

SK E&S Co., Ltd. and Subsidiaries

**Interim Consolidated Financial Statements
June 30, 2016 and 2015**

SK E&S Co., Ltd. and Subsidiaries
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June 30, 2016 and 2015

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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 Shareholder of
SK E&S Co., Ltd.

Reviewed Financial Statements

We have reviewed the accompanying interim consolidated financial statements of SK E&S Co., Ltd. and its subsidiaries (collectively the "Group"). These financial statements consist of the interim consolidated statement of financial position of the Group as of June 30, 2016, and the related interim consolidated statements of income and comprehensive income for the three-month and six-month periods ended June 30, 2016 and 2015, and changes in equity and cash flows for the six-month periods ended June 30, 2016 and 2015, 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 financial statements in accordance with the 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 interim consolidated 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 interim consolidated financial statements based on our reviews.

We conducted our reviews in accordance with the quarterly and 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 auditing standards generally accepted in the Republic of Korea and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our reviews, nothing has come to our attention that causes us to believe the accompanying interim consolidated financial statements are not presented fairly, in all material respects, in accordance with the Korean IFRS 1034, *Interim Financial Reporting*.

Other Matters

We have audited the consolidated statement of financial position of the Group as of December 31, 2015, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, in accordance with the Korean Standards on Auditing. We expressed an unqualified opinion on those consolidated financial statements in our audit report dated March 11, 2016. These consolidated financial statements are not included in this review report. The consolidated statement of financial position as of December 31, 2015, presented herein for comparative purposes, is consistent, in all material respects, with the above audited consolidated statement of financial position as of December 31, 2015.

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.



Seoul, Korea

August 2, 2016

This report is effective as of August 2, 2016, 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 interim consolidated 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
Interim Consolidated Statements of Financial Position
June 30, 2016 and December 31, 2015

<i>(in thousands of Korean won)</i>	Notes	June 30, 2016 (Unaudited)	December 31, 2015
Assets			
Non-current assets			
Property, plant and equipment	7	₩ 4,551,868,008	₩ 4,279,674,500
Investment property		96,491,785	96,532,000
Intangible assets	7	630,123,261	572,101,708
Investments in joint ventures and associates	8	786,422,570	812,393,892
Deferred tax assets		9,213,197	9,969,160
Available-for-sale financial assets	4	91,891,232	99,716,425
Derivative assets	4	1,500,851	908,400
Other financial assets		25,896,183	26,437,613
Other assets		13,645,740	14,033,504
		<u>6,207,052,827</u>	<u>5,911,767,202</u>
Assets held-for-sale	16	<u>5,253,480</u>	<u>-</u>
Current assets			
Inventories		18,210,805	22,815,637
Trade receivables		254,630,106	646,182,804
Other financial assets		22,400,418	25,350,178
Other assets		19,449,117	75,415,485
Cash and cash equivalents		370,242,742	419,890,899
		<u>684,933,188</u>	<u>1,189,655,003</u>
Total assets		<u>₩ 6,897,239,495</u>	<u>₩ 7,101,422,205</u>
Liabilities			
Non-current liabilities			
Borrowings	4,9	₩ 2,126,691,567	₩ 2,229,326,150
Derivative liabilities	4	15,241,139	7,205,217
Other financial liabilities		4,646,743	4,577,328
Deferred tax liabilities		105,457,597	108,099,214
Net defined benefit liabilities	10	18,511,865	5,019,361
Unearned revenue		308,434,574	276,012,546
Other liabilities		2,382,189	2,382,401
		<u>2,581,365,674</u>	<u>2,632,622,217</u>
Current liabilities			
Trade payables		317,653,588	833,182,138
Derivative liabilities	4	6,239,157	2,344,404
Other financial liabilities		163,527,175	248,546,579
Other liabilities		43,247,262	17,968,592
Current income tax liabilities		25,044,020	67,106,865
Borrowings	4,9	835,841,878	275,282,453
		<u>1,391,553,080</u>	<u>1,444,431,031</u>
Total liabilities		<u>3,972,918,754</u>	<u>4,077,053,248</u>
Equity attributable to owner of the Parent Company			
Capital stock		221,058,960	221,058,960
Paid-in-capital in excess of par value		420,107,124	420,107,124
Retained earnings		826,300,972	956,677,398
Other components of equity		1,033,477,686	1,081,415,120
		<u>2,500,944,742</u>	<u>2,679,258,602</u>
Non-controlling interests		<u>423,375,999</u>	<u>345,110,355</u>
Total equity		<u>2,924,320,741</u>	<u>3,024,368,957</u>
Total liabilities and equity		<u>₩ 6,897,239,495</u>	<u>₩ 7,101,422,205</u>

The accompanying notes are an integral part of these interim consolidated financial statements.

SK E&S Co., Ltd. and Subsidiaries
Interim Consolidated Statements of Income
Three-Month and Six-Month Periods Ended June 30, 2016 and 2015

(in thousands of Korean won, except per share amounts)	Notes	2016 (Unaudited)		2015 (Unaudited)	
		Three months	Six months	Three months	Six months
Continuing operations					
Revenue	5,6,14	₩ 709,174,008	₩ 2,308,800,616	₩ 879,378,602	₩ 2,738,715,078
Cost of sales		590,341,344	1,969,406,405	704,957,079	2,278,518,445
Gross profit		118,832,664	339,394,211	174,421,523	460,196,633
Selling and administrative expenses		109,626,393	223,885,222	107,063,207	211,258,245
Operating profit		9,206,271	115,508,989	67,358,316	248,938,388
Other income		16,986,113	44,523,407	34,139,856	55,356,157
Other expenses		5,588,822	12,999,228	4,545,198	12,680,649
Gain from equity-method investment	8	25,339,528	21,134,726	37,680,229	37,645,813
Finance income		2,464,295	7,263,853	4,661,504	9,505,502
Finance expenses		11,452,600	20,414,607	7,093,215	14,912,639
Profit before income tax		36,954,785	155,017,140	132,201,492	323,852,572
Income tax expense	11	8,089,193	35,051,614	24,311,533	71,706,866
Profit for the period from continuing operations		28,865,592	119,965,526	107,889,959	252,145,706
Discontinued operations					
Profit for the period from discontinued operations	15	-	-	(2,475,410)	90,275,396
Profit for the period		₩ 28,865,592	₩ 119,965,526	₩ 105,414,549	₩ 342,421,102
Profit attributable to:					
Owner of the Parent					
Profit for the period from continuing operations		₩ 23,779,153	₩ 106,014,075	₩ 99,957,992	₩ 238,672,258
Profit for the period from discontinued operations		-	-	(2,475,410)	90,275,396
Non-controlling interests					
Profit for the period from continuing operations		5,086,439	13,951,451	7,931,967	13,473,448
Profit for the period from discontinued operations		-	-	-	-
Earnings per share from continuing and discontinued operations attributable to the equity holder of the Company during the period					
Basic and diluted earnings per share					
From continuing operations		₩ 569	₩ 2,539	₩ 2,393	₩ 5,715
From discontinued operations		-	-	(59)	2,162

The accompanying notes are an integral part of these interim consolidated financial statements.

SK E&S Co., Ltd. and Subsidiaries
Interim Consolidated Statements of Comprehensive Income
Three-Month and Six-Month Periods Ended June 30, 2016 and 2015

(in thousands of Korean won)

	Notes	2016 (Unaudited)		2015 (Unaudited)	
		Three months	Six months	Three months	Six months
Profit for the period		₩ 28,865,592	₩ 119,965,526	₩ 105,414,549	₩ 342,421,102
Other comprehensive income					
Items that will not be reclassified subsequently to profit or loss:					
Remeasurements of net defined benefit liabilities	10	(1,006,915)	(4,053,715)	583,900	(1,720,591)
Items that will be reclassified subsequently to profit or loss:					
Change in value of available-for-sale financial assets	4	(71,025)	198,179	(12,734)	227,502
Share of other comprehensive income of associates		(32,570,548)	(33,807,639)	23,529,709	23,539,491
Gain(loss) on currency translation of foreign operations		5,771,040	(4,614,745)	7,557,193	9,143,603
Loss on cash flow hedge		(4,867,658)	(10,944,727)	-	-
Total comprehensive income for the period		<u>₩ (3,879,514)</u>	<u>₩ 66,742,879</u>	<u>₩ 137,072,617</u>	<u>₩ 373,611,107</u>
Attributable to:					
Owner of the Parent Company		₩ (8,067,603)	₩ 53,970,274	₩ 128,298,603	₩ 359,557,360
Non-controlling interests		4,188,089	12,772,605	8,774,014	14,053,747
Total comprehensive income for the period		<u>₩ (3,879,514)</u>	<u>₩ 66,742,879</u>	<u>₩ 137,072,617</u>	<u>₩ 373,611,107</u>

The accompanying notes are an integral part of these interim consolidated financial statements.

SK E&S Co., Ltd. and Subsidiaries
Interim Consolidated Statements of Changes in Equity
Six-Month Periods Ended June 30, 2016 and 2015

(in thousands of Korean won)

Notes	Attributable to owners of the Parent Company					Non-controlling interests	Total equity
	Capital stock	Paid-in-capital in excess of par value	Retained earnings	Other components of equity	Total		
Balance at January 1, 2015	₩ 221,058,960	₩ 420,107,124	₩ 935,270,213	₩ 615,549,052	₩ 2,191,985,349	₩ 179,811,543	₩ 2,371,796,892
Comprehensive income							
Profit for the period	-	-	328,947,655	-	328,947,655	13,473,448	342,421,103
Remeasurements of the net defined benefit liability	-	-	(1,618,567)	-	(1,618,567)	(102,024)	(1,720,591)
Change in value of available-for-sale financial assets	-	-	-	227,503	227,503	-	227,503
Share of other comprehensive income of associates	-	-	-	23,041,671	23,041,671	497,821	23,539,492
Gain(loss) on currency translation of foreign operations	-	-	-	8,959,098	8,959,098	184,504	9,143,602
Total comprehensive income for the period	-	-	327,329,088	32,228,272	359,557,360	14,053,749	373,611,109
Transactions with owners of the Company							
Cash dividends	12	-	(336,808,844)	-	(336,808,844)	(1,297,799)	(338,106,643)
Interest paid of hybrid capital instruments	-	-	(8,031,319)	-	(8,031,319)	-	(8,031,319)
Disposal of subsidiaries	15	-	-	-	-	(18,888,840)	(18,888,840)
Others	-	-	427,179	(1,222,128)	(794,949)	(336,273)	(1,131,222)
Total transactions with owners of the Company	-	-	(344,412,984)	(1,222,128)	(345,635,112)	(20,522,912)	(366,158,024)
Balance at June 30, 2015 (Unaudited)	₩ 221,058,960	₩ 420,107,124	₩ 918,186,317	₩ 646,555,196	₩ 2,205,907,597	₩ 173,342,380	₩ 2,379,249,977
Balance at January 1, 2016	₩ 221,058,960	₩ 420,107,124	₩ 956,677,398	₩ 1,081,415,120	₩ 2,679,258,602	₩ 345,110,355	₩ 3,024,368,957
Comprehensive income							
Profit for the period	-	-	106,014,075	-	106,014,075	13,951,451	119,965,526
Remeasurements of the net defined benefit liability	-	-	(4,066,271)	-	(4,066,271)	12,556	(4,053,715)
Change in value of available-for-sale financial assets	-	-	-	198,179	198,179	-	198,179
Share of other comprehensive income of associates	-	-	-	(32,794,467)	(32,794,467)	(1,013,172)	(33,807,639)
Gain(loss) on currency translation of foreign operations	-	-	-	(4,436,515)	(4,436,515)	(178,230)	(4,614,745)
Gain(loss) on cash flow hedge	-	-	-	(10,944,727)	(10,944,727)	-	(10,944,727)
Total comprehensive income for the period	-	-	101,947,804	(47,977,530)	53,970,274	12,772,605	66,742,879
Transactions with owners of the Company							
Cash dividends	12	-	(216,117,268)	-	(216,117,268)	(1,297,799)	(217,415,067)
Issuance of hybrid capital instruments	-	-	-	-	-	71,500,000	71,500,000
Interest paid of hybrid capital instruments	-	-	(16,465,137)	-	(16,465,137)	(4,372,890)	(20,838,027)
Others	-	-	258,175	40,096	298,271	(336,272)	(38,001)
Total transactions with owners of the Company	-	-	(232,324,230)	40,096	(232,284,134)	65,493,039	(166,791,095)
Balance at June 30, 2016 (Unaudited)	₩ 221,058,960	₩ 420,107,124	₩ 826,300,972	₩ 1,033,477,686	₩ 2,500,944,742	₩ 423,375,999	₩ 2,924,320,741

The accompanying notes are an integral part of these interim consolidated financial statements.

SK E&S Co., Ltd. and Subsidiaries
Interim Consolidated Statements of Cash Flows
Six-Month Periods Ended June 30, 2016 and 2015

<i>(in thousands of Korean won)</i>	Notes	2016 (Unaudited)	2015 (Unaudited)
Cash flows from operating activities			
Cash generated from operations			
Profit for the period		₩ 119,965,526	₩ 342,421,102
Adjustments to reconcile net income to net cash provided by operating activities		125,830,952	960,180
Changes in operating assets and liabilities		<u>(89,080,516)</u>	<u>(126,474,746)</u>
		156,715,962	216,906,536
Interest received		2,426,388	6,638,827
Interest paid		(39,127,973)	(37,144,340)
Dividends received		10,084,786	2,732,254
Income tax paid		<u>(66,979,259)</u>	<u>(63,528,779)</u>
Net cash inflow from operating activities		<u>63,119,904</u>	<u>125,604,498</u>
Cash flows from investing activities			
Disposal of property, plant and equipment	7	3,253,747	737,728
Disposal of intangible assets	7	1,058,330	1,899,455
Disposal of joint venture and associates		1,422,479	3,931,680
Disposal of available-for-sale financial assets	4	8,417,000	24,864,135
Decrease in other financial assets		19,501	182,009
Disposal of subsidiaries	15	-	495,082,000
Purchases of property, plant and equipment	7	(383,004,084)	(665,298,649)
Purchases of intangible assets	7	(67,055,211)	(130,827,240)
Purchases of joint venture and associates		(10,000,000)	-
Purchases of available-for-sale financial assets	4	(374,083)	(59,732,933)
Increase in other financial assets		(647,648)	(967,955)
Others		42,147,473	40,752,830
Net cash outflow from investing activities		<u>(404,762,496)</u>	<u>(289,376,940)</u>
Cash flows from financing activities			
Proceeds from borrowings	9	477,421,910	773,528,732
Issuance of hybrid capital instruments		71,500,000	-
Repayments of borrowings	9	(17,904,107)	(637,589,600)
Cash dividends paid to shareholders	12	(217,415,067)	(338,106,643)
Interest paid on hybrid bonds		(20,838,028)	(8,031,319)
Others		(317,395)	(198,139)
Net cash inflow(outflow) from financing activities		<u>292,447,313</u>	<u>(210,396,969)</u>
Changes in cash and cash equivalents from currency translation		<u>(452,878)</u>	<u>305,146</u>
Net decrease in cash and cash equivalents		<u>(49,648,157)</u>	<u>(373,864,265)</u>
Cash and cash equivalents at the beginning of period		<u>419,890,899</u>	<u>621,113,039</u>
Cash and cash equivalents at the end of period		<u>₩ 370,242,742</u>	<u>₩ 247,248,774</u>

The accompanying notes are an integral part of these interim consolidated financial statements.

SK E&S Co., Ltd. and Subsidiaries

Notes to Interim Consolidated Financial Statements

June 30, 2016 and 2015 (Unaudited), and December 31, 2015

1. General Information

SK E&S Co., Ltd. (the "Controlling Company" or the "Company") was 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 of June 30, 2016, the Company's capital stock amounts to ₩221,058,960 thousand and the Company is wholly owned by SK Holdings Co., Ltd.

1.1 Subsidiaries

As of June 30, 2016, there are no significant changes in the scope of consolidation and percentage of ownership compared to December 31, 2015.

2. Significant Accounting Policies

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 the International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS). The accompanying interim consolidated financial statements have been 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 interim consolidated financial statements.

The Group's interim consolidated financial statements for the six-month period ended June 30, 2016, have been prepared in accordance with Korean IFRS 1034, *Interim Financial Reporting*. These interim financial statements have been prepared in accordance with Korean IFRS standards which is effective or has been early adopted as of June 30, 2016.

(a) New and amended standards adopted by the Group

The Group newly applied the following amended and enacted standards for the annual period beginning on January 1, 2016, and the amendments do not have a material impact on the consolidated financial statements of the Group.

- Korean IFRS 1001, *Presentation of Financial Statements*
- Korean IFRS 1016, *Property, plant and equipment*, and Korean IFRS 1041, *Agriculture and fishing: Productive plants*
- Korean IFRS 1016, *Property, plant and equipment*, and Korean IFRS 1038, *Intangible assets: Amortization based on revenue*
- Korean IFRS 1110, *Consolidated Financial Statements*, Korean IFRS 1028, *Investments in Associates and Joint Ventures*, and Korean IFRS 1112, *Disclosures of Interests in Other Entities: Exemption for consolidation of investee*

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- Korean IFRS 1111, *Joint Agreements*
- Annual Improvements to Korean IFRS 2012-2014 Cycle

(b) New and amended standards not yet adopted by the Group

The Group expects that new standards, amendments and interpretations issued but not effective for the annual period beginning on January 1, 2016, and not early adopted would not have a material impact on its consolidated financial statements.

- Korean IFRS 1109, *Financial Instruments*
- Korean IFRS 1115, *Revenue arising from contracts with customer*

2.2 Application of Accounting Policies

Significant accounting policies and estimates adopted in the preparation and presentation of the interim consolidated financial statements are consistent with the accounting policies and estimates adopted for the annual consolidated financial statements for the year ended December 31, 2015, except changes in accounting policies applied in the financial year beginning on January 1, 2016 and as described below.

2.2.1 Income tax

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.

3. Critical Accounting Estimates and Assumptions

The Group makes estimates and assumptions concerning the future. The estimates and assumptions are continuously evaluated with consideration to factors such as events reasonably predictable in the foreseeable future within the present circumstance according to historical experience. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Critical accounting estimates and assumptions used for preparing the interim consolidated financial statements are consistent with prior year's accounting estimates and assumptions except for the estimate method for calculating income tax expense.

4. Fair Value

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).
- Inputs other than quoted prices included within Level 1 that are observable for the asset or

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liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).

- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

Fair value hierarchy classifications of the financial instruments that are measured at fair value as of June 30, 2016 and December 31, 2015, are as follows:

(in thousands of Korean won)

	June 30, 2016			
	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	₩ -	₩ -	₩ 21,486,200	₩ 21,486,200
Derivative assets	-	1,500,851	-	1,500,851
Derivative liabilities	-	(21,480,296)	-	(21,480,296)

(in thousands of Korean won)

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	₩ -	₩ -	₩ 21,224,750	₩ 21,224,750
Derivative assets	-	908,400	-	908,400
Derivative liabilities	-	(9,549,621)	-	(9,549,621)

There are no significant changes in business and economic environments that affect the fair value of financial assets and liabilities of the Group for the six-month period ended June 30, 2016. The classification of financial instruments is identical to that of the prior year.

Details of derivative instruments as of June 30, 2016, are as follows:

<i>(in thousands of Korean won)</i>	Assets		Liabilities		Loss on valuation	Other comprehensive income (loss)
Currency forward ¹	₩	1,500,851	₩	(923,095)	₩ (330,644)	₩ -
Interest rate swap ²		-		(19,999,494)	-	(10,959,341)
Commodity swap ³		-		(557,707)	-	(48,239)

¹ The currency forward is to hedge long term borrowing in foreign currency of USD 70,000 thousand and short-term borrowing in foreign currency of USD 33,564 thousand in order to avoid risk in fluctuation of currency exchange.

² The interest rate swap exchanges a fixed interest for a floating interest to hedge an interest rate risk of a borrowing of ₩400,000,000 thousand of Narae Energy Service Co., Ltd. which will be redeemed in installments over ten years.

³ The commodity swap to hedge a cash flow risk derived from the LNG purchase agreement of USD 3,919 thousand of CAILIP Gas Marketing, LLC, a subsidiary.

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Valuation techniques used in the recurring fair value measurements categorized within Level 3 of the fair value hierarchy as of June 30, 2016, are as follows:

<i>(in thousands of Korean won)</i>	Fair value	Valuation techniques
Hana Land Chip Private Real Estate No.33	₩ 10,202,400	Net Asset Value per Share
Plus Future Plan Private Securities Investment Trust No.5	10,283,800	Net Asset Value per Share
SK Mutual Funds	1,000,000	Net Asset Value per Share
	<u>₩ 21,486,200</u>	

Details of changes in Level 3 of the fair value hierarchy for the recurring fair value measurements for the six-month periods ended June 30, 2016 and 2015, are as follows:

<i>(in thousands of Korean won)</i>	2016	2015
Beginning balance	₩ 21,224,750	₩ 21,169,600
Gain recognized as other comprehensive income	261,450	299,800
Ending balance	<u>₩ 21,486,200</u>	<u>₩ 21,469,400</u>

Details of available-for-sale financial assets that are measured at cost as of June 30, 2016 and December 31, 2015, are as follows:

<i>(in thousands of Korean won)</i>	June 30, 2016	December 31, 2015
SK Technology Innovation Company	₩ 2,808,024	₩ 2,808,024
Contemporary Painting Art Trust No.1	495,041	495,041
Gemini Partners Pte., Ltd.	-	8,417,000
Prostar Energy Infra Fund	4,854,968	4,541,924
Hana Power Generation Infra PEF No.1	59,000,000	59,000,000
Fitech Global New Growth Investment Private Equity Fund	2,652,438	2,652,438
Sejung21 Co., Ltd.	358,917	358,917
Government bond and others	235,644	218,331
	<u>₩ 70,405,032</u>	<u>₩ 78,491,675</u>

The range of reasonable fair value estimates of SK Technology Innovation Company shares and other investments is significant and the probabilities of the various estimates cannot be reasonably assessed, and therefore, these instruments are measured at cost. The Group does not have any plans to dispose of the above-mentioned equities in the near future. These instruments will be measured at fair value when the Group develops a reliable estimate of the fair value.

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Carrying amount and fair value of financial instruments as of June 30, 2016 and December 31, 2015, are as follows:

<i>(in thousands of Korean won)</i>	June 30, 2016		
	Book value	Fair value	Discount rate(%)
Financial liabilities			
Borrowings	₩ 2,962,533,445	₩ 3,107,365,328	1.7~1.9
<i>(in thousands of Korean won)</i>	December 31, 2015		
	Book value	Fair value	Discount rate(%)
Financial liabilities			
Borrowings	₩ 2,504,608,603	₩ 2,576,721,898	2.3~2.5

Financial assets and other financial liabilities whose carrying amount is a reasonable approximation of fair value are excluded from the fair value disclosures.

5. 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, 2016, may not be indicative of the results for the full year 2016.

6. 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 before income tax.

The Group's operating segments consist of power generation, LNG, city gas and other segments as of June 30, 2016. The segment information for the six-month periods ended June 30, 2016 and 2015, is stated after considering the distribution of intra-company transactions, adjustments of depreciation cost, interest income, interest expense, gain(loss) from equity-method investment and profit 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.

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A profit or loss by each segment for the three-month and six-month periods ended June 30, 2016 and 2015, are as follows:

(in thousands of Korean won)	Six-month period ended June 30, 2016					
	Power generation	LNG	City gas	Other segments	Adjustment for consolidation	Total
Total segment revenue	₩ 409,419,065	₩ 254,978,475	₩ 1,882,236,449	-	₩ (237,833,373)	₩ 2,308,800,616
Inter-segment revenue	-	(237,475,609)	-	-	237,475,609	-
Net-segment revenue	409,419,065	17,502,866	1,882,236,449	-	(357,764)	2,308,800,616
Segment profit before income tax	(2,318,249)	66,090,025	91,391,421	(21,800,612)	21,654,555	155,017,140
(in thousands of Korean won)	Three-month period ended June 30, 2016					
	Power generation	LNG	City gas	Other segments	Adjustment for consolidation	Total
Total segment revenue	₩ 146,768,006	₩ 94,810,877	₩ 556,234,833	₩ -	₩ (88,639,708)	₩ 709,174,008
Inter-segment revenue	-	(88,526,303)	-	-	88,526,303	-
Net-segment revenue	146,768,006	6,284,574	556,234,833	-	(113,405)	709,174,008
Segment profit(loss) before income tax	(8,575,941)	26,107,136	19,516,091	(14,929,157)	14,836,656	36,954,785
(in thousands of Korean won)	Six-month period ended June 30, 2015					
	Power generation	LNG	City gas	Other segments	Adjustment for consolidation	Total
Total segment revenue	₩ 399,600,000	₩ 332,826,465	₩ 2,318,582,166	₩ 10,489,971	₩ (322,783,524)	₩ 2,738,715,078
Inter-segment revenue	-	(322,046,811)	(736,713)	-	322,783,524	-
Net-segment revenue	399,600,000	10,779,654	2,317,845,453	10,489,971	-	2,738,715,078
Segment profit(loss) before income tax	35,578,847	149,754,367	89,789,704	473,959,616	(425,229,962)	323,852,572
(in thousands of Korean won)	Three-month period ended June 30, 2015					
	Power generation	LNG	City gas	Other segments	Adjustment for consolidation	Total
Total segment revenue	₩ 151,652,262	₩ 126,031,511	₩ 707,468,771	₩ 10,489,971	₩ (116,263,913)	₩ 879,378,602
Inter-segment revenue	-	(115,251,857)	-	-	115,251,857	-
Net-segment revenue	151,652,262	10,779,654	707,468,771	10,489,971	(1,012,056)	879,378,602
Segment profit(loss) before income tax	9,573,131	45,004,906	14,032,446	(7,913,846)	71,504,854	132,201,491

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Breakdown of the Group's revenue from all services for the three-month and six-month periods ended June 30, 2016 and 2015, are as follows:

(in thousands of Korean won)

	2016		2015	
	Three months	Six months	Three months	Six months
Sales-Finished Goods	₩ 151,855,823	₩ 417,695,653	₩ 138,930,771	₩ 389,924,224
Sales-Trading	553,490,426	1,879,519,974	723,667,387	2,324,660,178
Sales-Others	2,073,939	8,059,941	15,024,221	20,583,626
Revenue-Rental	<u>1,753,820</u>	<u>3,525,048</u>	<u>1,756,223</u>	<u>3,547,050</u>
	<u>₩ 709,174,008</u>	<u>₩ 2,308,800,616</u>	<u>₩ 879,378,602</u>	<u>₩ 2,738,715,078</u>

Revenues of ₩ 390,461,407 thousand (2015: ₩ 369,221,955 thousand) for the six-month period ended June 30, 2016, which are more than 10% of the Group revenue, are derived from Korea Power Exchange, and these revenues are attributable to the power generation segment.

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7. Property, Plant and Equipment, and Intangible Assets

Changes in property, plant and equipment for the six-month periods ended June 30, 2016 and 2015, are as follows:

<i>(in thousands of Korean won)</i>	2016						
	Beginning balance	Acquisitions	Disposals	Reclas-sification	Depreciation	Net currency transaction differences	Ending Balance
Land	₩ 657,700,319	₩ 313,197	₩ (18,562)	₩ (42,918)	₩ -	₩ -	₩ 657,952,036
Buildings	132,131,776	1,532,277	(720,220)	(1,166,885)	(2,359,577)	-	129,417,371
Structures	132,237,011	-	-	(5,518,610)	(4,344,112)	-	122,374,289
Machinery	711,780,348	490,319	(1,254,585)	(13,526,879)	(25,487,672)	-	672,001,531
Vehicles	6,952,594	729,050	(159,159)	-	(884,469)	(353)	6,637,663
Tools and equipment	13,683,983	1,025,932	(162,444)	211,341	(3,224,864)	(2,142)	11,531,806
Pipelines	984,116,351	11,759,494	(124,192)	35,224,426	(44,455,359)	-	986,520,720
Others	118,127,149	36,183,750	(4,726)	78,619,273	(16,077,413)	(2,193,754)	214,654,279
Construction- in-progress	1,522,944,969	330,923,869	-	(102,880,465)	-	(210,061)	1,750,778,312
	<u>₩ 4,279,674,500</u>	<u>₩ 382,957,888</u>	<u>₩ (2,443,888)</u>	<u>₩ (9,080,717)</u>	<u>₩ (96,833,466)</u>	<u>₩ (2,406,310)</u>	<u>₩ 4,551,868,007</u>

<i>(in thousands of Korean won)</i>	2015						
	Beginning balance	Acquisitions	Disposals	Reclas-sification	Depreciation	Net currency transaction differences	Ending balance
Land	₩ 575,000,817	₩ 15,240,371	₩ -	₩ 31,758,386	₩ -	₩ -	₩ 621,999,574
Buildings	64,734,015	22,114	(79,126)	7,395,513	(1,619,653)	-	70,452,863
Structures	59,234,080	67,490	-	-	(2,546,959)	-	56,754,611
Machinery	394,410,568	1,039,317	-	898,823	(17,429,604)	-	378,919,104
Vehicles	3,659,442	172,581	(32,757)	-	(891,217)	1,215	2,909,264
Tools and equipment	14,469,799	1,458,414	(211,942)	667,956	(3,693,939)	9,920	12,700,208
Pipelines	920,222,943	8,129,610	(234,590)	21,447,473	(40,503,458)	-	909,061,978
Others	562,487	13,342	(20)	72,750,710	(6,493,834)	1,506,632	68,339,317
Construction- in-progress	831,425,069	609,194,544	-	(51,246,360)	-	651,691	1,390,024,944
	<u>₩ 2,863,719,220</u>	<u>₩ 635,337,783</u>	<u>₩ (558,435)</u>	<u>₩ 83,672,501</u>	<u>₩ (73,178,664)</u>	<u>₩ 2,169,458</u>	<u>₩ 3,511,161,863</u>

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Changes in intangible assets for the six-month periods ended June 30, 2016 and 2015, are as follows:

(in thousands of Korean won)	2016						Net currency transaction differences	Ending balance
	Beginning balance	Acquisitions	Disposals	Reclas-sification	Amortization			
Development costs	₩ 612,478	₩ -	₩ -	₩ 65,000	₩ (75,071)	₩ -	-	₩ 602,407
Goodwill	42,801,147	-	-	-	-	-	-	42,801,147
Exploration and evaluation assets	494,025,784	64,660,793	-	-	-	(4,034,830)	-	554,651,747
Industrial property rights	89,315	-	-	12,116	(12,047)	-	-	89,384
Memberships	14,951,171	1,846,243	(1,260,305)	(7,910)	(13,000)	-	-	15,516,199
Others	19,621,813	564,375	-	72,975	(3,796,786)	-	-	16,462,377
	<u>₩572,101,708</u>	<u>₩ 67,071,411</u>	<u>₩ (1,260,305)</u>	<u>₩ 142,181</u>	<u>₩ (3,896,904)</u>	<u>₩ (4,034,830)</u>	-	<u>₩ 630,123,261</u>

(in thousands of Korean won)	2015						Net currency transaction differences	Ending balance
	Beginning balance	Acquisitions	Disposals	Reclas-sification	Amortization			
Development costs	₩ 334,486	₩ 164	₩ -	₩ -	₩ (65,330)	₩ -	-	₩ 269,320
Goodwill	42,801,147	-	-	-	-	-	-	42,801,147
Exploration and evaluation assets	358,546,902	127,513,803	-	(88,427,341)	-	9,015,163	-	406,648,527
Industrial property rights	92,286	9,895	-	(368)	(11,133)	-	-	90,680
Memberships	16,395,780	2,372,351	(2,766,226)	-	-	-	-	16,001,905
Others	19,297,407	702,930	-	4,755,209	(3,981,891)	-	-	20,773,655
	<u>₩437,468,008</u>	<u>₩ 130,599,143</u>	<u>₩ (2,766,226)</u>	<u>₩ (83,672,500)</u>	<u>₩ (4,058,354)</u>	<u>₩ 9,015,163</u>	-	<u>₩ 486,585,234</u>

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8. Investments in Joint Ventures and Associates

Details of investments in joint ventures and associates as of June 30, 2016 and December 31, 2015, are as follows:

(in thousands of Korean won)	Location	Percentage of ownership(%)	Year end	June 30, 2016			December 31, 2015		
				Acquisition cost	Net asset value	Book value	Acquisition cost	Net asset value	Book value
Joint ventures									
Boryeong LNG Terminal Co., Ltd.	Korea	50.0	Dec.	₩110,000,000	₩ 77,290,156	₩106,026,572	₩100,000,000	₩ 68,660,636	₩ 97,397,052
China Gas-SK E&S LNG Trading Ltd.	Hong Kong	50.0	Mar.	1,189,110	1,186,922	1,186,922	1,189,110	594,555	1,189,110
				111,189,110	78,477,078	107,213,494	101,189,110	69,255,191	98,586,162
Associates									
Wuhan Zhongran – SK E&S Gas Group Co., Ltd. ^{1,2}	Hong Kong	49.0	Dec.	-	-	-	31,788,092	3,658,320	3,658,320
China gas-SK E&S HK Co., Ltd. ^{1,3}	Hong Kong	49.0	Dec.	-	-	-	4,483,161	2,520,023	2,520,023
China Gas Holdings Ltd. ⁴	Hong Kong	15.8	Mar.	465,987,066	420,827,128	648,869,379	465,987,066	439,410,796	675,534,327
Global Opportunities Fund	Cayman Islands	20.7	Dec.	10,000,000	2,980,264	2,980,264	10,000,000	3,893,304	3,893,304
Shinan Green Energy Co., Ltd. ⁴	Korea	18.2	Dec.	6,416,657	5,556,666	6,125,674	6,416,657	5,482,149	6,051,158
Busan Green Energy Co., Ltd.	Korea	28.5	Dec.	14,312,700	14,261,516	13,798,166	14,312,700	14,261,516	14,261,516
Gemini Partners Pte., Ltd.	Singapore	20.0	Dec.	7,889,082	4,222,128	7,435,593	7,889,082	9,549,162	7,889,082
				504,605,505	447,847,702	679,209,076	540,876,758	478,775,270	713,807,730
				₩615,794,615	₩526,324,780	₩786,422,570	₩642,065,868	₩548,030,461	₩812,393,892

¹ The Group enters into shares sale contracts for the six-month period ended June 30, 2016, and thus, the Group classifies these entities as assets held-for sale. (Note 16)

² Wuhan SK-Sino Natural Gas Group Ltd. changed its name to Wuhan Zhongran – SK E&S Gas Group Co., Ltd. for the six-month period ended June 30, 2016.

³ SK E&S - SINO HongKong Co., Ltd. changed its name to China gas-SK E&S HK Co., Ltd. for the six-month period ended June 30, 2016.

⁴ Although the Group holds less than 20% ownership, the Group exercises a significant influence as the Group's director can exercise its voting right at the Board of Directors of these entities, and thus, the Group classifies these entities as associates.

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Changes in investments in joint ventures and associates for the six-month periods ended June 30, 2016 and 2015, are as follows:

(in thousands of Korean won)	2016							
	Beginning balance	Acquisition	Disposal and dividends received	Gain(loss) from equity-method investment	Other changes in equity	Reversal of impairment loss	Classified as assets held-for sale	Ending balance
Joint ventures								
Boryeong LNG Terminal Co., Ltd	₩ 97,397,052	₩ 10,000,000	₩ -	₩ (1,320,253)	₩ (50,227)	₩ -	₩ -	₩ 106,026,572
China Gas-SK E&S LNG Trading Ltd.	1,189,110	-	-	16,368	(18,556)	-	-	1,186,922
Associates								
Wuhan Zhongran – SK E&S Gas Group Co., Ltd.	3,658,320	-	-	350,292	(130,742)	-	(3,877,870)	-
China gas-SK E&S HK Co., Ltd.	2,520,023	-	-	(1,504,478)	(402,794)	762,861	(1,375,612)	-
China Gas Holdings Ltd.	675,534,327	-	(5,984,236)	23,317,321	(43,998,033)	-	-	648,869,379
Global Opportunities Fund	3,893,304	-	-	(913,040)	-	-	-	2,980,264
Shinan Green Energy Co., Ltd.	6,051,158	-	-	108,081	(33,565)	-	-	6,125,674
Busan Green Energy Co., Ltd.	14,261,516	-	-	(463,350)	-	-	-	13,798,166
Gemini Partners Pte., Ltd.	7,889,082	-	-	(641,556)	188,067	-	-	7,435,593
	<u>₩ 812,393,892</u>	<u>₩ 10,000,000</u>	<u>₩ (5,984,236)</u>	<u>₩ 18,949,385</u>	<u>₩ (44,445,850)</u>	<u>₩ 762,861</u>	<u>₩ (5,253,482)</u>	<u>₩ 786,422,570</u>

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	2015					
	Beginning balance	Acquisition	Disposal and dividends received	Gain(loss) from equity- method investment	Other changes in equity	Ending balance
<i>(in thousands of Korean won)</i>						
Joint ventures						
Boryeong LNG Terminal Co., Ltd	₩ 99,118,661	₩ -	₩ -	₩ (795,585)	₩ -	₩ 98,323,076
Associates						
Kyongnam Renewable Energy Co., Ltd.	466,276	-	(467,736)	1,460	-	-
Wuhan Zhongran – SK E&S Gas Group Co., Ltd.	676,784	-	-	1,593,301	57,614	2,327,699
China gas-SK E&S HK Co., Ltd.	1,923,289	-	-	252,688	(472,255)	1,703,722
China Gas Holdings Ltd.	553,690,993	-	(2,419,328)	37,078,891	31,610,924	619,961,480
Global Opportunities Fund	7,760,270	-	(3,465,849)	(339,699)	-	3,954,722
Shinan Green Energy Co., Ltd.	6,179,823	-	-	(111,249)	-	6,068,574
Busan Green Energy Co., Ltd.	-	14,312,700	-	(33,994)	-	14,278,706
	₩ 669,816,096	₩ 14,312,700	₩ (6,352,913)	₩ 37,645,813	₩ 31,196,283	₩ 746,617,979

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9. Borrowings

Borrowings as of June 30, 2016 and December 31, 2015, are as follows:

<i>(in thousands of Korean won)</i>	June 30, 2016	December 31, 2015
Non-current		
Bank borrowings	₩ 790,502,639	₩ 693,754,473
Debentures	1,336,188,928	1,535,571,677
	<u>2,126,691,567</u>	<u>2,229,326,150</u>
Current		
Bank borrowings	486,046,172	125,448,490
Debentures	349,795,706	149,833,963
	<u>835,841,878</u>	<u>275,282,453</u>
	<u>₩ 2,962,533,445</u>	<u>₩ 2,504,608,603</u>

Details of bank borrowings as of June 30, 2016 and December 31, 2015, are as follows:

		June 30, 2016		
<i>(in thousands of Korean won)</i>	Creditors	Interest rate(%)	Non-Current	Current
Loans for exploration of petroleum	Korea National Oil Corporation	0.75	₩ 27,907,734	₩ -
Loans for construction of pipelines	Kookmin Bank and others	1.75	12,394,000	-
Loans for a safety management business	Hana Bank and others	1.75	1,135,300	437,200
Loans for energy rationalization	Kookmin Bank	1.75	172,800	-
CP borrowings	KB Investment & Securities Co.,Ltd.	1.69	-	99,766,014
Loans for facility	Korea Development Bank and others	CD 90days+1.14	398,839,735	-
PF borrowings	Korea Development Bank and others	2.80-4.45	106,013,912	-
General borrowings	Woori Bank and others	1.94-2.81	-	288,580,373
Borrowings in foreign currency	Korea Exim Bank and others	1.58-2.39	244,039,158	97,262,585
			<u>₩790,502,639</u>	<u>₩486,046,172</u>

		December 31, 2015		
<i>(in thousands of Korean won)</i>	Creditors	Interest rate(%)	Non-Current	Current
Loans for exploration of petroleum	Korea National Oil Corporation	0.75	₩ 28,048,216	₩ -
Loans for construction of pipelines	Kookmin Bank and others	1.75-3.00	21,167,524	611,025
Loans for a safety management business	Hana Bank and others	1.75	318,000	148,800
Loans for energy rationalization	Kookmin Bank	1.75-3.00	194,400	-
CP borrowings	KB Investment & Securities Co.,Ltd.	1.85	-	99,751,516
Loans for facility	Korea Development Bank and others	CD 90days+1.14	398,739,963	-
General borrowings	Woori Bank and others	2.58-2.93	-	24,937,149
Borrowings in foreign currency	Korea Exim Bank and others	1.20-1.55	245,286,370	-
			<u>₩693,754,473</u>	<u>₩125,448,490</u>

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Details of debentures as of June 30, 2016 and December 31, 2015, are as follows:

		June 30, 2016					
(in thousands of Korean won)		Bonds	Issuance date	Maturity date	Interest rate(%)	Non-current	Current
SK E&S Co., Ltd.	Public offering bonds No.8-3		2010.10.08	2017.10.08	4.35	₩ 60,000,000	₩ -
	Public offering bonds No.9-2		2012.04.13	2017.04.13	4.03	-	200,000,000
	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	-
	Public offering bonds No.11-1		2013.10.04	2016.10.04	3.24	-	150,000,000
	Public offering bonds No.11-2		2013.10.04	2018.10.04	3.46	100,000,000	-
	Public offering bonds No.11-3		2013.10.04	2020.10.04	3.65	50,000,000	-
PMP Co., Ltd.	Public offering bonds No.1-1		2015.03.18	2022.03.18	2.53	100,000,000	-
	Public offering bonds No.1-2		2015.03.18	2025.03.18	2.92	190,000,000	-
	Public offering bonds No.1-3		2015.03.18	2027.03.18	3.01	60,000,000	-
	Public offering bonds No.2-1		2015.09.04	2022.09.04	2.54	50,000,000	-
	Public offering bonds No.2-2		2015.09.04	2025.09.04	2.77	50,000,000	-
	Public offering bonds No.2-3		2015.09.04	2027.09.04	2.97	50,000,000	-
Wirye Energy Service Co., Ltd.	Public offering bonds No.1-1		2014.12.09	2024.12.09	3.50	200,000,000	-
	Public offering bonds No.1-2		2014.12.09	2026.12.09	3.72	50,000,000	-
Narae Energy Service Co., Ltd.	Public offering bonds No.1		2013.02.13	2018.02.13	3.28	80,000,000	-
						1,340,000,000	350,000,000
Less: Discount on bonds						(3,811,072)	(204,294)
						₩ 1,336,188,928	₩ 349,795,706

		December 31, 2015					
(in thousands of Korean won)		Bonds	Issuance date	Maturity date	Interest rate(%)	Non-current	Current
SK E&S Co., Ltd.	Public offering bonds No.8-3		2010.10.08	2017.10.08	4.35	₩ 60,000,000	₩ -
	Public offering bonds No.9-2		2012.04.13	2017.04.13	4.03	200,000,000	-
	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	-
	Public offering bonds No.11-1		2013.10.04	2016.10.04	3.24	-	150,000,000
	Public offering bonds No.11-2		2013.10.04	2018.10.04	3.46	100,000,000	-
	Public offering bonds No.11-3		2013.10.04	2020.10.04	3.65	50,000,000	-
PMP Co., Ltd.	Public offering bonds No.1-1		2015.03.18	2022.03.18	2.53	100,000,000	-
	Public offering bonds No.1-2		2015.03.18	2025.03.18	2.92	190,000,000	-
	Public offering bonds No.1-3		2015.03.18	2027.03.18	3.01	60,000,000	-
	Public offering bonds No.2-1		2015.09.04	2022.09.04	2.54	50,000,000	-
	Public offering bonds No.2-2		2015.09.04	2025.09.04	2.77	50,000,000	-
	Public offering bonds No.2-3		2015.09.04	2027.09.04	2.97	50,000,000	-
Wirye Energy Service Co., Ltd.	Public offering bonds No.1-1		2014.12.09	2024.12.09	3.50	200,000,000	-
	Public offering bonds No.1-2		2014.12.09	2026.12.09	3.72	50,000,000	-
Narae Energy Service Co., Ltd.	Public offering bonds No.1		2013.02.13	2018.02.13	3.28	80,000,000	-
						1,540,000,000	150,000,000
Less: Discount on bonds						(4,428,323)	(166,037)
						₩ 1,535,571,677	₩ 149,833,963

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10. Net Defined Benefit Liabilities

Details of net defined benefit liabilities as of June 30, 2016 and December 31, 2015, are as follows:

<i>(in thousands of Korean won)</i>	June 30, 2016	December 31, 2015
Present value of defined benefit obligations	₩ 128,779,473	₩ 115,203,155
Fair value of plan assets	(110,267,608)	(110,183,794)
Net defined benefit liabilities	<u>₩ 18,511,865</u>	<u>₩ 5,019,361</u>

Changes in the present values of defined benefit obligations for the six-month periods ended June 30, 2016 and 2015, are as follows:

<i>(in thousands of Korean won)</i>	2016	2015
Beginning balance	₩ 115,203,155	₩ 102,225,622
Current service costs	6,989,903	6,645,249
Interest costs	1,368,715	1,388,794
Remeasurements	4,571,646	1,151,589
Benefits paid	(2,810,242)	(3,371,315)
Increase due to transfer	3,456,296	5,104,425
Ending balance	<u>₩ 128,779,473</u>	<u>₩ 113,144,364</u>

Changes in the fair value of plan assets for the the six-month periods ended June 30, 2016 and 2015, are as follows:

<i>(in thousands of Korean won)</i>	2016	2015
Beginning balance	₩ 110,183,794	₩ 93,064,568
Interest income	1,435,145	1,399,758
Remeasurements	(318,134)	(1,046,288)
Benefits paid	(4,381,611)	(3,679,312)
Increase due to transfer	3,348,414	4,078,955
Ending balance	<u>₩ 110,267,608</u>	<u>₩ 93,817,681</u>

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11. Income Tax

Income tax expense was calculated based on the best estimated weighted average annual corporate tax rate for the entire fiscal period. Estimated average annual tax rate of the year ending December 31, 2016, is 22.6%. The estimated tax rate for the period ended June 30, 2015, was 22.1%.

12. Dividends

The dividends of the Controlling Company in respect of the year ended December 31, 2015, were ₩216,117,268 thousand that were paid in March 2016. The dividends of ₩336,808,844 thousand were paid in 2015 in respect of 2014.

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13. Contingencies and Commitments

Details of commitments on borrowings as of June 30, 2016, are as follows:

<i>(in thousands of Korean won, US dollars)</i>	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		464,000,000
	DBS Bank	Line of Credit	USD	50,000
	Korea Exim Bank	Line of Credit	USD	70,000
Gangwon City Gas Co., Ltd.	Korea Development Bank and others	Derivative contract	USD	103,832
	NH Bank and others	Bank overdrafts	₩	11,500,000
	Woori Bank and others	Line of Credit		25,000,000
Yeongnam Energy Service Co., Ltd.	NH Bank and others	Bank overdrafts		21,000,000
	Kookmin Bank and others	Consumer loans		50,000,000
Ko-one Energy Service Co., Ltd.	Woori Bank	Consumer loans		50,000,000
	NH Bank	Bank overdrafts		10,000,000
Busan City Gas Co., Ltd.	Kookmin Bank and others	Line of Credit		10,000,000
Jeonbuk Energy Service Co., Ltd.	NH Bank	Bank overdrafts		10,000,000
	Kookmin Bank	Line of Credit		5,000,000
Jeonnam City Gas Co., Ltd.	Hana Bank	Bank overdrafts		5,000,000
	NH Bank	Bank overdrafts		15,000,000
Chungcheong Energy Service Co., Ltd.	Citibank Korea and others	Bank overdrafts		22,300,000
	Kookmin Bank and others	Consumer loans		35,000,000
PMP Co., Ltd.	Korea Development Bank and others	PF contract		700,000,000
Wirye Energy Service Co., Ltd.	Korea Development Bank and others	PF contract		310,000,000
Narae Energy Service Co., Ltd	Woori Bank and others	Line of Credit		400,000,000
		Derivative contract		400,000,000
	Kookmin Bank	Consumer loans		3,000,000
SK LNG Trading Pte., Ltd.	Citibank Singapore	Letter of Credit	USD	65,000
	SMBC	Letter of Credit	USD	60,000
	Barclays Bank PLC and others	Derivative contract	USD	30,000
SK E&S Australia Pty Ltd.	China Construction Bank	Line of Credit	USD	50,000
	DBS Bank	Line of Credit	USD	90,000
SK E&S Americas, Inc.	Korea Exim Bank	Line of Credit	USD	160,000
CAILIP Gas Marketing, LLC	Barclays Bank PLC and others	Derivative contract	USD	181,000

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Details of payment guarantees provided by and to the Group as of June 30, 2016, are as follows:

<i>(in thousands of Korean won, Chinese yuan)</i>	Provided by	Beneficiary	Guaranteed by	Details	Amounts
Payment guarantees	SK E&S Co., Ltd.	Hwangangsaerak Natural Gas Ltd.	Hana Bank	Repayment of principle and related interest on borrowing	CNY 47,000
	Seoul Guarantee Insurance Co., Ltd.	Yeongnam Energy Service Co., Ltd.	-	Maintenance performance guarantee and license guarantee	₩ 965,591
		Ko-one Energy Service Co., Ltd.	-	Performance guarantee	364,797
		Busan City Gas Co., Ltd.	-	Management and operation of group energy facilities and others	1,107,095
		Jeonbuk Energy Service Co., Ltd.	-	Maintenance performance guarantee and performance guarantee	33,749
		Jeonnam City Gas Co., Ltd.	-	Maintenance performance guarantee	3,308,273
		Chungcheong Energy Service Co. Ltd.	-	Maintenance performance guarantee	925,000
		PMP Co., Ltd	-	License guarantee	1,009,997
		Wirye Energy Service Co., Ltd.	-	Management of group safety and others	1,072,726
		Narae Energy Service Co., Ltd	-	Performance guarantee	96,561
	Hana Bank	SK E&S Co., Ltd.	Korea Customs Service	Tariff	10,000,000
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	Excess costs
	SK Holdings Co., Ltd.	SK E&S Co., Ltd.	FLNG Liquefaction 3, LLC	Usage of liquefaction	Service fee
Performance guarantee	SK LNG Trading Pte., Ltd.	SK Shipping Co., Ltd.	HHIENS1 Shipholding S.A.	BBCHP	Service fee
			HHIENS2 Shipholding S.A.		

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Details of significant pending litigations as of June 30, 2016, are as follows:

(in thousands of Korean won)

	Defendant	Details	Amounts	Progress
The Group as plaintiff				
Ko-one Energy Service Co., Ltd.	Industrial Bank of Korea	Compensation for non-performance and damages	₩ 10,000,000	Second trial
Narae Energy Service Co., Ltd.	Jeonbuk Mass Energy Co., Ltd.	Service fees	245,785	First trial
SK E&S Co., Ltd.	Head of Jongno tax office	Cancellation of corporate tax imposition	220,746	Second trial
SK E&S Co., Ltd.	Head of Seoul customs office	Cancellation of tariff imposition	2,251,754	First trial
The Group as defendant				
Lee Hyeong-gu and others	PMP Co., Ltd.	Compensation for damages	340,000	First trial
Ko Pung-hwan	Ko-one Energy Service Co., Ltd.	Claim for cancellation of the right to collateral security on gas charges	420,000	First trial
Korea Land & Housing Corporation and others	Ko-one Energy Service Co., Ltd.	Claim for the constituent of payment of pipe shifting construction costs	337,395	First trial
Korea Veterans Health Service	Busan City Gas Co., Ltd.	Claim for return of payment on over-measuring	3,248,236	First trial

The outcome of these pending litigations and the effects on the financial statements cannot be reasonably determined as of June 30, 2016.

Blank notes and checks provided by the Group as collateral as of June 30, 2016, are as follows:

	Provided to	Type	No. of pages	Purpose
SK E&S Co., Ltd.	Korea National Oil Corporation	Blank notes	3	Collateral for long-term borrowings
SK E&S Co., Ltd.	Korea National Oil Corporation	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 provided by the Group as collateral as of June 30, 2016, are as follows:

Collaterals	Provided by	Provided to	Book Value	Details
Property, plant and equipment	Gangwon City Gas Co., Ltd.	Korea Development Bank	4,298,925	Borrowings for pipeline
Property, plant and equipment	Jeonnam City Gas Co., Ltd.	Kwangju Bank and others	4,820,879	Deposits received
Investment property	Busan City Gas Co. Ltd.	Megamart Co., Ltd. and others	70,653,191	Deposits received
Cash and cash equivalent	PMP Co., Ltd.	Korea Development Bank and others, the Project Financing syndicate	49,056,691	PF borrowings
Land	PMP Co., Ltd.	Korea Development Bank and others, the Project Financing syndicate	67,648,050	PF borrowings
Cash and cash equivalent	Wirye Energy Service Co., Ltd.	Korea Development Bank and others, the Project Financing syndicate	19,654,766	PF borrowings
Cash and cash equivalent	Narae Energy Service Co., Ltd.	Korea Development Bank and others	7,170,927	Facility loans
Property, plant and equipment	Narae Energy Service Co., Ltd.	Korea Development Bank and others	651,337,439	Facility loans

PMP Co., Ltd. and Wirye Energy Service Co., Ltd., subsidiaries, are to provide property, plant and equipment as collateral for PF borrowings upon completion.

Also, the Controlling Company provides equity securities as collateral for PF borrowings and facility loans as of June 30, 2016, as follows:

(in thousands of Korean won)

	Collaterals	Provided by	Provided to	Book Value	Details
Subsidiaries	Equity securities of PMP Co., Ltd.	SK E&S Co., Ltd.	Korea Development Bank and others, the Project Financing syndicate	₩ 550,000,000	PF borrowings
	Equity securities of Wirye Energy Service Co., Ltd.	SK E&S Co., Ltd.	Korea Development Bank and others, the Project Financing syndicate	228,481,660	PF borrowings
	Equity securities of Narae Energy Service Co., Ltd.	SK E&S Co., Ltd.	Korea Development Bank and Woori Bank	192,348,308	Facility loans
Joint venture	Equity securities of Boryeong LNG Terminal Co., Ltd.	SK E&S Co., Ltd.	Woori Bank and others, the Project Financing syndicate	110,000,000	PF borrowings
Associate	Equity securities of Busan Green Energy Co., Ltd.	Busan City Gas Co., Ltd.	Shinhan Bank and others, the Project Financing syndicate	13,798,166	PF borrowings

SK E&S Co., Ltd. and Subsidiaries

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Details of major contracts and agreements concluded by the Group as of June 30, 2016, are as follows:

Commitment	Company	Counterparty	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	2006.1~2025.12
Gas turbine maintenance and repair agreement	SK E&S Co., Ltd.	GE International Inc.	2004.6~2026.12 (Estimated)
Store and vaporization tolling 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
Owner's Engineering Service contract	PMP Co., Ltd.	Black & Veatch Corporation	2014.7~2017.5
Longterm Maintenance Program	PMP Co., Ltd.	Siemens Co., Ltd	2014.6~2031.6 (Estimated)
Heat supply contract	Wirye Energy Service Co., Ltd.	Korea District Heating Corporation	Until completion date of Peak Load Boiler
Longterm Maintenance Program	Wirye Energy Service Co., Ltd.	Siemens Co., Ltd	2015.1~2032.1 (Estimate)
Store and vaporization tolling agreement	Wirye Energy Service Co., Ltd., PMP Co., Ltd.	Boryeong LNG Terminal Co., Ltd.	20 years from 2017
Longterm Maintenance Program	Narae Energy Service Co., Ltd.	Doosan Heavy Industries & Construction Co.,Ltd	12 years from 2012
Agreement to purchase LNG	SK LNG Trading Pte. Ltd.	Chevron Australia Pty Ltd and others	2017.1~2022.3
Store and liquefaction tolling agreement	SK E&S LNG, LLC	FLNG Liquefaction 3, LLC	20 years from 2019
Use of pipelines	SK E&S LNG, LLC	Kinder Morgan, Inc.	20 years from 2019
Longterm chartering agreement	SK LNG Trading Pte. Ltd.	SK Shipping Co., Ltd.	20 years from delivery date of ship

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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Details of major construction contracts concluded by and to the Group as of June 30, 2016, are as follows:

(in thousands of Korean won)

Contract	Company	Counterparty	Period	Amount
EPC contract	PMP Co., Ltd.	SK Engineering & Construction Co., Ltd.	2014.6 ~ 2017.5	₩ 1,232,194,000
Construction management service	PMP Co., Ltd.	Human & Technologies Corp.	2014.10 ~ 2017.4	4,415,860
Construction of facilities of accessing power transmission	PMP Co., Ltd.	Korea Electric Power Corporation	2015.3 ~ 2016.6	52,350,000
Heat pipe construction	Narae Energy Service Co., Ltd.	Jungho E&C Co., Ltd. and others	2015.3~2016.12	3,431,926
Construction of group energy facilities	Wirye Energy Service Co., Ltd.	SK Engineering & Construction Co., Ltd.	2015.2 ~ 2017.3	424,480,000
Construction supervision service	Wirye Energy Service Co., Ltd.	OSUN Engineering Co., Ltd.	2014.12 ~ 2017.3	2,840,952
Heat pipe construction	Wirye Energy Service Co., Ltd.	Daekyoung Eneritech Co., Ltd and others	2013.10 ~ 2016.12	10,252,000
Construction of facilities of accessing power transmission	Wirye Energy Service Co., Ltd.	Korea Electric Power Corporation	2015.2 ~ 2017.3	8,470,000
Construction of LNG pipelines	Wirye Energy Service Co., Ltd.	Hanyang ENG Co., Ltd and others	2015.7 ~ 2016.12	21,186,431

Details of major asset acquisition contracts concluded by the Group as of June 30, 2016, are as follows:

(in thousands of US dollars)

Contract	Company	Counterparty	Percentage of ownership(%)	Contract Amount	Executed Amount
Australia 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	360,000	161,356

Apart from the above contract amount, the Group has the obligation to pay the development costs corresponding to the percentage of ownership.

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14. Related Party Transactions

As of June 30, 2016, the Group's Parent Company is SK Holdings Co., Ltd.

Sales and purchases with related parties for the six-month periods ended June 30, 2016 and 2015, are as follows:

	2016		2015	
	Sales and others	Purchase and others	Sales and others	Purchase and others
<i>(in thousands of Korean won)</i>				
Parent company				
SK Holdings Co., Ltd.(*)	₩ 30,419	₩ 10,771,445	₩ 64,518	₩ 13,625,101
Joint venture				
Boryeong LNG Terminal Co., Ltd.	511,315	-	540,076	-
Other related parties				
SK Innovation Co., Ltd.	4,496,944	3,042,647	8,105,032	3,027,028
SK Networks Company Limited	91,219	2,699,165	108,725	2,206,133
SK Engineering & Construction Co., Ltd.	262,702	199,552,722	730,945	478,497,991
SK hynix Inc.	11,847,781	-	18,351,437	-
SKC LTD.	3,435,268	-	4,578,020	-
M&Service Co., Ltd.	-	3,283,189	-	2,875,759
SK Energy Co., Ltd.	21,111,028	90,670	17,591,774	-
SK Telecom Co., Ltd. and others	1,555,318	3,984,279	1,858,365	4,053,963
	<u>₩ 43,341,994</u>	<u>₩ 223,424,117</u>	<u>₩ 51,928,892</u>	<u>₩ 504,285,975</u>

(*) As SK Holdings Co., Ltd. and SK C&C Co., Ltd. merged in 2015, transaction amounts for the period of 2015 are aggregated.

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Details of receivables and payables with related parties as of June 30, 2016 and December 31, 2015, are as follows:

<i>(in thousands of Korean won)</i>	2016		2015	
	Receivables	Payables	Receivables	Payables
Parent company				
SK Holdings Co., Ltd.	₩ -	₩ 1,402,304	₩ 4,133	₩ 2,127,730
Joint venture				
Boryeong LNG Terminal Co., Ltd.	179,306	-	181,566	-
Other related parties				
SK Innovation Co., Ltd.	428,537	143,324	1,524,037	389,608
SK Networks Company Limited	161,485	1,045,756	172,867	1,200,456
SK Engineering & Construction Co., Ltd.	-	66,548,273	17,530	66,089,938
M&Service Co., Ltd.	-	485,190	-	631,654
SK hynix Inc.	472,889	-	3,121,986	-
SKC LTD.	374,888	-	463,375	422,725
SK Energy Co., Ltd.	1,189,005	-	4,412,608	-
SK Telecom Co., Ltd. and others	2,214	487,868	724,065	3,066,521
	<u>₩ 2,808,324</u>	<u>₩ 70,112,715</u>	<u>₩ 10,622,167</u>	<u>₩ 73,928,632</u>

Compensation for key management of the Controlling Company for the six-month periods ended June 30, 2016 and 2015, consists of:

<i>(in thousands of Korean won)</i>	2016	2015
Salaries	₩ 2,089,945	₩ 2,362,965
Severance benefits	523,229	379,601
	<u>₩ 2,613,174</u>	<u>₩ 2,742,566</u>

Key management includes executive directors and members of the executive committee.

As of June 30, 2016, the Company provides fund raising contract, payment guarantees and performance guarantees for subsidiaries, joint venture and associates (Note 13).

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15. Discontinued Operations

The Company sold its shares in Pyeongtaek Energy Service Co., Ltd., Gimcheon Energy Service Co., Ltd. and Jeonbuk Mass Energy Co., Ltd. on January 13, 2015, at the price of ₩495,082,000 thousand.

Profit and loss from discontinued operations for the three-month and six-month periods ended June 30, 2015, are as follows:

<i>(in thousands of Korean won)</i>	2015	
	Three months	Six months
Revenue	₩ -	₩ -
Expense	-	-
Profit before tax of discontinued operations	-	-
Tax expense	-	-
Profit after tax of discontinued operations	-	-
Pre-tax gains on disposal of discontinued operations	(2,475,410)	113,856,657
Tax expense	-	23,581,261
After tax gains on disposal of discontinued operations after tax	(2,475,410)	90,275,396
Profit for the period from discontinued operations	₩ (2,475,410)	₩ 90,275,396

Cash flows from discontinued operations six-month periods ended June 30, 2015, are as follows:

<i>(in thousands of Korean won)</i>	2015
Cash flows from operating activities	₩ -
Cash flows from investing activities	495,082,000
Cash flows from financing activities	-
Net cash flows	₩ 495,082,000

16. Assets Held-for-Sale

The Group sold its shares in associates, Wuhan Zhongran – SK E&S Gas Group Co., Ltd. and China gas-SK E&S HK Co., Ltd. on June 28, 2016, at the price of CNY 280,000 thousand and classified investments amounting to ₩ 5,253,480 thousand as assets held-for sale.