1.74%
Gross carrying amount	₩ 441,338,429	₩ 6,106,929	₩ 1,344,658	₩ 286,107	₩ 4,870,702	₩ 453,946,825
Loss allowance provision	₩ 658,219	₩ 1,049,092	₩ 1,147,619	₩ 242,388	₩ 4,805,866	₩ 7,903,184

Movements in the loss allowance provision for trade receivables for the six-month periods ended June 30, 2018 and 2017, are as follows:

(in thousands of Korean won)

	2018	2017
	Trade receivables	Trade receivables
Beginning balance - Korean IFRS 1039	₩ 7,079,446	₩ 8,572,929
Amounts restated through beginning balance of retained earnings ¹	-	-
Loss allowance as at initial application date - calculated under Korean IFRS 1109	7,079,446	8,572,929
Increase in loss allowance recognized in profit or loss during the period	1,466,082	940,012
Receivables written off during the period as uncollectible	(709,123)	(790,175)
Unused amounts reversed	66,779	126,185
Ending balance (the amount as at June 30, 2017: amount calculated under Korean IFRS 1039) ²	₩ 7,903,184	₩ 8,848,951

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¹ The restatement amount on transition to Korean IFRS 1109 as a result of applying the expected credit risk model was immaterial.

² The loss allowance provision as at June 30, 2017 is the amount calculated in accordance with Korean IFRS 1039.

As at June 30, 2018, the gross carrying amount of trade receivables, reflecting the maximum exposure to credit risk, is ₩ 453,946,825 thousand (December 31, 2017: ₩ 841,257,987 thousand).

In the prior period, the impairment of trade receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively, to determine whether there was an objective evidence that an impairment had been incurred but not yet been identified. For these receivables, the estimated impairment losses were recognized in a separate provision for impairment. The Group considered that there was evidence of impairment if any of the following indicators were present:

- significant financial difficulties for of the debtor
- probability that the debtor will enter bankruptcy or financial reorganization, and
- default or delinquency in payments (more than 30 days overdue).

(b) Other financial assets at amortized cost

Other financial assets at amortized cost include government bonds. Movements in loss allowance provision for other financial assets at amortized cost for the six-month period ended June 30, 2018, are as follows:

(in thousands of Korean won)

	June 30, 2018	
	Other receivables	
Beginning balance - Korean IFRS 1039	₩	3,738,819
Amounts restated through beginning balance of retained earnings		-
Loss allowance as at initial application date - calculated under Korean IFRS 1109		3,738,819
Decrease in loss allowance recognized as 'other expenses' in profit or loss during the period		(2,252)
Receivables written off during the period as uncollectible		(3,638,393)
Ending balance	₩	98,174

All of these financial assets are considered to have low credit risk, and thus the loss allowance provision recognized was limited to 12 months expected losses during the period.