

ANNUAL REPORT 2017

BUILD THE GREAT

BUILD THE GREAT

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SK E&C



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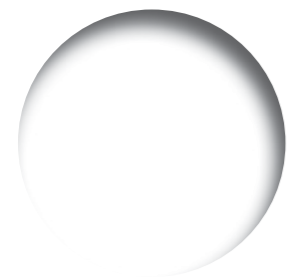
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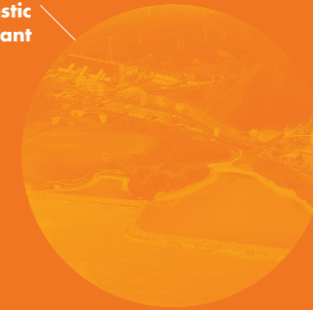
SK E&C practices sustainable management based on industry leading technology, construction capabilities, and business development abilities in a wide range of sectors, including oil, gas and power plants as well as semiconductors, infrastructure, and architecture/housing.

In order to enhance corporate value, we shifted our focus from quantitative to qualitative growth. We will shift towards a sophisticated general contractor model and expand development projects to innovate our business structure.

In our subcontract business, the emphasis is on differentiating SK E&C from peers by strengthening cost competitiveness, diversifying products, and branching out to diverse markets. For development projects, we are building on knowhow gained from subcontract works and setting up a stable profit structure to raise corporate value.

SK E&C has consistently pursued innovation in our business, people, and process to position ourselves at the top of the industry. We will continue to strive for perfection by realizing our vision of becoming a 'global top tier city developer & infrastructure builder.

Domestic
Plant



Overseas
Plant



GREAT LIFE,
GREAT WORLD



Infra
Business



Architecture &
Housing Business

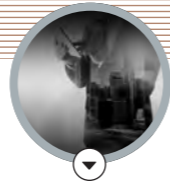
COMPANY OVERVIEW

ESTABLISHED



1977
August. 1

NO. OF EMPLOYEES



5,130

GLOBAL NETWORK



22 nations **12** subsidiaries

75 projects **21** branch offices

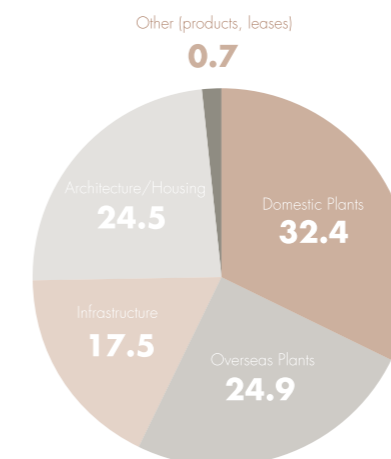
KEY FINANCIALS

(unit: KRW 1 billion)



Total Assets	4,287.5
Total Shareholder Equity	1,247.9
Sales	6,439.8
Operating Income	202.3
Order Backlog	21,427.9

Sales by Business Segment (unit: %)



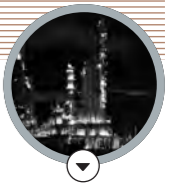
CREDIT RATINGS

Korea Ratings, Korea Investors Service, NICE Investors Service: A- (stable) (corporate bonds)



A-
(Stable)

SUSTAINABILITY MANAGEMENT



Top Rating
in Win-win Index Survey

Happy Green School Graduates

583 schools nationwide

2,042 classes

60,258 elementary school students

CEO MESSAGE

In a year marked by heightened uncertainty and hostility in the business environment at home and abroad, SK E&C prevailed over fierce global competition to achieve our company-wide goals for 2017.



Ki-Haeng Cho
SK E&C CEO/Vice Chairman

기하형



Jae-Hyun Ahn
SK E&C CEO/President

Ahn Jae-Hyun

Dear valued shareholders, customers, and partners,

First and foremost, thank you for your unwavering encouragement and support,

In a year marked by heightened uncertainty and hostility in the business environment at home and abroad, SK E&C prevailed over fierce global competition to achieve our company-wide goals for 2017. Though we are not completely finished paving the foundation for sustainable growth, we proved we could overcome the critical juncture.

Regarding innovations in our business model, we are quickly achieving results in development projects starting earlier this year when we won the contract to build a suspension bridge in Çanakkale, Turkey. We are also placing more emphasis on fuel cell and renewable energy after revising our strategy for the independent power plant (IPP) sector, which saw dramatic changes in the domestic and international environments. We are maintaining a balanced business portfolio, not reliant on any single segment, and regained our usual level of order backlog thanks to the boom in semiconductors and architecture/housing and orders for infrastructure and plant projects.

Moreover, we have progressed to challenge globally advanced companies through efforts at differentiating our competitiveness and met industry-high standards in terms of both quality and shared growth. As the only construction company to receive the top rating in a win-win survey awarded by the Korea Commission for Corporate Partnership, we are creating a new paradigm in which we share the SK E&C management infrastructure with our business partners.

We seek to make further progress from last year's achievements and will continue multi-faceted efforts to innovate and enhance corporate value in order to deliver greater happiness and meet the expectations of all our stakeholders.

We expect the business environment at home and abroad to be as difficult as ever in 2018. Nonetheless, this will be a pivotal year in which we must complete the innovations we initiated and move past the last of the critical junctures.

Architecture/housing has lately posted consistent results, and we will prepare for a market contraction with new products

and an innovative business model. We will also continue efforts to internalize innovations in project execution.

In the infrastructure business, we will build on the overseas potential we demonstrated last year and further explore global opportunities based on our strengths in projects involving underground spaces, railways, and bridges. We will also strive for flawless execution of ongoing projects to strengthen SK E&C's reputation in the market.

For semiconductor projects, customer satisfaction will remain our top priority to maintain a stable relationship with customers. Turning to power plants, we will sharpen our execution abilities to better respond to the changing environment. The oil and gas plant business will take a leap forward as it begins to see the fruits of efforts made while waiting for opportunities in a stagnant market.

SK E&C will further accelerate efforts to innovate its business model. Our infrastructure division established itself as the domestic leader in public-private partnerships and is on schedule to produce results according to the mid- to long-term plan. In the independent power plant business, we will pursue expansion into stable overseas projects based on experience gained at home. Through such efforts, we will stay on course to build a robust revenue structure, thus fulfilling the goal of SK E&C's growth story.

To our shareholder, clients and partners,

At SK E&C, we take our social responsibility seriously and continually strive to raise social value alongside economic value.

Going forward, we will pursue our CSR activities with even greater enthusiasm and engage with SK E&C members company-wide to reflect on ways to make a social impact through our business pursuits. Such endeavors will give us a unique competitive advantage and allow us to better innovate our business model and build a foundation for sustainable growth.

We ask you for your warm support and confidence once again in the year ahead.

Thank you.

BOD & CORPORATE GOVERNANCE

At SK E&C, we strive to practice transparent and sound decision-making in all our business activities. Although we are an unlisted company, the Board of Directors (BoD) mainly consists of outside directors as a means of improving corporate governance and ensuring transparency and independence of the decision-making process.

[As of March 23, 2018]

Ki-Haeng Cho

- Executive Director, Financial Improvement Unit, Administrative Division, SK Investment (2005)
- Division Head, Business Administration Division, SK Energy (2006-2007)
- President, Management Service Company, SK Networks (2008-2009)
- GMS President, SK Telecom (2010)
- President of Business Administration, SK E&C (2011)
- CEO & President, SK E&C (2012-2016)
- CEO & Vice-Chairman of SK E&C (2017-present)



Jae-Hyun Ahn

- Head of Strategic Business, SK Networks (2000-2001)
- Consulting Leader, Restructuring Initiative Office, SK Group (2001-2004)
- CEO & President, SK D&D (2004-2011)
- Section Chief, Industry Service, SK E&C (2011-2015)
- Section Chief, Management Support, SK Gas (2016)
- Chief Representative, Global Biz; Section Chief, Industry Service, SK E&C (2017)
- CEO & President, Chief Representative of Global Biz, SK E&C (2018-present)



Seong-Hyeong Lee

- Team Leader, Financial Office, SK Holdings (2010-2011)
- Team Leader, Financial Team, SK Holdings (2011-2013)
- Head of Finance, Financial Team, SK Holdings (2013-2014)
- 1st General Manager of Finance, SK Holdings (2014-2015)
- General Manager of Financial Management, SK Telecom (2015-2017)
- Section Chief, Financial Division, SK Holdings (2018-present)



Jang-Su Kim Outside Director

- Director, Ministry of Finance and Economy (1996-1997)
- Director, Ministry of Finance and Economy's Korea-OECD Multilateral Tax Center (1997-1999)
- Judge, Ministry of Finance and Economy's National Tax Tribunal (1999)
- Vice-Chairman, Investment Banks Association of Korea (1999-2002)
- Auditor, Korea Ratings (2002-2006)
- Vice-Chairman, Korea Federation of Banks (2006-2009)
- Outside Director and Auditing Committee Member, Hyundai Engineering & Construction (2010-2011)
- Outside Director, SK E&C (2014-present)



Keun-Ju Byun Outside Director

- Professor, Civil and Environmental Engineering, Yonsei University (1996-2007)
- Chairman, Korea Concrete Institute (1999-2000)
- Chairman, International Committee on Concrete Model Code (2002-2004)
- Vice-Chairman, Asian Concrete Federation (2005-2006)
- Chairman, Korean Society of Civil Engineers (2005)
- Executive Advisor, Dongho Engineering (2007-2011)
- Co-Chair, Global Infra Forum (2011-2016)
- Professor Emeritus, Yonsei University (2007-present)
- Outside Director, SK E&C (2005-2012, 2014-present)



Seung-Ho Lee Outside Director

- 1st Manager, Investigation Bureau, National Tax Service (2009-2010)
- Director, Investigation Bureau, Jungbu and Busan Regional Offices, National Tax Service (2010-2011)
- 4th Director, Seoul Regional Office, National Tax Service (2011-2013)
- Director, Busan Regional Office, National Tax Service (2013)
- Chairman, Tax Generation (tax accounting firm) (2014-2016)
- Adjunct Professor, School of Business, Konkuk University (2014-present)
- Advisor, Jose Ilbo (2014-present)
- Advisor, Yulchon Law Firm (2016-present)
- Outside Director, Hyundai Mobis (2016-present)



Yoon-Mo Kim Outside Director

- CHB Bank, Citibank (formerly Hanmi Bank) (1983-1997)
- IB Director, Hana Financial Group; Executive Director (Hana Bank Branch Manager, Hana Financial Investment) (1998-2007)
- CEO of IB Division, Leading Investment & Securities; CEO of Leading Japan (2008-2009)
- CEO & President, I'M Investment & Securities (formerly Solomon Investment & Securities) (2009-2011)
- Standing Director, Dongbu Daewoo Electronics (2013)
- General Vice-Chairman, KTB Private Equity (2012-2013)
- CEO, AJ Capital Partners (Aju Group) (2013-present)



The current Board of Directors consists of seven directors, four of whom are outside directors. The BoD provides oversight and support for the CEO's management activities through three subcommittees.

An annually renewed pledge to uphold the Code of Ethics, the Fair Trade Compliance Program, and improvements to the corporate governance structure are just some of the BoD's varied efforts to support rational and transparent decision making. (As of end of December 2017)

BoD Activities

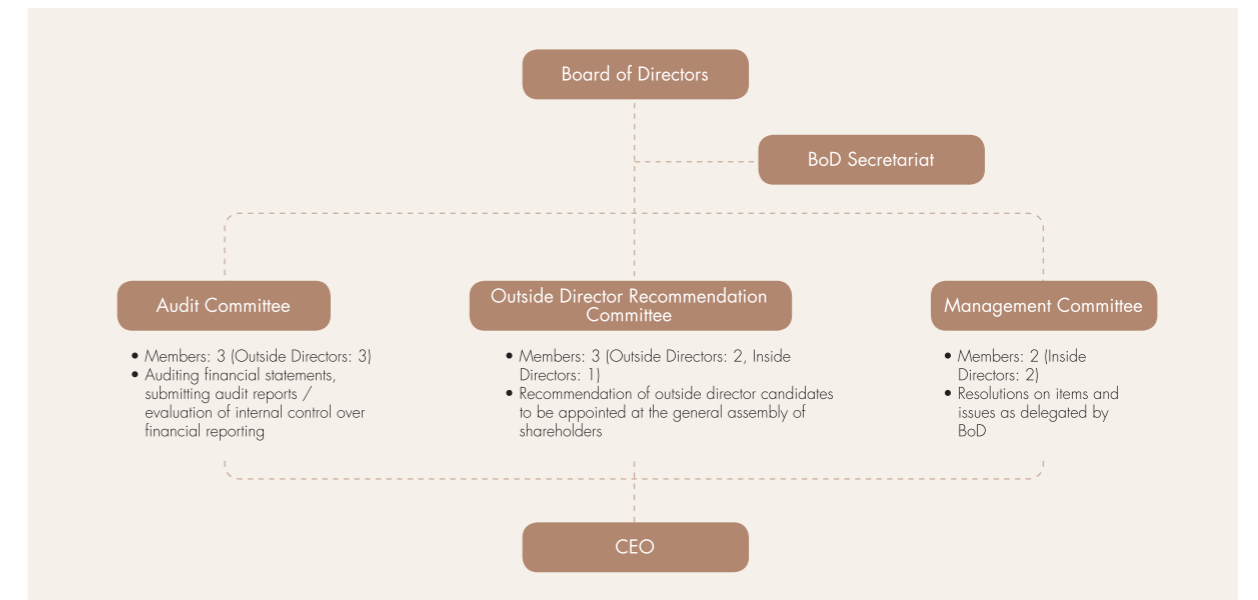
Category	No. of Items	No. of Reports	Main Activities
General shareholders' meeting, BoD, corporate governance	5	1	Convening of the general shareholders meeting, revisions to BoD regulations, appointment of CEO, etc.
Investments, planning & management	4	0	Liquidation, share sales, security provision, etc.
Accounting, financial management	7	3	Approval of financial statements, capping debt and payment guarantees, etc.
Other	9	15	Key management issues, etc.
Workshop	0	5	SK E&C quality management, etc.
Total (49 items)	25	24	

Committee Activities

Committee	No. of Meetings	No. of Items	Agenda Items
Management Committee	6	6	Changes to branch representatives, establishment of branches, etc.
Audit Committee	2	5	Financial statements, audit reports, etc.
Outside Director Recommendation Committee	1	1	Recommendation of candidates for director position, etc.
Total	9	12	

Reorganization of the Committees (As of March 23, 2018)

- Audit Committee: Jang-Su Kim (Chair) / Seung-Ho Lee / Yoon-Mo Kim
- Outside Director Recommendation Committee: Ki-haeng Cho (Chair) / Keun-Ju Byun / Yoon-Mo Kim
- Management Committee: Ki-haeng Cho (Chair) / Jae-Hyun Ahn



SUSTAINABLE COMPANY

Sustainability Management

SK E&C fulfills our social responsibility as a corporation by carrying out our business activities so that realizes our mission of "We Build the Great Great Life, Great World. We have a sustainability management in order to create the values sought by all our stakeholders including shareholders, customers, employees and society. We are optimizing the internal system and reinforcing the corporate culture to strengthen four core strategies and sub-areas that encompass ethic, quality, safety and health, environment, human resource development, shared growth and social contribution. Furthermore, we are participating in UN Global Compact and support its ten principles regarding human rights, labor, environment and anti-corruption. Our corporate social responsible activities and accomplishments for complying with principles are shared transparently in Korea and abroad through the annual SK E&C CSR Report.

Pursuit of Social Value

In 2018, SK E&C will push forward the pursuit of social value not only to create economic value, but also to solve social problems. We will maximize social value while carrying on with our business activities, sharpen our competitiveness, and innovate our business model to complete 'Deep Change' for the future.

Sustainability Management Framework



STRATEGIC MANAGEMENT

- Foster new business model
- Strategic risk management
- Transparent and ethical management
- Research & Development

SK E&C is concentrating on innovations to develop the business model to move away from construction profits, but shift toward stable operating profit by running development projects. Moreover, Our risk management system monitors irregular environmental changes to take preemptive measures as well as our order status and profits/losses. We are also enabling transparent and ethical management to take strong root into our corporate culture through an organized program. It includes education and a whistleblower system in order to prevent employees from violating corruption and bribery laws. In addition to compliance program for fair trade laws, we adopted an advanced reporting system by participating with the companies in the same field as a way of preventing bid-rigging. In terms of research and development, we are delving into technological innovations in SUPLEX-CUT, environment-friendly architecture, cutting-edge refineries and petrochemical plants so that we can offer total solutions to our customers.

PROJECT-ORIENTED MANAGEMENT

- Customer-oriented management
- Quality management
- Safety and health management
- Environmental management

SK E&C takes quality, safety, and environment as its core values under the CEO's leadership. Quality management is about providing customers with optimal products, and it involves the Cost of Poor Quality (COPQ) management system to minimize quality failures. COPQ activities in 2017 raised the level of quality and led to savings of KRW 7.26 billion in construction costs. We are also conducting inspections and defect repairs on housing products before moving in to put our full efforts into satisfying customers.

In all business activities, safety and health in the workplace are the most important factors in the decision making. In 2017, we adopted the Safety Risk Management system to help alleviate on-site risks and developed mobile apps for improved speed and convenience.

Our commitment to environmental management is clearly evident in our 2009 declaration of Vision for Environmental Management. In particular, we set mid- and long-term goals to reduce greenhouse gas emission by 20% in 2020 and by 45% in 2040. In 2017, as a result of the consistent efforts, we succeeded in reducing greenhouse gas emission by 9.9% compared to the previous year.

TALENT MANAGEMENT

- Strong corporate culture
- Human resource development
- A great workplace

SK E&C is dedicated to helping our employees grow their professional capabilities and expertise through occupational training and development programs. In 2017, we began a 'Blind Recruitment' recruitment that excluded educational background or qualifications to prevent social bias. Working with the Korea Employment Agency for the Disabled, we led the way in giving socially disadvantaged people a fair chance at employment. We established human rights policy and make effort to comply with labor laws, the Universal Declaration of Human Rights, and International Labor Organization conventions. We also offer a wide range of educational programs and welfare benefits, from sexual harassment prevention training courses to the maternity protection program, and childcare centers in a workplace to motivate and inspire employees.

SOCIAL SHARING MANAGEMENT

- Social contribution
- Shared growth

We seek to practice Win-Win management that grows with our Biz Partners together. We not only comply with subcontracting laws but also operate the Happy Wings Committee and financial/technical/training supports. As a result, SK E&C is nominated receiving the sole top rated construction company in a domestic survey on corporate business partnerships (Win-Win Index), which maintained the top rated for seven years in a row. Starting in 2018, we will take our Win-Win management to the next level by sharing management infrastructure with our Biz Partners.

We also carry on social contribution consistently by focusing on eco-friendly and social welfare work. Representative programs include Hope Maker, Happy Green School, and Improvement of Residential Environment. In 2017, accumulated number of students participating in Happy Green School exceeded 60 thousands. We plan to expand our social contribution and culture to Canada, Vietnam, and other regions where we run business.

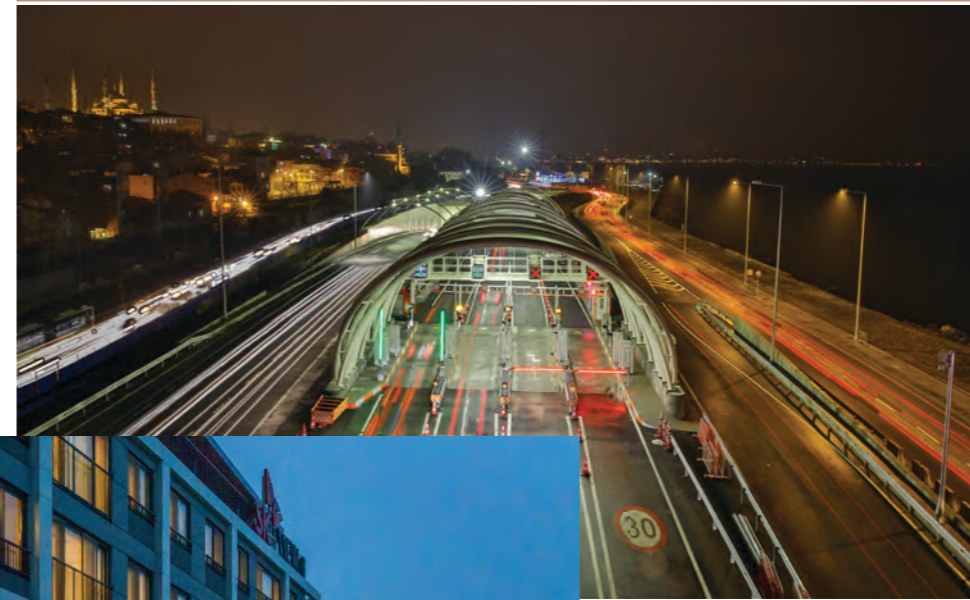
BUSINESS OVERVIEW

14 Plant Business

- Domestic Plant
- Overseas Plant

22 Infra Business

26 Architecture & Housing Business



SK E&C has consistently sought to innovate its business model based on its capabilities in chemical engineering and power plants, semiconductors, infrastructure, along with architecture and housing construction. To this end, we have continued to look overseas, opening new markets in the US, Canada, Central and South America, Saudi Arabia and the UAE, and made headway in securing international gas and power plant projects. Furthermore, we have diversified the regions in which we do business and built up a high-profit business portfolio, thereby strengthening our core abilities to carry out overseas projects and solidifying our position as a global engineering and construction company.

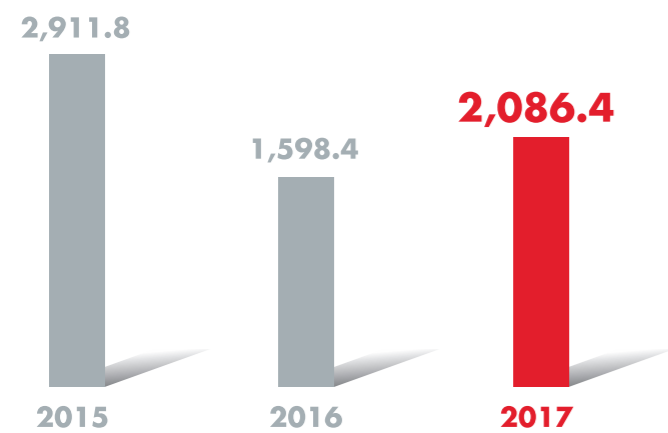
PLANT BUSINESS

DOMESTIC PLANT



Domestic Plant Division Sales

[Unit: KRW billion]



The Domestic Plant Division undertakes diverse projects as a total solution provider, delivering customer value across all project stages, from feasibility studies to EPC, and O&M. Our extensive knowhow in chemical engineering projects was highlighted in refineries, Nexlene and PDH projects. Following successes in large-scale power plants such as the Jangmoon Natural Gas Power Plant and Wirye Combined Heat and Power Plant, we have been able to diversify our business with semiconductor projects including Hynix M14 and M15.

We are continuing to explore other domestic and international opportunities by drawing on our experience in industrial facilities such as battery and LiBS plants, along with those in the bio sector such as blood products and vaccines, and nuclear power plants. In addition, we are overseeing a growing number of projects related to renewable power generation which includes fuel cell and solar power plants, for further product diversification.

DOMESTIC PLANT

Results in 2017

Despite the challenging business conditions brought on by slowing market growth in 2017, the Domestic Plant Division managed to record an increase in both new orders and sales in the semiconductor business. We also surpassed our initial financial goals through stringent project risk management.

Notably, we secured a backlog of large-scale projects such as the SK Hynix M15 FAB/CUB Project, S Project (VRDS), and SMG Biomass Power Plant. SK E&C is currently striving for customer satisfaction management by establishing value propositions based on customers' strategic directions in order to secure additional business opportunities.

Plans for 2018

The Domestic Plant Division will continue to prioritize customer satisfaction to secure a solid profit base and long-term sustainability for the company. Additionally, we will remain focused on searching for new business models and new customers, as well as expanding our China business to secure new momentum for growth.

To boost cost competitiveness and internal capabilities, we will advance our platforms for project implementation, search for competitive business partners, and actively leverage our project experience. By ceaselessly searching for new business models, our goal is to realize greater value for our customers and ready the foundation for future growth.

GOSEONG
HAI Thermal Power Plant Project



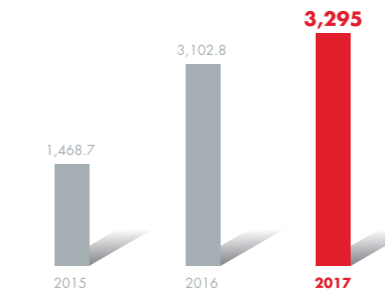
Ulsan PDH Project



SK Hynix M14 Project

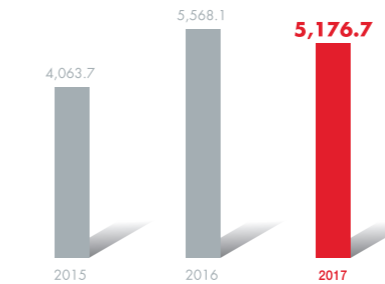
New Orders

[Unit: KRW billion]



Order Backlog

[Unit: KRW billion]



Key Achievements

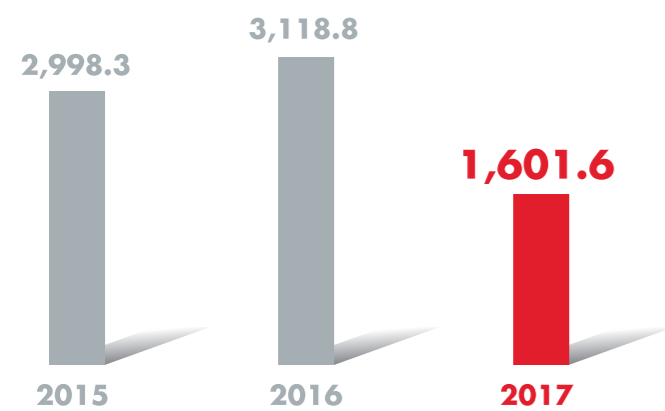
Type	Project	Duration
Semiconductor	SK Hynix MF Project (Icheon)	2017.08 ~ 2019.02
	SK Hynix M15 FAB/CUB Project	2017.03 ~ 2018.12
	SK Hynix M15 Gas Plant Project (Cheongju)	2017.08 ~ 2018.05
	SK Hynix C1 Project (Cheongju)	2017.03 ~ 2018.03
	SK Hynix C2F Design Project (Wuxi, China)	2016.10 ~ 2019.01
Power Plant	Goseong High Thermal Power Plant Project	2014.07 ~ 2021.07
	Shin-Hanul Nuclear Power Plant Units 1,2 Main Construction	2010.03 ~ 2019.02
	SMG Biomass Power Plant Project	2017.10 ~ 2020.06
Oil & Gas Plant	Boryeong LNG Terminal Project	2013.05 ~ 2019.07
	LiBS # 10,11	2016.05 ~ 2018.04
	Automated Resin & Wastewater Treatment Project	2017.04 ~ 2018.11
	SKG Ulsan Base Ball Tank Construction	2017.02 ~ 2018.03
	No.2 SRP Treatment Capacity Enhancement Project	2017.05 ~ 2018.04
S Project	2017.11 ~ 2020.02	

PLANT BUSINESS OVERSEAS PLANT



Overseas Plant Division Sales

[Unit: KRW billion]



The Overseas Plant Division is enhancing its reputation as a top-tier E&C player with superior marketing, design, procurement, construction and project management capabilities that have been proven through numerous projects. We are currently working with prominent companies in the Americas, the Middle East, Asia, Africa and CIS and are continuing to participate in new projects backed by widespread recognition of our work quality.

As for our business portfolio, in addition to traditional chemical engineering plants in the Middle East, we are successfully carrying out diverse projects around the world including the Oil Sands Project in Canada and power plants in Central and South America.

SK E&C provides value across the board from project development to EPC. Our ability to design low-cost, high-efficiency plants, unrivalled procurement quality and system that are linked to a network of domestic and overseas business partners, and our localized construction abilities that have been amassed from projects in the Middle East, the Americas and Asia, enable us to provide superior products and services to our stakeholders.

OVERSEAS PLANT

Results in 2017

The sluggish economy and low oil prices in 2017 caused delays in order placements which led to an overall slowdown in new orders. We used this period to focus on venturing into new markets and readying the groundwork for new growth through internal innovation. We conducted detailed market analyses and built the foundation for an advanced portfolio by upgrading our mid- to long-term growth strategy.

Financially, our Overseas Plant Division retreated slightly in sales compared to the previous year. However, we are seeing sustained improvements in quality and profitability. The Esmeraldas Refinery Project in Ecuador is nearly finished with only the contractual completion remaining. Through detailed risk management, we are successfully implementing major projects such as the Nghi Son Refinery Project in Vietnam, the KNPC Clean Fuel Project in Kuwait, and the Jazan Refinery & Terminal Project in Saudi Arabia, despite political risks in the Middle East and Asia, and financial hardships with the Karbala Project in Iraq.

By adopting these projects as best practices, we are searching for new business opportunities and continuing marketing activities that are best suited to each market to attract additional orders. We are also strengthening our cooperative partnership with global EPC players and general construction firms and are searching for ways to improve the impact of partnering in the mid-to-long term.

Jazan Refinery & Terminal Project



Forthills Secondary Extraction Project PIEM Project

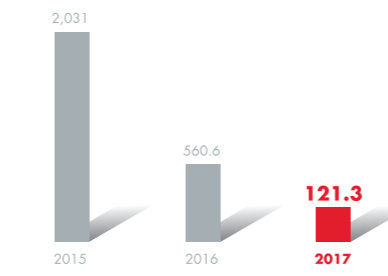
Plans for 2018

Buoyed by higher oil prices, the business environment for the Overseas Plant Division is looking more optimistic in 2018. However, close observation is required of the political situation in the Middle East.

Through meticulous market analyses and marketing activities that are tailored to each region and client, we will secure new projects in various countries in the Middle East and Asia to maintain and enhance our market reputation. Furthermore, through tight risk management, we will achieve our financial goals and focus on successfully completing projects that are nearing their end. At the same time, we will examine inefficient internal practices to improve productivity, and go one step closer to securing our future competitiveness.

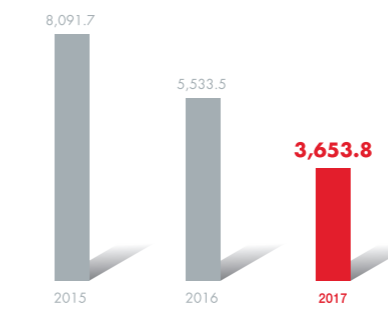
New Orders

[Unit: KRW billion]



Order Backlog

[Unit: KRW billion]



Key Achievements

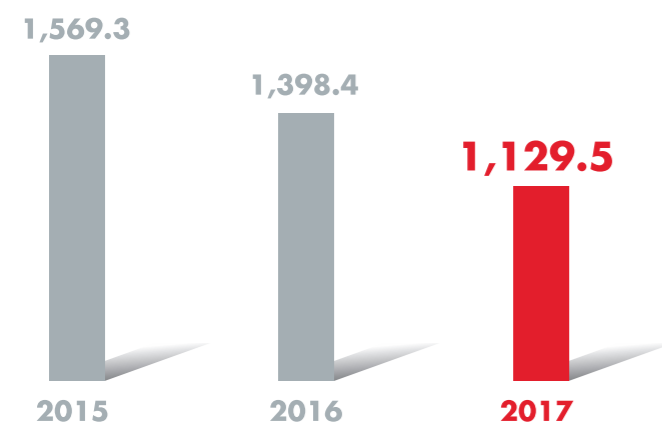
Type	Project	Duration
Chemical Engineering	Polyols Project	2017.09 ~ 2020.08
	Karbala Project	2014.05 ~ 2018.11
	KNPC Clean Fuel Project	2014.04 ~ 2017.12
	Forthills Secondary Extraction Project	2013.05 ~ 2017.06
	Nghi Son Refinery Project	2013.07 ~ 2017.07
	Jazan Refinery & Terminal Project	2012.12 ~ 2018.07
	JAC Project	2011.05 ~ 2014.05
	Esmeraldas Refinery Phase II Project	2010.03 ~ 2015.12
	New BS-132 Project	2010.01 ~ 2015.02
	RRE Project	2009.11 ~ 2015.12
Power Plant	GC-24 Project	2007.03 ~ 2010.08
	KPPC AROMATICS COMPLEX Project	2006.02 ~ 2009.03
	PIEM Project	2015.03 ~ 2018.10
	PACO Power Plant Project	2012.01 ~ 2016.02

INFRA BUSINESS



Infrastructure Business Division Sales

[Unit: KRW billion]



SK E&C is contributing to enhancing the quality of life through various infrastructure projects that include roads, railway/subway, bridges, tunnels, underground reserve bases, ports, hydroelectric power plants, and industrial complexes/housing sites. These undertakings come in the form of domestic and overseas development projects and subcontract projects.

We are currently increasing overseas order intake centering on our strengths such as bridges, underground reserve bases and ports. SK E&C's expertise and experience are delivering successful results in projects in Turkey, Kuwait, the UAE, Qatar, Laos, and Singapore. In particular, our successful completion of the Eurasia Tunnel and Third Bosphorus Bridge in Turkey resulted in widespread recognition of our technology and capacity to compete with global players. The Eurasia Tunnel was named the 2017 Global Road Project by the International Road Federation and the Third Bosphorus Bridge won the top honor as Civil Engineering Structure of 2017 given by the Korean Society of Civil Engineers. Furthermore, it won us the contract for the Canakkale Bridge, the longest suspension bridge in the world.

With differentiated competitiveness in infrastructure projects, SK E&C will continue to expand into the global EPC market. At the same time, we will grow into a global asset player with a stable profit portfolio.

INFRA BUSINESS

Results in 2017

Amid difficult business conditions due to increasing competition, SK E&C secured industry-leading orders by focusing on cost competitiveness. We managed to win orders for the PPP project Canakkale Bridge in Turkey and another mega project in the UAE. Domestically, we earned orders for three subcontract projects including the Donghae Harbor Stage 3 Seawall (Section 2) and two development projects including the Geochang Country Club Project.

We are currently carrying out 35 projects. These include seven overseas such as the Xe-Pian Xe-Namnoy Hydroelectric Power Plant in Laos and the Doha Metro Red Line in Qatar. Ongoing domestic projects include the Bujeon-Masan Double Track Railway and Ulsan Underground Reserve Base construction.

To build an organization of specialists, we have devised plans to nurture personnel who can execute global projects as well as customized training programs.

Plans for 2018

Competition is expected to grow even more heated in 2018. Accordingly, we will focus our efforts on strengthening marketing, diversifying markets, and improving our construction and technological prowess to further build up cost competitiveness. This will enable us to keep our profit structure stable and secure quality backlog. Furthermore, we will create social value in connection with our infrastructure business and increase corporate value by uncovering new business models.

Eurasia Tunnel

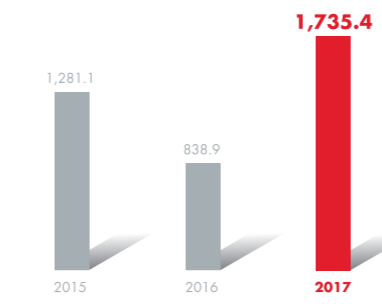


Aewol Harbor Stage 2 Development Project

3rd Bosphorus Bridge Project

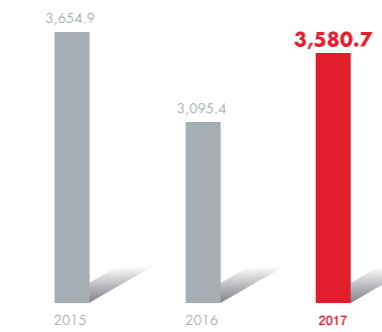
New Orders

[Unit: KRW billion]



Order Backlog

[Unit: KRW billion]



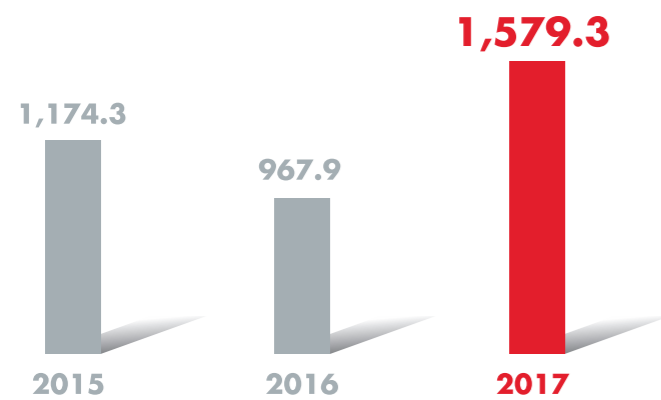
Key Achievements

Type	Project	Duration
Estate/Housing	Hwasung-Jeongnam General Industrial Complex	2016.09 ~ 2018.08
	Site work for Eumseong Seongbon Industrial Complex	2017.12 ~ 2020.07
Road/Bridge	Saemangeum South-North Road Stage 1 (Section 4)	2017.06 ~ 2022.12
	Anseong-Seongnam Expressway (Section 2)	2017.12 ~ 2022.02
Railway/Subway	Bujeon-Masan Double Track Railway	2014.06. ~ 2020.06
	Busan City Railway (Sasang-Hadan) Section 1	2015.12 ~ 2022.06
	Icheon-Mungyeong Railway Section 8 (T/K)	2017.08 ~ 2022.07
Tunnel/ Underground space	Shingori Units 5,6 Submerged Cooling Structure	2015.03 ~ 2019.12
	Ulsan Underground Reserve Base Construction	2016.01 ~ 2020.12
Port/Harbor	Donghae Harbor Stage 3 Seawall (Section 2)	2017.12 ~ 2022.10
Overseas	Eurasia Tunnel, Turkey	2013.03~ 2017.03
	Doha Metro Red Line, Qatar	2013.06 ~ 2018.03
	Xe-pian Xe-Namnoy Hydroelectric Power Plant, Laos	2013.11 ~ 2019.02
	Al.Zour Refinery (ZOR) #5, Kuwait	2015.10 ~ 2019.07
	Canakkale Bridge, Turkey	2017.04 ~ 2022.02

ARCHITECTURE & HOUSING BUSINESS

Architecture & Housing Business Division Sales

[Unit: KRW billion]



Our Architecture & Housing Business Division strives to deliver a technologically advanced architectural and living environment to our customers. Our apartment brand SK VIEW, which incorporates architectural aesthetics into housing space, realizes customer value not by relying on superficial extravagance or complicated technologies, but by focusing on what's most important in a home: comfort and convenience.

Our quality and pioneering design led us to win the 2016 Korea Residential Services Grand Prize in Construction Design (Incheon SK Sky VIEW), in addition to numerous other awards related to well-being, eco-friendliness, marketing and design.

In the architecture business, we are gaining a reputation as an industry leader in constructing eco-friendly buildings and knowledge industrial centers with cutting-edge building practices and systems.

We completed Korea's no.1 eco-friendly building 'Eco Lab' utilizing 101 technologies in eco-friendliness, energy and IT. This enabled us to receive record high marks from the Ministry of Land, Transport and Maritime Affairs' Eco-Friendly Architecture Certification and the highest 'Platinum' rating from its US equivalent, LEED. We are continuing to build multiple knowledge industrial centers thanks to our competitive edge.

ARCHITECTURE & HOUSING BUSINESS

Results in 2017

The Architecture & Housing Business Division also managed to overcome concerns over a slowing domestic housing market and increased competition to reach its performance target.

Subcontract work from the private sector included not only housing projects, but also knowledge industrial centers such as the SK V1 Tower in Seongnam, SK V1 Center in Misa Gangbyeon, Giheung ICT Knowledge Industrial Center and Changwon Smartup Tower. We rounded out our portfolio with additional orders in multi-purpose buildings (combining residential and commercial units) and semiconductor-related facilities. In city maintenance projects, we secured lucrative redevelopment/reconstruction work such as those in Euiwang Gocheon Area 2, Incheon Hakik Area 1, Gwangju Gyelim Area 2, Daejeon Munwha Area 8, Noryangjin Area 7, and Susek Area 13.

In terms of construction capabilities, we completed large-scale housing projects including Songdo SK VIEW, Godeok SK VIEW and Godeok Gracium, further solidifying the image of SK VIEW as community landmarks. We are also utilizing our differentiated competitiveness to expand orders for the construction of knowledge industrial centers. Our quality and brand were recognized with various accolades that included the 2017 Korea Residential Services Grand Prize in Construction Design awarded by the Ministry of Land, Infrastructure and Transport for the Shindongtan SK VIEW Park 2, along with various other prizes related to well-being, eco-friendliness and marketing awarded by the media.

Shindongtan SK VIEW Park 2



Dangsan V1 Knowledge Industry Center

SK Chemical Eco Lab Center

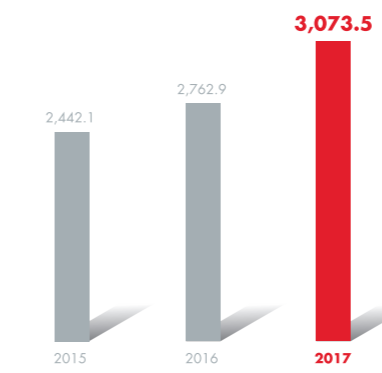
Plans for 2018

The domestic real estate market in 2018 faces greater uncertainties than ever before, due to the government's real estate policies, changes in housing supply and fiercer competition. In the face of such difficulties, we plan to secure greater backlog soundness by selecting projects based on profitability. While honing our strengths for sustained profit generation, we will grow our real estate development business and explore new business models to prepare for the future.

SK E&C will strive to further enhance construction quality so that the number of projects and increased sales lead to improved brand image. We will reach our performance goals for 2018 and make the leap into a top-tier architecture and housing company by steadily generating profits through these times of change.

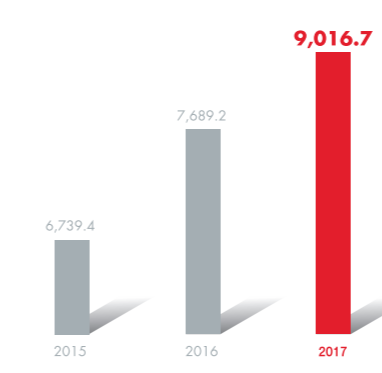
New Orders

[Unit: KRW billion]



Order Backlog

[Unit: KRW billion]



Key Achievements

Type	Project	Duration
Housing	Songdo SK VIEW	2016.07 ~ 2019.07
	Nongseong SK VIEW Central	2017.02 ~ 2019.07
	Baekryeonsan SK VIEW I Park	2017.03 ~ 2019.08
	Godeok Gracium	2016.09 ~ 2019.09
	Duho SK VIEW	2017.03 ~ 2020.01
	Boramae SK VIEW	2017.06 ~ 2020.01
Architecture	Ansan La Primo	2017.04 ~ 2020.01
	Moollae SK V1 Center	2017.07 ~ 2019.08
	Changwon Smartup Tower	2017.08 ~ 2019.09
	Misa Gangbyeon SK V1 Center	2017.11 ~ 2019.11
	Seongnam SK V1 Tower	2017.08 ~ 2019.12
	Suwon SK V1	2017.12 ~ 2020.01
	Seongsu SK V1 Center	2017.11 ~ 2020.05
	Gongdeok SK Leaders' VIEW	2017.10 ~ 2020.08
Songdo SK VIEW Central	2017.10 ~ 2020.09	

AT A GLANCE

January

Presentation on 'Dream Builder' mentoring program



The results of the Dream Builder program were unveiled in presentations attended by participants and joint sponsors of the program—the non-profit Miral Welfare Foundation and Hanatour. The three-month mentoring program for youths from low-income families helped them discover their dreams and determine future plans. Participants shared their experiences of the mentoring process and what they gained from the Dream Builder program.

February

Start of construction on Goseong High Thermal Power Plant



A ceremony was held to mark the start of construction of Korea's largest private power generation project: Goseong High Thermal Power Plant. Approximately KRW 3.7 trillion will be invested in building two generator units with capacity of 1,040MW each, which will account for 1.6% of total power generation in Korea. SK E&C will adopt new technologies to make the super-sized, coal-fired power plant eco-friendly by using less coal and reducing greenhouse gases.

March

Private gas combined-cycle power generation project in Iran



SK E&C signed a contract with the UNIT Group to acquire a 30% stake in UNIT International to participate in the largest ever private power development project in Iran. The project involves building and operating five gas combined-cycle power plants in five regions. SK E&C will not only oversee the construction of the plants but also retain a 30% stake after completion to jointly operate the plants with the UNIT Group.

April

Completion of Xe-Namnoy Hydroelectric Power Plant in Laos



Upon completing construction of the Xe Namnoy Dam which is part of the Xe Pian-Xe Namnoy Hydroelectric Power Plant now being built in Laos, an impounding ceremony was held in which the Xe Namnoy Dam was filled with water. The project requires blocking the Mekong River that traverses the Bolaven Plateau and building three dams (Houay Makchan Dam, Xe Pian Dam and Xe Namnoy Dam), along with a power plant to convert the maximum water fall of 690m for the production and sale of electricity. As we are also undertaking plant operations in addition to the construction, we will receive additional dividends according to electricity sales.

Foray into byproduct hydrogen fuel cell power generation



SK E&C signed an MOU with Korea Midland Power and Doosan to begin a project involving hydrogen fuel cell power generation that uses byproduct hydrogen. The KRW 110 billion project is intended to build and operate a 20MW hydrogen fuel cell power plant. This will mark the first commercial application in Korea of using low-purity byproduct hydrogen as power generation fuel.

May

Pre-construction sale of Boramae SK VIEW



Pre-construction sales took place for Boramae SK VIEW, located in Shingil-dong, Youngdeungpo-gu, Seoul. With 1,546 units in all, spread out in 18 apartment buildings of 29 floors above ground and two under ground, Boramae SK VIEW boasts excellent living conditions with public transportation, education, greenery and convenience facilities all located nearby. The Boramae subway station on line 7 can be reached on foot, and Yeouido is just 10 minutes away by car.

June

Family volunteering for eco-friendly upcycling



June's family volunteering program was related to upcycling at the Seoul Innovation Park, located in Eunpyeong-gu, Seoul. Seventy employees and their families used empty shampoo and makeup containers as well as subway advertisement boards to make beaded jump ropes, pencil cases, pictures and handheld fans. All of the upcycled items were donated to Vietnamese children born with facial deformities.

July

Best construction company in partner growth and mutual cooperation



Korea Commission for Corporate Partnership awarded SK E&C its top rating in the 2016 Corporate Partnership Index Evaluation. The only company in the construction industry to receive the honor, SK E&C has maintained the highest rating in the industry since the evaluation was launched in 2011. We also received the highest marks among large corporations in a mutual cooperation evaluation among construction firms announced by the Ministry of Land, Infrastructure and Transport.

AT A GLANCE

August

Pre-construction sales of Gongdeok SK Leaders' VIEW



The luxury apartment brand, SK Leaders' VIEW, in Gongdeok-dong, was offered for pre-construction sale. Built as part of the city maintenance project for the Ahyeon New Town Maporo Area 6, the complex will consist of 472 apartment units in five buildings with 29 floors above and five floors under ground. Ahyeon New Town is scheduled to be reborn as a large-scale residential area with easy access to well-established infrastructure in the Mapo area, along with the areas around Shinchon, Ewha Womans University and Seoul Station. Residents can take advantage of a nearby public transportation network to easily get to key locations around the capital city.

September

Family volunteering at Chusok (Korean Thanksgiving)



Some 100 SK E&C employees and their family members took part in a family volunteering program to make and present foods traditionally eaten during the Chusok holiday to low-income senior citizens living alone near the Dobong Senior Welfare Center in Seoul. The volunteers gathered at the center to make sweet rice cakes and gift wrapped them along with other basic goods. Sixty senior citizens from the area were invited to the center to receive the care packages and enjoy the holiday by socializing with the volunteers and other seniors.

October

Pre-construction sale of Songdo SK VIEW Central



The multi-purpose building Songdo SK VIEW Central, located in Songdo-dong, Yeonsu-gu in Incheon, was offered for sale. The complex will have a total of 479 units (299 apartment units and 180 studio units) across four buildings that have two floors under ground and 36 above. SK E&C plans to apply an ideal floor plan, high-tech system and environment-friendly landscaping so that the Songdo SK VIEW Central complex can become a landmark of Songdo International City.

November

Order for Noryangjin Area 7 Redevelopment Project in Seoul



The Noryangjin Area 7 Redevelopment Project refers to the creation of an apartment complex in the Daebang-dong neighborhood in Dongjak-gu, Seoul. It comprises a total of 614 apartment units in six buildings that have three floors under and 29 floors above ground. Noryangjin Area 7 is easily accessible from subway lines 1, 7 and 9, along with the Olympic Expressway, and is ideal for families as there are elementary, middle and high schools in the district. Once the related works are completed, the Noryangjin Redevelopment Zone is predicted to be reborn as a large-scale residential town that is home to 8,000 households.

Eurasia Tunnel receives top Industrial Award from NAEK



The Eurasia Tunnel in Turkey was selected by the National Academy of Engineering of Korea (NAEK) as the top Civil and Environmental Engineering project for 2017. The Eurasia Tunnel is the world's first double-deck road tunnel that connects Europe and Asia under the Bosphorus Strait. SK E&C's superior technology and project execution capabilities were pivotal to successfully completing a 3.34km segment in water that was 110m deep and subject to air pressure 11 times that of the surface.

December

Hydroelectric power plant in Pakistan



SK E&C signed a contract with Associated Technologies Private Limited (ATL) to acquire an 89% stake in Kandiah Hydropower to secure the rights to a project to build a privately funded hydroelectric power plant in the Kandiah drainage basin in Pakistan. The contract signing took place in Islamabad. The project is to build a massive 545 MW hydroelectric power plant near the Kandiah River, some 340 km away from Islamabad, oversee its operations for 30 years, and then transfer rights to the government. SK E&C is responsible for constructing the plant and will also participate in its operation after completion.

2017 FINANCIAL REVIEW

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Independent auditors' report

The Shareholders and Board of Directors SK Engineering & Construction Co., Ltd.

We have audited the accompanying financial statements of SK Engineering & Construction Co., Ltd. (the "Company"), which comprise the statements of financial position as at December 31, 2017 and 2016, and the statements of income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Accounting Standards for Non-Public Entities in the Republic of Korea and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017 and 2016, and its financial performance and cash flows for the years then ended in accordance with Accounting Standards for Non-public Entities in the Republic of Korea.

Emphasis of matters

Without modifying our opinion, we draw attention to the following matters.

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

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

We reflected the result of audit procedures with regard to key audit matters as below in forming our audit opinion.

A. General matter

The following includes matters to be most common for the key audit matters of ETO included in the audit report.

When the outcome of construction contract can be reliably measured, construction revenue and construction costs are recognized based on the input method. The percentage of completion is calculated by dividing total construction costs to date by the total estimated costs of the construction, excluding costs which do not reflect the present status of work performed.

B. Revenue recognition based on the input method

As the Company recognizes its revenue based on the input method, we identified significant risk in relation to the revenue recognition under such method. We performed following audit procedures for the revenue recognition under the input method.

- Review of accounting policies on revenue recognition and any changes to the policies
- Inquiry and analytical review on the status of major construction contracts and any significant changes
- Analytical review on financial indicators including contract amounts, estimated costs, cost ratios, and ratios of unbilled construction receivables
- Review into terms and conditions for newly entered construction contracts
- Review as to whether it meets the criteria for reliably estimating the outcome of construction contracts

C. Uncertainty in estimating the total estimated costs of a construction contract and calculation of percentage of completion

Construction revenue is affected by the ratio calculated by dividing the total construction cost to date by the total estimated costs of the contract, and the total estimate costs of the contract are based on the estimates such as the raw material prices, labor costs and construction period. Most of the Company's construction contracts are long-term contracts, and the estimations are affected by changes in macro and micro economic variables, changes in the conditions of places in which the construction is to be performed, and as a result, there exist uncertainties in regard to estimating the total estimated costs of the contract. As explained in Note 15 to the accompanying financial statements, estimated changes in the total construction revenue and the total construction cost are ₩277,947 million and ₩446,769 million, respectively, and as a result, the profit or loss for the current period and future profit or loss will decrease by ₩145,460 million and ₩23,361 million, respectively. Such uncertainties might have negative impact on current and future profit or loss and consequently, we identified significant risks in relation to the estimation of the total estimated costs of the contract and calculation of percentage of completion.

We performed following audit procedures in relation to the impact of uncertainties of estimating the total estimated costs of the contract on the financial statements and computation of the percentage of completion using the total estimated costs of the contract and the total construction costs to date.

- Analytical review on construction projects with significant changes in the total estimated costs
- Review of internal controls to approve the total estimated costs by authorized personnel after reviewing the relevant construction budget
- Review of significant differences between the percentage of completion of major constructions and physical progress of the constructions
- Identification of the cause of the contract with significant changes in the percentage of completion
- Review of propriety of input costs accrued for the year, imputed time and cost attributable to construction contracts
- Internal control testing related to overhead cost allocation after understanding accounting policies about overhead cost allocation

D. Recoverability of unbilled construction receivables

As explained in Note 15 to the accompanying financial statements, unbilled construction receivables amounted to ₩547,651 million as at the end of the current reporting period, which accounted for 43% of the total construction receivables.

Depression in related industries and a long-term global oil price decline have caused deterioration in the customer's ability to pay, which subsequently increased industry risk. As a result, we recognized significant risk related to recoverability of unbilled contract receivables.

We performed following audit procedures for construction where unbilled construction receivables increased significantly.

- Review on the effectiveness of internal control operations to identify and manage certain impairment indicators for unbilled construction receivables
- Review of billing period and recoverability in relation to long-term unbilled construction receivables and significantly changed unbilled construction receivables
- Review of payment terms described in the contract, liquidated damages, distribution period and other obligations

E. Accounting treatment for variations in construction

The Company measures the total construction revenue based on the agreed amount in the contract. However, the total revenue may change due to alterations in the original contract work and delays caused by the contractor in the completion of the contract. As a result, measurement of construction revenue is affected by uncertainties related to future events and outcomes. The Company recognizes revenue when it is probable that the customer will approve the variation and the amount of revenue arising from the variation.

As explained in Note 15 to the financial statements, the changes in the total estimated construction revenue amounted to ₩227,947 million. We concluded that the changes in the total construction revenue and costs, caused by changes in the construction, were significant and as a result, we identified significant risks in relation to the accounting treatment for variations in construction.

We performed following audit procedures for disclosures and accounting treatment in relation the variations in the Company's construction.

- Inquiry into accounting policies with regard to penalties related to changes in the contract work and breach of contract
- Review of internal control to approve construction contracts with modified terms by authorized personnel after reviewing the changes
- Check whether variations in construction contracts are properly disclosed in the notes, according to the modified contract
- Review on possibility of contract completion with regards to constructions which fall behind the planned construction period
- Review whether calculation of the total estimated construction costs includes additional construction costs due to construction changes



March 9, 2018

This audit report is effective as at March 9, 2018, the independent auditors' report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the date of the independent auditors' report to the time this report is used. Such events and circumstances could significantly affect the accompanying financial statements and may result in modifications to this report.

SK Engineering & Construction Co., Ltd.
Non-consolidated statements of financial position
as at December 31, 2017 and 2016

(Korean won in thousands)

	Notes	2017	2016
Assets			
Current assets:			
Cash and cash equivalents	4	₩ 545,139,279	₩ 519,614,105
Short-term investment assets, less allowance for doubtful accounts of ₩0 thousand in 2017 and ₩171,275,408 thousand in 2016	4,5,12	68,151,663	329,486,937
Trade accounts and notes receivable, less allowance for doubtful accounts of ₩475,374,137 thousand in 2017 and ₩472,572,269 thousand in 2016	12,13	1,343,303,558	1,518,044,417
Other accounts receivable, less allowance for doubtful accounts of ₩66,849,226 thousand in 2017 and ₩62,821,630 thousand in 2016		170,453,080	235,428,669
Current income tax assets		14,177,668	31,353,206
Advance payments		142,297,295	223,662,808
Inventories	6,8	46,650,398	61,328,225
Current deferred income tax assets	19	142,647,708	201,021,053
Other current assets		186,059,615	247,223,210
Total current assets		2,658,880,264	3,367,162,630
Non-current assets:			
Long-term financial instruments	4	193,791,085	111,617,500
Investment properties		7,430,488	4,865,042
Available-for-sale securities	7	160,325,582	142,122,668
Equity method investments	7	506,257,652	517,168,705
Long-term loans, less allowance for doubtful accounts of ₩345,241,064 thousand in 2017 and ₩267,592,597 thousand in 2016	12	145,066,456	120,254,930
Long-term accounts receivable, less allowance for doubtful accounts of ₩127,589,800 thousand in 2017 and ₩129,785,211 thousand in 2016		-	15,952
Deposits		258,006,692	243,104,130
Property, plant and equipment, net	8	154,826,761	226,412,511
Intangible assets	9	13,009,979	11,481,445
Deferred income tax assets	19	179,606,873	209,430,926
Other non-current assets		10,335,833	12,673,047
Total non-current asset		1,628,657,401	1,599,146,856
Total assets		₩ 4,287,537,665	₩ 4,966,309,486

(Continued)

(Korean won in thousands)

	Notes	2017	2016
Liabilities			
Current liabilities:			
Short-term borrowings	7,10	₩ -	₩ 76,500,000
Trade accounts and notes payable	12	867,956,862	821,471,615
Advance receipts in relation to uncompleted construction		649,471,982	748,444,777
Current portion of long-term debt	10	388,148,519	511,836,337
Provision for construction losses and warranty		93,547,234	121,841,485
Income taxes payable		10,152,537	26,955,376
Other current liabilities		383,020,846	617,813,975
Total current liabilities		2,392,297,980	2,924,863,565
Non-current liabilities:			
Long-term debt	7,10	560,099,010	585,805,910
Deposits received		84,738,483	81,403,305
Leasehold deposits received		2,426,327	2,351,787
Retirement benefit liability	11	90,877	150,317
Total non-current liabilities		647,354,697	669,711,319
Total liabilities		3,039,652,677	3,594,574,884
Equity			
Capital stock:			
Common stock, ₩5,000 par value	16	176,486,465	176,486,465
Redeemable preferred stock, ₩5,000 par value		76,367,500	76,367,500
		252,853,965	252,853,965
Capital surplus	16	692,509,149	712,090,543
Capital adjustments:			
Corporate income taxes on treasury stock received		(13,650,712)	(13,650,712)
Loss on early redemption of convertible bonds		(12,322,432)	(12,322,432)
		(25,973,144)	(25,973,144)
Accumulated other comprehensive income:			
Gain on valuation of available-for-sale securities	7	26,805,851	1,503,377
Equity adjustment in equity method	7	(13,113,423)	(193,534)
Loss on valuation of derivative instruments	13	(7,403,592)	(16,377,890)
Foreign currency translation adjustments	18	(11,985,818)	37,056,161
Revaluation surplus	8	27,279,196	51,668,041
		21,582,214	73,656,155
Retained earnings:			
Appropriated	16,17	117,231,866	57,916,640
Unappropriated		189,680,938	301,190,443
		306,912,804	359,107,083
Total equity		1,247,884,988	1,371,734,602
Total liabilities and equity		₩ 4,287,537,665	₩ 4,966,309,486

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

SK Engineering & Construction Co., Ltd.
Non-consolidated statements of income
for the years ended December 31, 2017 and 2016

(Korean won in thousands, except per share amounts)

	Notes	2017	2016
Revenues	12,15,22	₩ 6,439,814,638	₩ 7,182,121,469
Cost of sales	12	5,971,822,684	6,599,543,036
Gross profit		467,991,954	582,578,433
Selling and administrative expenses:	12	112,982,656	111,318,724
Salaries		22,778,773	17,797,154
Provision for severance and retirement benefits		13,692,939	12,292,965
Employee welfare benefits		8,998,796	8,879,610
Tax and dues		36,466,789	50,322,586
Commissions		1,915,624	1,957,206
Depreciation		16,955,545	19,075,169
Advertising expenses		(9,489,701)	90,150,222
Allowance for doubtful accounts-trade, net		1,448,768	1,394,536
Amortization		26,781,132	22,178,048
Rent		33,151,176	27,587,954
Other		265,682,497	362,954,174
Operating income		202,309,457	219,624,259
Other income (expenses):		21,082,103	19,202,712
Interest income		(61,945,123)	(70,647,265)
Interest expense		742,891	1,111,654
Dividend income		(6,646,180)	11,500,234
Gain on foreign currency transactions, net		(1,943,954)	7,730,845
Gain on foreign currency translation, net		5,375,991	(28,886,253)
Loss on settlement of derivative instruments, net		81,491,591	(6,573,412)
Gain (loss) on valuation of derivative instruments, net	13	(39,329,105)	(19,592,997)
Gain (loss) on valuation of firm commitments, net	13	86,417	308,205
Gain on disposal of investment in properties		(7,131,951)	(3,434,669)
Loss on disposal of trade accounts and notes receivable		1,689,183	(58,011,754)
Allowance for doubtful accounts-other, net		28,251	(732,609)
Gain (loss) on disposal of available-for-sale securities, net	7	(15,092,323)	(23,315,436)
Impairment loss on available-for-sale securities, net	7	-	159,426,177
Gain on disposal of equity method investments, net	7	20,331,427	4,453,132
Equity in gain (loss) of equity method investments, net	7	(16,539,146)	-
Impairment loss on equity method investments		16,856,815	1,343,123
Gain on disposal of property, plant and equipment, net		(6,168,494)	(7,909,610)
Warranty for repairs		(22,135,593)	(82,680,698)
Loss on guarantees provided, net	13	(7,289,074)	(18,963,077)
Other		(36,536,274)	(115,671,698)
Income before income taxes		165,773,183	103,952,561
Income tax expenses	19	110,267,830	16,555,216
Net income		₩ 55,505,353	₩ 87,397,345
Per share amounts			
Basic income (loss) per share	20	₩ 856	₩ 1,594

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

SK Engineering & Construction Co., Ltd.
Non-consolidated statements of changes in equity
for the years ended December 31, 2017 and 2016

(Korean won in thousands)

	Capital stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income (loss)	Retained earnings	Total
As at January 1, 2016	₩252,848,965	₩662,681,614	₩(25,973,144)	₩63,859,317	₩353,891,911	₩1,307,308,663
Dividends attributable to redeemable preferred stock	-	-	-	-	(32,305,034)	(32,305,034)
Net income for the year	-	-	-	-	87,397,345	87,397,345
Issuance of redeemable preferred stock	5,000	49,575,000	-	-	-	49,580,000
Redemption of redeemable preferred stock	-	-	-	-	(50,000,000)	(50,000,000)
Changes in capital surplus adjustment	-	-	-	-	-	-
arising from equity method investments	-	(166,071)	-	-	-	(166,071)
Loss on valuation of available-for-sale securities	-	-	-	(2,758,471)	-	(2,758,471)
Changes in equity adjustment in equity method	-	-	-	3,275,489	-	3,275,489
Gain on valuation of derivative instruments	-	-	-	1,972,649	-	1,972,649
Foreign currency translation adjustments	-	-	-	7,382,141	-	7,382,141
Changes in revaluation surplus	-	-	-	(74,970)	-	(74,970)
Changes in retained earnings adjustment	-	-	-	-	122,861	122,861
arising from equity method investments	-	-	-	-	122,861	122,861
As at December 31, 2016	₩252,853,965	₩712,090,543	₩(25,973,144)	₩73,656,155	₩359,107,083	₩1,371,734,602
As at January 1, 2017	₩252,853,965	₩712,090,543	₩(25,973,144)	₩73,656,155	₩359,107,083	₩1,371,734,602
Dividends attributable to redeemable preferred stock	-	-	-	-	(32,194,384)	(32,194,384)
Net income for the year	-	-	-	-	55,505,353	55,505,353
Issuance of redeemable preferred stock	-	-	-	-	-	-
Redemption of redeemable preferred stock	-	-	-	-	(75,000,000)	(75,000,000)
Changes in capital surplus adjustment	-	-	-	-	-	-
arising from equity method investments	-	(19,581,394)	-	-	-	(19,581,394)
Gain on valuation of available-for-sale securities	-	-	-	25,302,474	-	25,302,474
Changes in equity adjustment in equity method	-	-	-	(12,919,889)	-	(12,919,889)
Gain on valuation of derivative instruments	-	-	-	8,974,298	-	8,974,298
Foreign currency translation adjustments	-	-	-	(49,041,979)	-	(49,041,979)
Changes in revaluation surplus	-	-	-	(24,388,845)	-	(24,388,845)
Changes in retained earnings adjustment	-	-	-	-	(505,248)	(505,248)
arising from equity method investments	-	-	-	-	(505,248)	(505,248)
As at December 31, 2017	₩ 252,853,965	₩ 692,509,149	₩ (25,973,144)	₩ 21,582,214	₩ 306,912,804	₩ 1,247,884,988

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

SK Engineering & Construction Co., Ltd.
Non-consolidated statements of cash flows
for the years ended December 31, 2017 and 2016

	(Korean won in thousands)	
	2017	2016
Cash flow from operating activities:		
Net income	₩ 55,505,353	₩ 87,397,345
Adjustments to reconcile net income to net cash used in operating activities:		
Allowance for doubtful accounts-trade	(9,489,701)	90,150,222
Depreciation of property, plant and equipment	29,395,652	45,459,732
Amortization of intangible assets	5,041,346	5,732,826
Amortization of discount on bonds	4,268,120	4,407,942
Provision for retirement benefits	52,664,921	48,743,842
Loss (gain) on foreign currency translation, net	1,943,954	(7,730,845)
Loss (gain) on valuation of derivative instruments, net	(81,491,591)	6,573,412
Gain on valuation of firm commitments, net	39,329,105	19,592,997
Allowance for doubtful accounts-other, net	(1,689,183)	58,011,754
Gain on disposal of investment in properties	(86,417)	(308,205)
Loss (gain) on disposal of available-for-sale securities, net	(28,251)	732,609
Impairment loss on available-for-sale securities, net	15,092,323	23,315,436
Gain on disposal of equity method investments	-	(159,426,177)
Impairment loss on equity method investments	16,539,146	-
Equity on earnings of equity method investments, net	(20,331,427)	(4,453,132)
Gain on disposal of property, plant and equipment, net	(16,856,815)	(1,343,123)
Loss on guarantees provided	22,135,593	82,680,698
Changes in operating assets and liabilities:		
Trade accounts and notes receivable	86,584,661	319,431,108
Other accounts receivable	165,758,049	108,452,526
Advance payments	81,365,514	102,850,276
Inventories	14,677,828	40,732,039
Current income tax assets	17,175,538	4,101,204
Current portion of deferred income tax assets	58,373,345	(64,484,497)
Other current assets	45,958,361	43,158,591
Non-current portion of deferred income tax assets	30,548,964	24,772,114
Trade accounts and notes payable	46,554,677	(44,984,205)
Advance receipts in relation to uncompleted construction	(98,972,795)	(530,807,297)
Provision for construction losses and warranty	(28,294,252)	23,375,293
Income taxes payable	(16,802,839)	26,955,376
Other current liabilities	(167,804,340)	(29,745,990)
Deposits received for performance guarantee	(12,101,580)	(17,013,296)
Deposits provided for performance guarantee	10,973,907	-
Cumulative foreign currency translation adjustments	(49,041,979)	6,156,144
Payments of severance and retirement benefits	(35,105,504)	(27,242,093)
Defined benefit plan assets	(17,679,415)	(39,554,470)
Prepayments of severance and retirement benefits to the National Pension Service	60,558	119,120
Total adjustments	188,665,473	158,411,931
Net cash provided by operating activities	244,170,826	245,809,276

(Continued)

	(Korean won in thousands)	
	2017	2016
Cash flow from investing activities:		
Increase in short-term investment assets	₩ -	₩ (260,776,360)
Decrease in short-term investment assets	261,335,273	-
Increase in long-term financial instruments	(82,173,585)	-
Decrease in long-term financial instruments	-	49,410,500
Proceeds from disposal of available-for-sale securities	743,466	2,324,503
Acquisition of available-for-sale securities	(628,633)	(7,018,646)
Proceeds from disposal of equity method investments	2,929,947	5,098,660
Dividends from equity method investments	17,515,608	7,051,411
Proceeds from disposal of investment properties	2,461,366	4,500,000
Acquisition of investment properties	(220,394)	-
Acquisition of equity method investments	(94,372,282)	(34,546,077)
Increase in long-term loans	(18,677,706)	(59,433,817)
Increase in deposits for performance guarantee	(6,045,070)	(101,972,380)
Proceeds from disposal of property, plant and equipment	50,632,616	17,968,044
Proceeds from disposal of intangible assets	652,727	30,611
Acquisition of property, plant and equipment	(20,562,417)	(25,975,865)
Addition to intangible assets	(7,222,607)	(5,756,116)
Decrease in other non-current assets	73,403	1,575,439
Net cash provided by (used in) investing activities	106,441,712	(407,520,093)
Cash flow from financial activities:		
Repayment of short-term borrowings	(75,000,000)	(44,336,328)
Increase of long-term borrowings	79,413,000	346,639,757
Repayment of long-term borrowings	(188,470,032)	-
Proceeds from issuance of bonds	478,182,562	194,171,855
Redemption of bonds and repayment of long-term borrowings	(512,018,510)	(528,184,843)
Increase in leasehold deposits received	-	49,580,000
Issuance of redeemable preferred stock	-	49,580,000
Payment of dividends to redeemable preferred stockholders	(32,194,384)	(32,305,034)
Redemption of redeemable preferred stock	(75,000,000)	(50,000,000)
Decrease in leasehold deposits received	-	(55,316)
Net cash used in financing activities	(325,087,364)	(64,489,909)
Net increase (decrease) in cash and cash equivalents	25,525,174	(226,200,726)
Cash and cash equivalents at the beginning of the year	519,614,105	745,814,831
Cash and cash equivalents at the end of the year	₩ 545,139,279	₩ 519,614,105

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

SK Engineering & Construction Co., Ltd.
Notes to non-consolidated financial statements
December 31, 2017 and 2016

1. Corporate information

SK Engineering & Construction Co., Ltd. (the "Company"), a member of the SK group of companies, was incorporated on February 21, 1962 in accordance with the laws of the Republic of Korea to engage in various engineering and construction activities in the Republic of Korea as well as in foreign countries. On September 14, 2006, the Company merged with Jeongjiwon Co., Ltd., and consequently, the Company expanded its business operations to include the leisure business.

2. Summary of significant accounting policies

2.1 Basis of financial statement preparation

The Company maintains its official accounting records in Korean won and prepares statutory financial statements in the Korean language in conformity with Accounting Standards for Non-Public Entities in the Republic of Korea ("Korean Accounting Standards"). The accompanying financial statements have been condensed, restructured and translated into English (with certain expanded descriptions) from the Korean language financial statements. In the event of any differences in interpreting the financial statements or the independent auditors' report thereon, the Korean version, which is used for regulatory reporting purposes, shall prevail.

The financial statements of the Company have been prepared in accordance with Korean Accounting Standards, and the summary of significant accounting policies used for the preparation of the financial statements are as follows:

2.2 Change of accounting policy

The Company has applied the annual improvements (2016) to Korean Accounting Standards.

2.3 Cash equivalents

Highly liquid deposits and marketable securities with original maturities of three months or less, and which have no significant risk of loss in value by interest rate fluctuations, are considered as cash equivalents.

2.4 Financial assets

Financial instruments, such as time deposits and restricted bank deposits, which are traded by financial institutions and are held for short-term cash management purposes or which will mature within one year, are accounted for as short-term financial instruments. Financial instruments other than cash equivalents and short-term financial instruments are recorded as long-term financial instruments.

2.5 Investment in securities

Investments in securities are classified as either trading, held-to-maturity or available-for-sale securities, as appropriate, and are initially measured at cost, including incidental expenses, with cost being determined using the gross weighted average method. Acquisition costs for trading securities are measured at fair value of those securities at the time of acquisition. The Company determines the classification of its investments after initial recognition, and, where allowed and appropriate, re-evaluates this designation at each financial year end.

Securities that are acquired and held principally for the purpose of selling them in the near term are classified as trading securities. Debt securities which carry fixed or determinable payments and fixed maturity are classified as held-to-maturity if the Company has the positive intention and ability to hold to maturity. Securities that are not classified as either trading or held-to-maturity are classified as available-for-sale securities.

After initial measurement, available-for-sale securities are measured at fair value with unrealized gains or losses being recognized directly in equity as other comprehensive income. Likewise, trading securities are also measured at fair value after initial measurement, but with unrealized gains or losses reported as part of net income.

Held-to-maturity securities are measured at amortized cost after initial measurement. The cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount.

The fair value of trading and available-for-sale securities that are traded actively in the open market (marketable securities) is measured at the closing price of those securities at the reporting date. Non-marketable equity securities are measured at cost subsequent to initial measurement if their fair values cannot be reliably estimated. Non-marketable debt securities are carried at a value using the present value of future cash flows discounted using an appropriate interest rate which reflects the issuer's credit rating announced by a public independent credit rating agency. If the application of such measurement method is not feasible, estimates of fair values may be made using a reasonable valuation model or quoted market prices of similar debt securities issued by entities conducting business in similar industries.

Trading securities are classified as current assets. Available-for-sale and held-to-maturity securities are classified as long-term investments, except that securities maturing within one year or are certain to be disposed of within one year from the reporting date are classified as short-term investments.

The Company recognizes an impairment loss on its investments in securities if there is objective evidence that the securities are impaired. The impairment loss is charged to statement of income. Valuation gain (loss) on available-for-sale securities, if any, is offset against impairment loss (gain) on corresponding available-for-sale securities. When the circumstances that previously caused the available-for-sale securities to be written down cease to exist or there is an increase in net realizable value, the amount of the written-down is reversed in the statements of income to the extent of the original write-down amount so that new carrying amount is the lower of cost and revised net realizable value.

2.6 Equity method investments

Investments in entities over which the Company has control or significant influence are accounted for using the equity method.

Under the equity method of accounting, the Company's initial investment in an investee is recorded at acquisition cost. Subsequently, the carrying amount of the investment is adjusted to reflect the Company's share of income or loss of the investee in the statement of income and share of changes in equity that have been recognized directly in the equity of the investee in the related equity account of the Company on the statement of financial position. If the Company's share of losses of the investee equals or exceeds its interest in the investee, it discontinues recognizing its share of further losses. However, if the Company has other long-term interests in the investee, it continues recognizing its share of further losses to the extent of the carrying amount of such long-term interests.

At the date of acquisition, the excess of the cost of the investment over the Company's share of the net fair value of the investee's identifiable assets and liabilities is accounted for as goodwill which is amortized over its useful life using the straight-line method. Conversely, negative goodwill represents the excess of the Company's share in the net fair value of the investee's identifiable assets and liabilities over the cost of the investment. Negative goodwill is recorded to the extent of the fair value of acquired non-monetary assets and recognized as income using the straight-line method over the remaining weighted-average useful life of those acquired non-monetary assets. The amount of negative goodwill in excess of the fair value of acquired non-monetary assets is recognized as income immediately.

The Company's share in the investee's unrealized gains and losses resulting from transactions between the Company and its investee are eliminated to the extent of the interest in the investee. In translating the financial statements of foreign investees into Korean won, assets and liabilities are translated at the exchange rate on the reporting date and income and expenses are translated at the weighted-average exchange rate for the period. All resulting exchange differences are recognized as foreign currency translation adjustments in other comprehensive income within equity.

2.7 Allowance for doubtful accounts

The Company provides an allowance for doubtful accounts in consideration of the estimated losses that may arise from non-collection of its receivables. The estimate of losses, if any, is based on a review of the aging and current status of the outstanding receivables.

2.8 Inventories

Inventories are valued at the lower of cost or market with cost being determined using the gross weighted average method for completed apartment for sale and apartment under construction and land held for future construction of apartments, the moving weighted average method for raw materials and supplies, and the specific identification method for in-transit raw materials. Reusable durable materials for construction are charged to operations based on usage. A perpetual inventory system is used to record inventories, in which inventories are adjusted to physical inventory counts that are performed at the end of the year.

2.9 Pre-contract costs (or commonly known as prepaid construction costs)

The Company capitalizes costs incurred in connection with securing a construction order as pre-contract costs when such costs can be identified and measured reliably, and that the Company is reasonably certain that the contract will be awarded. The pre-contract costs are expensed as part of construction costs upon commencement of the related construction project.

2.10 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation, except for certain assets that were revalued in accordance with the previous Assets Revaluation Act and land that was revalued in accordance with the Korean Accounting Standards are stated at revalued amount less accumulated depreciation.

Acquisition costs include purchase cost, production cost and other expenditures that the Company incurs to prepare the assets in a status consistent with the intention of the management.(note 8)

Maintenance and repairs are expensed in the year in which they are incurred. Expenditures which satisfy the criteria for recognition of the tangible assets are capitalized.

Depreciation of property, plant and equipment is provided using the straight-line method over the estimated useful lives of the assets as follows:

	Useful Life
Buildings and structures (*)	5 - 40 Years
Machinery and equipment	5 Years
Others	5 Years

(*) The useful life of assets acquired before January 1, 1994 is 50 years.

Land that is revalued in accordance with the revaluation model is measured at fair value less impairment losses recognized after the date of the revaluation. Valuation is performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

If an asset's carrying amount is increased as a result of a revaluation, the increase shall be credited directly to other comprehensive income within equity. However, the increase shall be recognized in the statements of income to the extent that it reverses a revaluation decrease of the same asset previously recognized in the statement of income.

If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognized in the statements of income. However, the decrease shall be debited directly to other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The assessment value of the land as determined by the Korean government for tax administration purposes amounted to ₩77,177,994 thousand and ₩98,064,397 thousand as at December 31, 2017 and 2016, respectively.

2.11 Intangible assets

Intangible assets are stated at cost, less accumulated amortization. Amortization is recognized as an expense based on the straight-line method over the following estimated useful life:

	Useful Life
Softwar	4 Years

Intangible assets acquired individually are recorded at cost whereas those acquired through business combinations are stated at fair value after deducting accumulated amortization and impairment amount. Moreover, internally generated intangible assets are expensed as incurred and reflected in profit and loss.

2.12 Valuation of receivables or payables at present value

Receivables or payables arising from long-term installment transactions are stated at present value. The difference between the carrying amount and present value of the receivables or payables is amortized using the effective-interest-rate method and credited or charged to the statement of income over the installment period.

When credit terms (e.g., principal, interest rate, payment period) of receivables between debtors or creditors experiencing financial difficulties (e.g., court receivership, debt restructuring, financial workout) are unfavorably changed from the perspective of the Company, such receivables are stated at present value calculated by discounting the future cash flows in accordance with the modified terms of the restructured receivables by using the effective interest method from the origination date and the difference between the carrying amount and present value of such receivables is charged to the statement of income.

2.13 Provisions and contingent liabilities

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The provision is used only for expenditures for which the provision was originally recognized. If the effect of the time value of money is material, provisions are stated at present value.

A contingent liability is disclosed, but not recognized when it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability. Meanwhile, even though it is remote that there will be an outflow of resources embodying economic benefits as a result of a past event, payment guarantees or similar warranties, and pending lawsuits are disclosed in notes.

2.14 Provision for construction losses and warranty

From the commencement of the construction contract, the Company records the estimated construction losses that are expected to be incurred as a provision for construction losses and reflects such estimated losses in current construction costs immediately.

The Company records a provision for the estimated warranty costs relating to construction defects during the warranty period. Estimated warranty costs are charged to current operations at the time of completion of projects and are included in the statement of financial position as provision for construction warranty. The provision for construction warranty made will be offset against the actual amount of rectification expense incurred on the defects in subsequent period. The actual rectification expense incurred in excess of the provision made is accounted for as an expense in the current period.

2.15 Discount on bonds

Discount on bonds is presented as a direct deduction from the nominal value of the bonds and is amortized using the effective-interest-rate method over the life of the bonds.

2.16 Severance and retirement benefits

The Company operates a defined benefit plan, and in accordance with the Company employees benefit policy, it establishes the provision for severance and retirement benefits for employees terminating their employment with at least one year of service based on the rates of pay in effect at the time of termination, years of service and certain other factors. The provision is determined based on the amount that would be payable assuming all employees were to terminate their employment as at the reporting date.

The Company's defined benefit obligations are partly funded through plan assets with 14 financial institutions including KEB Hana Bank. The liability for retirement benefits under the defined benefit plan is presented as the provision for severance and retirement benefits less the plan's assets at the end of the reporting period. If the plan assets amount exceeds the provision for severance and retirement benefits, the excess amount is recorded as pension assets.

Up to March 1999, the Company had prepaid a portion of its severance and retirement benefits obligation to the National Pension Service ("NPS"). The plan assets and prepayments are presented as a deduction from the provision for severance and retirement benefits.

The Company also operates a defined contribution pension plan under which the amount contributed by the Company is expensed except for those included as part of acquisition cost. The contribution made by the Company in excess of the required funding amount is recorded as pension asset whereas the contribution amount that falls short of the required funding amount is recorded as pension liabilities. Meanwhile, the Company recognized pension costs of ₩2,253,772 thousand in 2017 and ₩1,753,705 thousand in 2016.

2.17 Derivative financial instruments

The Company records its rights or obligations arising from derivative instruments as assets or liabilities, respectively, which are stated at fair value. Gains or losses resulting from changes in the fair value of derivative instruments are reported in current operations. However, for derivative instruments designated as hedging the exposure of variable cash flows, the effective portion of the gains or losses on the hedging instruments is recorded in equity and the ineffective portion of the gains or losses is credited or charged to operations immediately.

2.18 Foreign currency translation

Transactions involving foreign currencies are recorded at the exchange rates prevailing at the time the transactions are made. Assets and liabilities denominated in foreign currencies are translated into Korean won at the appropriate exchange rates on the reporting date. The resulting unrealized foreign currency translation gains or losses are credited or charged to current operations.

2.19 Translation of overseas financial statements

Financial statements of overseas business are maintained in the currencies of the countries in which they conduct their operations. In translating the foreign currency financial statements of these foreign business branches or offices into Korean won, assets and liabilities are translated at the current exchange rate on the reporting date and income and expenses are translated at the average exchange rate during the year. All resulting exchange rate differences are recognized as foreign currency translation adjustments in other comprehensive income within equity. These amounts will be charged to operations in the year when the overseas units and branches are closed upon completion of related projects.

2.20 Revenue recognition

Revenue for construction contracts is recognized using the percentage-of-completion method, under which revenue is recognized as work progresses in the ratio of actual costs incurred to estimated total costs. Revenue, for which the Company constructs and sells residential or commercial properties, is recognized using the percentage-of-completion method when the sales contracts are entered into. The estimation of total construction costs is made by a systematic, reasonable and consistent method and the Company reflects information newly obtained during the course of its construction activities.

2.21 Income taxes

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. Deferred income taxes are provided using the liability method for the tax effect of temporary differences between the tax bases of assets and liabilities and their reported amounts in the financial statements. Deferred income tax assets and liabilities are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse, and are classified as current or non-current, respectively, based on the classification of the related asset or liability in the statement of financial position. In addition, current tax and deferred tax are charged or credited directly to equity if the tax relates to items that are credited or charged directly to equity.

2.22 Per share amounts

Earnings per share are computed by dividing net income by the weighted average number of common shares outstanding during the year.

2.23 Significant judgments and accounting estimates

The preparation of financial statements in accordance with Korean Accounting Standards requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date, and the reported amounts of revenues and expenses during the reporting period. But, the uncertainty of estimation and assumption could cause adjustment to the amounts of assets and liabilities that may be affected.

3. Preparation plan for transition to Korean International Financial Reporting Standards (KIFRS) and implementation status

The Company is currently preparing for the implementation of KIFRS. A task force team has been established by the Company to oversee and manage the implementation process and to identify and assess the impact of key accounting differences between KIFRS and Korean Accounting Standards for Non-Public Entities.

4. Restricted bank deposits

Restricted deposits as at December 31, 2017 and 2016 are as follows (Korean won in thousands):

Account	2017	2016	Description
Cash and cash equivalents	₩ 52,182	₩ 52,160	Restricted reserve for legal settlements
	-	527,049	Deposit held only for trust
	2,912,357	3,241,343	Pledged as collateral for contract
	2,964,539	3,820,552	
Short-term financial instruments	₩ 640,000	₩ 170,000	Pledged as collateral for leasehold deposits received
	3,347,297	-	Pledged as collateral for contract
	3,987,297	170,000	
Long-term financial instruments	₩36,000	₩37,500	Deposits for maintaining checking accounts
	1,150,000	1,580,000	Pledged as collateral for leasehold deposits received
	1,186,000	1,617,500	
	₩ 8,137,836	₩ 5,608,052	

5. Short-term investment assets

Short-term investment assets as at December 31, 2017 and 2016 are as follows (Korean won in thousands):

	2017	2016
Short-term financial instruments	₩ 3,987,297	₩ 243,210,000
Short-term loans	64,164,366	257,552,345
	68,151,663	500,762,345
Less allowance for doubtful accounts for short-term loans	-	(171,275,408)
	₩ 68,151,663	₩ 329,486,937

6. Inventories

Inventories as at December 31, 2017 and 2016 consist of the following (Korean won in thousands):

	2017		2016	
Building materials held for sale	₩	5,035,985	₩	13,462,819
Construction in process for sale		1,075,392		-
Land held for future construction of apartments		37,415,531		42,381,870
Construction materials and supplies		3,123,490		5,483,536
	₩	46,650,398	₩	61,328,225

7. Investments in securities and equity method investments

Available-for-sale securities as at December 31, 2017 and 2016 consist of the following (Korean won in thousands):

Equity securities	2017				2016
	Equity interest (%)	Acquisition cost	Proportionate share in net asset or fair value	Carrying value	Carrying value
Listed:					
Taeyoung E&C Co., Ltd.	4.97	₩ 24,268,244	₩ 39,140,000	₩ 39,140,000	₩ 20,596,000
KRTNET Corp.	1.14	345,000	900,000	900,000	930,000
Hanil Cement Co., Ltd.	2.63	19,100,674	28,412,384	28,412,384	15,100,288
Namkwang E&C Co., Ltd.	0.03	62,698	17,462	17,462	21,082
Sambu Construction Co., Ltd.	0.01	24,949	16,175	16,175	12,293
Dongbu Construction Co., Ltd.	0.22	587,163	465,125	465,125	-
Sub-total		44,388,728	68,951,146	68,951,146	36,659,663
Non-listed:					
Construction Guarantee	0.49	20,175,879	27,763,119	27,763,119	27,294,096
Yongma Tunnel Co., Ltd.	12.40	3,472,000	658,220	3,472,000	3,472,000
Masan I-Port Co., Ltd. (*1)	16.00	9,412,160	2,119,618	2,119,618	9,412,160
Electric Contractors' Financial Cooperative	0.01	50,122	37,440	50,123	50,123
Korea Electric Engineers Association	0.12	21,600	39,582	21,600	21,600
Engineering Financial Cooperative	5.15	20,068,947	23,247,280	23,247,280	22,041,160
Il Shin Leisure Co., Ltd.	0.67	5,000	5,000	5,000	5,000
Pentaport Co., Ltd. (*1)	20.10	60,300	-	-	-
Nong Shim Development Co., Ltd. (*1)	0.37	4,305,701	139,902	113,114	113,114
Morning Bridge Co., Ltd. (*1)	19.90	2,336,575	-	-	-
SBC General Trading and Contracting Company (referred to as the "SBC"), (*1, *3)	49.00	-	-	-	-
Inport Co., Ltd. (*1)	1.00	50,000	-	-	50,000
Shaanxi SK Guolin Hi-tech Road Material Co., Ltd.	15.00	502,362	384,148	502,362	502,362
Korea Housing & Urban Guarantee Co., Ltd. (*1)	0.10	12,964,985	6,606,112	6,606,112	6,606,112
Midan City Development Co., Ltd. (*1)	3.62	3,232,000	-	-	-
GwangYang Newport Co., Ltd. (*1, *2)	-	-	-	-	-
Gimhae Co., Ltd. (*1)	12.60	1,019,340	-	-	1,019,340
Ulsan-Chongchun Co., Ltd. (*1)	3.00	342,740	-	-	342,740
Alpha Dome City Co., Ltd. (*1)	4.25	19,668,000	-	-	-
Alpha Dome City Co., Ltd. (deferred stock) (*1)	11.92	801,090	-	-	-

(Continued)

Equity securities	2017				2016
	Equity interest (%)	Acquisition cost	Proportionate share in net asset or fair value	Carrying value	Carrying value
Alpha Dome City Asset Management Company	4.00	20,000	-	-	20,000
Dream Hub PFV Co., Ltd. (*1)	1.20	12,000,000	-	-	-
Wave City Development Co., Ltd. (*1)	0.70	70,000	-	-	-
Wave City Co., Ltd. (*1)	0.70	2,100	-	-	-
BichaeNuri Development Co., Ltd. (*1)	16.80	4,804,800	-	-	-
BichaeNuri Co., Ltd. (*1)	16.80	84,000	-	-	-
Pohang Clean Water Co., Ltd. (*1)	26.88	2,138,440	-	-	2,138,440
Ecomax Development Co., Ltd. (*1, *2)	-	-	-	-	-
Samsong Bromex Development Co., Ltd. (*1)	12.00	1,200,000	-	-	-
Samsong Bromex Co., Ltd. (*1)	12.00	60,000	-	-	-
Pyeongtak Korea-China Tech-Valley Co., Ltd. (*1)	11.46	573,000	-	-	-
SK E&C Saudi Company LLC (*1)	70.00	3,287,163	-	-	-
Ulju Chongchun Co., Ltd. (*1)	10.90	608,360	-	-	608,360
Gimhae Clean Water Road Co., Ltd. (*1)	22.96	500,210	-	-	500,210
Humphreys SLQ ONE Co., Ltd.	18.10	252,155	-	252,155	252,155
Gwangju Clean Water Co., Ltd. (*1)	16.80	1,228,775	-	-	1,228,775
Daejeon Clean Water Co., Ltd. (*1)	32.00	1,563,320	1,385,960	1,385,960	1,563,320
SK E&C USA, Inc. (*1, *3)	-	-	-	-	-
Non-listed:					
SK Technology Innovation Company (*1)	3.66	6,412,380	3,175,328	3,425,790	3,425,790
Pohang Clean Water Road Co., Ltd. (*1)	24.00	970,080	-	-	970,080
Smart Rail Co., Ltd.	6.57	10,748,400	10,418,161	10,748,400	10,748,400
Heekyung E&C Co., Ltd. (*1)	2.63	1,799,995	-	-	-
Fire Guarantee	0.02	20,000	20,000	20,000	20,000
Il Shin Leisure (membership) (*1)	0.67	1,994,004	1,150,000	1,150,000	1,150,000
Korea Auto Valley Operation Co., Ltd.	0.00	14,800,000	-	-	-
Ulsan Clean Environment Co., Ltd. (*1)	6.30	1,648,290	1,150,930	883,813	1,648,290
Woolim Co., Ltd. (*1)	2.88	428,185	-	-	-
SE Green Energy Co., Ltd.	29.85	2,388,000	2,172,377	2,388,000	2,388,000
West-Seoul Highway Co., Ltd.	15.31	3,801,000	2,977,135	2,949,146	2,949,146
Gapyung Yangju Ganggun Co., Ltd.	2.23	100,685	100,685	100,685	59,215
Goseong Green Power Co., Ltd.	1.00	1,000,000	2,397,081	1,000,000	1,000,000
Seong Bon Industrial Complex	29.95	521,200	-	521,200	521,200
Seong Bon Industrial Complex Development Co., Ltd.	100.00	260,000	-	260,000	260,000

(Continued)

Equity securities	2017				2016
	Equity interest (%)	Acquisition cost	Proportionate share in net asset or fair value	Carrying value	Carrying value
Gimhae Daedong Hightech Industrial Complex Co., Ltd.	12.63	631,250	513,726	631,250	631,250
Hwa Seong Jung Nam Industrial Complex Development Co., Ltd.	16.00	160,000	160,000	160,000	160,000
Ssangyong Engineering & Construction Co., Ltd. (*2)	-	-	-	-	635
Youngnam Industrial Complex Development Co., Ltd. (common stock)	30.00	299,995	300,315	299,995	299,995
Youngnam Industrial Complex Development Co., Ltd. (preferred stock)	100.00	5	5	5	5
Busan-newport hinterland Power Co., Ltd.	19.00	9,500	9,500	9,500	9,500
Geoje Offshore National Industrial Complex Co., Ltd.	21.60	648,000	647,131	648,000	648,000
Dongyang Engineering & Construct Corp. (*1)	0.07	943,333	-	-	-
Byucksan Engineering & Construction Co., Ltd. (*1)	0.30	1,154,343	-	-	-
STX Construction Co., Ltd.	0.08	245,246	-	-	-
Pumyang Asset management Co. Ltd. (*2)	-	-	-	-	-
Wonju Buron Industrial Complex Co., Ltd. (common stock)	26.71	26,710	26,710	26,710	26,710
Wonju Buron Industrial Complex Co., Ltd. (preferred stock)	100.00	9,000	9,000	9,000	9,000
KSJV LLC	30.00	33	33	33	33
Paju Green Hub Co., Ltd.	1.05	45,025	41,707	45,025	45,025
Miryang Tourist Complex Co., Ltd.	28.00	280,000	279,908	280,000	280,000
Hyodong Development Co., Ltd.	12.45	181,190	-	-	-
Keangnam Enterprises, Ltd.	0.03	329,408	-	-	-
Daeyoung EMC Co., Ltd.	1.02	142,869	-	-	-
Sub-total		178,829,250	87,936,113	91,114,995	104,491,341
Debt securities					
Government and municipal bonds (*2)		₩ 223,099	₩ 259,441	₩ 259,441	₩ 257,664
Subordinated corporate bonds (*2)		-	-	-	714,000
Sub-total		223,099	259,441	259,441	971,664
		₩ 223,491,077	₩ 157,146,700	₩ 160,325,582	₩ 142,122,668

(*1) The Company recognized ₩15,092,323 thousand as impairment losses on its investments in Masan I-Port Co., Ltd., Inport Co., Ltd., Gimhae Co., Ltd., Ulsan-Chongchun Co., Ltd., Pohang Clean Water Co., Ltd., Ulju Chongchun Co., Ltd., Gimhae Clean Water Road Co., Ltd., Gwangju Clean Water Co., Ltd., Daejeon Clean Water Co., Ltd., Pohang Clean Water Road Co., Ltd., Ulsan Clean Environment Co., Ltd. during the year ended December 31, 2017 (₩71,822,039 thousand as impairment losses on its investments in Pentaport Co., Ltd., Nong Shim Development Co., Ltd., Morning Bridge Co., Ltd., SBC, Korea Housing & Urban Guarantee Co., Ltd., Midan City Development Co., Ltd., GwangYang Newport Co., Ltd., Alpha Dome City Co.,

Ltd., Alpha Dome Co., Ltd. (deferred stock) Dream Hub PFV CO., Ltd., Wave City Development Co., Ltd., Wave City Co., Ltd., BichaeNuri Development Co., Ltd., BichaeNuri Co., Ltd., ECOMAX Development Co., Ltd., Samsung Bromex Development Co., Ltd., Samsung Bromex Co., Ltd., Pyeongtak Korea-China Tech-Valley Co., Ltd., SK E&C Saudi Company LLC, SK E&C USA, Inc., SK Technology Innovation Company, Heekyung E&C Co., Ltd., Il Shin Leisure (membership), Woolim Co., Ltd., Dongyang Engineering & Construction Corp., Byucksan Engineering & Construction Co., Ltd. as at December 31, 2016). However, due to the recovery of fair value of previously impaired securities, the Company reversed the impairment loss on its investment in Korea Housing Guarantee Co., Ltd. amounting to ₩6,606,117 thousand. As such, the accumulated balance for the above reversal as at December 31, 2017 was recognized out of the initially recognized loss in 2001 amounting to ₩12,964,985 thousand.

(*2) The Company recognized net losses on disposal of available-for-sale securities amounting to ₩28,251 thousand arising from the disposal of Gwangyang Newport Co., Ltd., ECOMAX Development Co., Ltd., Ssangyong Engineering & Construction Co., Ltd., Pumyang Asset Management Co., Ltd, government and municipal bonds, and subordinated corporate bonds during the year ended December 31, 2017.

(*3) During the current year, SK E&C USA, Inc. was merged by SK E&C BETEK Corp. (referred to as the "BETEK"), a subsidiary of the Company, and the investment in SBC was reclassified to equity method investments.

As at December 31, 2017, the Company recognized valuation gains of marketable securities and certain non-marketable available-for-sale securities amounting to ₩26,805,851 thousand, net of deferred income tax effect amounting to ₩ 8,558,068 thousand, as other comprehensive income.

The equity method was not applied for the investments in Pohang Clean Water Co., Ltd., Gimhae Clean Water Road Co., Ltd., Daejeon Clean Water Co., Ltd., Pohang Clean Water Road Co., Ltd., SE Green Energy Co., Ltd. and Seong Bon Industrial Complex Development Co., Ltd., Youngnam Industrial Complex Development Co., Ltd., Geoje Offshore National Industrial Complex Co., Ltd., Wonju Buron Industrial Complex Co., Ltd., KSJV LLC, Miryang Tourist Complex Co., Ltd. as total assets were less than ₩12,000,000 thousand as at the prior year-end and the changes in the carrying values of these investments arising from the application of the equity method were not material.

Maturities of debt securities as at December 31, 2017 are as follows (Korean won in thousands):

	Within 1 year	Later than 1 year but less than 5 years	Later than 5 years	Total
Government and municipal bonds	₩ -	₩ 259,441	₩ -	₩ 259,441

Equity method investments as at December 31, 2017 and 2016 consist of the following (Korean won in thousands):

Equity securities	2017				2016
	Equity interest (%)	Acquisition cost	Proportionate share in net asset or fair value	Carrying value	Carrying value
BETEK	100.00	₩ 62,125,321	₩ 36,631,350	₩ 36,631,350	₩ 47,735,408
Pentaport Development Co., Ltd.	20.10	12,060,000	(56,760,682)	-	-
SKEC (Nanjing) Co., Ltd.	100.00	11,318,815	17,827,169	17,827,169	17,609,763
SKEC (Thai) Ltd.	100.00	85,249	(26,465,973)	-	-
SK E&C India Pvt. Ltd.	99.94	1,613,904	309,050	309,050	5,246,222
Intervest New Growth Fund	30.00	8,199,000	2,056,551	2,056,551	2,115,230
Shaw SKE&C Middle East Ltd.	41.00	9,219,260	11,297,047	11,297,047	29,470,523
TSK Water Co., Ltd.	25.00	37,349,813	44,622,133	44,622,133	37,087,900
SKEC Consultores Ecuador, S.A. (*1)	4.42	132,890	(251,902)	-	-
SK Holdco Pte. Ltd. (*2)	56.49	92,622,857	116,865,586	108,458,458	105,450,424
SKEC Jurong Investment Pte. Ltd.	29.88	27,264,412	(16,661,088)	-	-

Equity securities	2017			2016	
	Equity interest (%)	Acquisition cost	Proportionate share in net asset or fair value	Carrying value	Carrying value
Thai Woo Ree Engineering Co., Ltd. (referred to as the "Thai Woo Ree")	47.79	23,720,417	(4,820,717)	-	-
Seosuwon Development Co., Ltd.	19.90	995,000	(20,184,115)	-	-
SKEC Anadolu LLC. (*3)	100.00	86,639,046	(101,012,273)	-	-
Xe Pian Xe-Namnoy Power Company (*4)	26.00	72,822,223	65,345,001	53,160,292	47,423,422
Chungju Megapolis Co., Ltd.	47.00	2,350,000	7,058,606	6,142,624	7,423,695
Sunlake Co., Ltd.	100.00	737,893	35,594,520	35,594,520	37,695,981
SK TNS Co., Ltd. (*5)	59.48	165,720,261	12,900,740	148,340,209	164,702,788
Daehan New Stay REIT4	38.69	16,714,000	14,531,441	14,445,094	15,207,349
SBC (*6)	49.00	433,707	4,377,924	5,171,477	-
CANAKKALE HIGHWAY AND BRIDGE (*7)	25.00	23,012,959	22,160,472	22,160,472	-
Harmony Country Club Co., Ltd. (*8)	49.99	1,999,995	1,723,361	-	-
Jeonnam Shinan Photovoltaic Power Plant Inc. (*9)	47.00	47,000	41,206	41,206	-
		₩ 657,184,022	₩ 167,185,407	₩ 506,257,652	₩ 517,168,705

(*1) Due to a disproportionate increase in capital of the investee, the Company holds 4.42% equity interest in the investee. However, Sunlake Co., Ltd., a subsidiary of the Company, holds 95.58% ownership of the investee by participating in the capital increase.

(*2) Due to a disproportionate capital increase of investee, the equity interest in the investee reduced from 61.14% to 56.49% as at December 31, 2017.

(*3) The Company acquired preferred shares of investee which amount to ₩27,536,040 thousand during the current year.

(*4) The Company acquired additional ordinary shares of the investee amounting to ₩17,619,683 thousand by participating in the capital increase.

(*5) During the current year, the Company's equity interest was increased from 52.29% to 59.48% due to the redemption of redeemable convertible preferred shares.

(*6) Investments in SBC has been accounted for using the equity method as changes in the carrying value of the investment from the beginning of 2017 was significant.

(*7) The Company acquired shares of CANAKKALE HIGHWAY AND BRIDGE on March 7, 2017.

(*8) The Company acquired shares of Harmony Country Club Co., Ltd. on August 3, 2017.

(*9) The Company acquired shares of Jeonnam Shinan Photovoltaic Power Plant Inc. on December 26, 2017.

The details of changes in carrying amount of equity method investments for the years ended December 31, 2017 and 2016 are as follows (Korean won in thousands):

Equity securities	2017				
	Jan. 1	Acquisition (dividend/disposal)	Changes in equity adjustment	Equity in earnings (loss)	Dec. 31
BETEK	₩ 47,735,408	₩ -	₩ (5,098,112)	₩ (6,005,946)	₩ 36,631,350
Pentaport Development Co., Ltd.	-	-	-	-	-
SKEC (Nanjing) Co., Ltd.	17,609,763	-	(1,004,686)	1,222,092	17,827,169
SKEC (Thai) Ltd. (*1)	-	-	-	-	-
SK E&C India Pvt. Ltd.	5,246,222	(4,528,110)	(22,956)	(386,106)	309,050
InterVest New Growth Fund	2,115,230	-	-	(58,679)	2,056,551
Shaw SKE&C Middle East Ltd.	29,470,523	(15,917,446)	(2,548,687)	292,657	11,297,047
TSK Water Co., Ltd.	37,087,900	-	(505,698)	8,039,931	44,622,133
SKEC Consultores Ecuador, S.A	-	-	-	-	-
SK Holdco Pte. Ltd. (*2)	105,450,424	228,646	(14,645,550)	17,424,938	108,458,458
SKEC Jurong Investment Pte. Ltd. (*3)	-	-	16,539,147	(16,539,147)	-
Thai Woo Ree Engineering Co., Ltd. (*4)	-	-	-	-	-
Seosuwon Development Co., Ltd.	-	-	-	-	-
SKEC Anadolu LLC (*5)	-	-	-	-	-
Xe-Pian Xe-Namnoy Power Company	47,423,422	17,619,683	(7,621,579)	(4,261,234)	53,160,292
Chungju Megapolis Co., Ltd.	7,423,695	-	-	(1,281,071)	6,142,624
Sunlake Co., Ltd.	37,695,981	-	(1,763,388)	(338,073)	35,594,520
SK TNS Co., Ltd. (*2)	164,702,788	-	(18,587,248)	2,224,669	148,340,209
Daehan New Stay REIT4	15,207,349	464,000	-	(1,226,255)	14,445,094
SBC	-	(793,553)	(239,833)	6,204,863	5,171,477
Canakkale Highway and Bridge	-	23,012,959	(1,337,295)	484,808	22,160,472
Harmony Country Club Co., Ltd.	-	1,999,995	-	(1,999,995)	-
Jeonnam Shinan Photovoltaic Power Plant Inc.	-	47,000	(621)	(5,173)	41,206
	₩ 517,168,705	₩ 22,133,174	₩ (36,836,506)	₩ 3,792,279	₩ 506,257,652

(*1) The Company recognized its share of losses amounting to ₩21,966,730 thousand exceeding its carrying amount of the equity method investments, which were reduced to zero, by providing an allowance for doubtful accounts of long-term loans to the investee.

(*2) Included in changes in equity adjustment of those investees as at December 31, 2017 is capital surplus arising from the equity method totaling ₩(-)19,747,465 thousand.

(*3) The Company recognized its share of losses amounting to ₩19,450,575 thousand exceeding its carrying amount of equity method investments, which were reduced to zero, by providing an allowance for doubtful accounts of short-term loans to the investee. In 2017, due to the liquidation of the investee, the Company recognized a debit of equity adjustment in equity method amounting to ₩16,539,147 thousand as an impairment loss on equity method investments.

(*4) The Company recognized its share of losses amounting to ₩4,821,029 thousand exceeding its carrying amount of equity method investments, which were reduced to zero, by providing an allowance for doubtful accounts of long-term loans to the investee.

(*5) The Company recognized its share of losses amounting to ₩101,012,273 thousand exceeding its carrying amount of equity method investments, which were reduced to zero, by providing an allowance for doubtful accounts of long-term loans to the investee amounting to ₩83,784,230 and accounting for the remaining amount of ₩17,228,043 as other current liabilities.

Equity securities	2016					
	Jan. 1	Acquisition (dividend/disposal)	Changes in equity adjustment	Equity in earnings (loss)	Dec. 31	
BETEK	₩ 49,995,059	₩ -	₩ 1,405,577	₩ (3,665,228)	₩ 47,735,408	
Pentaport Development Co., Ltd.	-	-	-	-	-	
SKEC (Nanjing) Co., Ltd.	17,500,857	-	(515,967)	624,873	17,609,763	
SKEC (Thai) Ltd. (*1)(*2)	-	-	-	-	-	
SK E&C India Pvt. Ltd.	12,595,454	(2,505,652)	(56,869)	(4,786,711)	5,246,222	
Intervest New Growth Fund	5,301,837	(3,840,000)	-	653,393	2,115,230	
Shaw SKE&C Middle East Ltd.	24,949,751	-	925,561	3,595,211	29,470,523	
TSK Water Co., Ltd.	31,576,541	-	109,330	5,402,029	37,087,900	
SKEC Consultores Ecuador, S.A	-	-	-	-	-	
Eurasia Tunnel	79,816,105	(72,574,326)	(6,188,984)	(1,052,795)	-	
SK Holdco Pte., Ltd.	-	92,394,211	5,311,050	7,745,163	105,450,424	
SKEC Jurong Investment Pte. Ltd. (*3)	-	-	-	-	-	
Thai Woo Ree Engineering Co., Ltd.	-	-	-	-	-	
(*1)	-	-	-	-	-	
Seosuwon Development Co., Ltd.	-	-	-	-	-	
Ecomax Co., Ltd.	-	-	-	-	-	
SKEC Anadolu LLC (*4)	-	-	-	-	-	
Ecoplus City Co., Ltd.	6,234,543	(5,463,701)	-	(770,842)	-	
Xe-Pian Xe-Namnoy Power Company	36,093,810	12,594,354	2,085,105	(3,349,847)	47,423,422	
Chungju Megapolis Co., Ltd.	2,315,124	-	-	5,108,571	7,423,695	
Sunlake Co., Ltd.	15,754,361	-	1,371,661	20,569,959	37,695,981	
SKTNS Co., Ltd.	22,376,441	141,092,110	-	1,234,237	164,702,788	
Daehan New Stay REIT4	-	16,250,000	-	(1,042,651)	15,207,349	
	₩ 304,509,883	₩ 177,946,996	₩ 4,446,464	₩ 30,265,362	₩ 517,168,705	

(*1) Included in changes in equity adjustment of those investees as at December 31, 2016 is capital surplus arising from the equity method totaling ₩8,303,921 thousand.

(*2) The Company recognized its share of losses amounting to ₩21,966,730 thousand exceeding its carrying amount of the equity method investments, which were reduced to zero, by providing an allowance for doubtful accounts of short-term loans to the investee.

(*3) The Company recognized its share of losses amounting to ₩19,450,575 thousand exceeding its carrying amount of equity method investments, which were reduced to zero, by providing an allowance for doubtful accounts of short-term loans to the investee.

(*4) The Company recognized its share of losses amounting to ₩148,547,459 thousand exceeding its carrying amount of equity method investments, which were reduced to zero, by providing an allowance for doubtful accounts of long-term loans to the investee amounting to ₩83,784,230 and accounting for the remaining amount of ₩64,763,229 as other current liabilities.

As at December 31, 2017, accumulated equity adjustment in equity method amounted to a debit of ₩13,113,423 thousand. The amount is recorded as part of accumulated other comprehensive income.

The summary of the financial position of the investees as at December 31, 2017, and the results of their financial performance for the year then ended, is presented as follows (Korean won in thousands):

	Total assets	Total liabilities	Sales	Net income (loss)
BETEK	₩ 42,973,072	₩ 6,341,722	₩ -	₩ (6,005,946)
Pentaport Development Co., Ltd.	197,730,412	480,121,869	7,287,701	(55,433,101)
SKEC (Nanjing) Co., Ltd.	20,675,104	2,847,935	18,763,150	1,222,092
SKEC (Thai) Ltd.	629,780	27,095,753	-	(1,992,850)
SK E&C India Pvt. Ltd.	322,265	13,042	207,980	(386,324)
Intervest New Growth Fund	7,022,033	166,862	-	(195,595)
Shaw SKE&C Middle East Ltd.	28,025,893	472,120	-	713,796
TSK Water Co., Ltd.	460,849,312	282,360,033	421,868,932	32,159,723
SKEC Consultores Ecuador, S.A	32,447,217	38,140,267	-	(58,165)
SK Holdco Pte. Ltd.	207,114,787	236,461	-	30,104,300
SKEC Jurong Investment Pte. Ltd.	516,497	57,309,493	-	(1,442,152)
Thai Woo Ree Engineering Co., Ltd.	6,404,366	16,492,312	-	(884,763)
Seosuwon Development Co., Ltd.	85,861,113	187,288,827	110,385	(13,790,031)
SKEC Anadolu LLC	45,159,339	146,171,612	21,157,753	(2,696,791)
Xe-Pian Xe-Namnoy Power Company	858,789,144	607,462,217	-	(17,195,920)
Chungju Megapolis Co., Ltd.	72,156,055	57,137,745	18,071	(3,178,101)
Sunlake Co., Ltd.	66,979,598	31,385,078	376,835	(338,073)
SK TNS Co., Ltd.	168,079,926	144,216,530	541,995,892	30,399,168
Daehan New Stay REIT4	148,413,303	110,023,513	-	(2,271,889)
SBC	22,260,711	11,706,677	49,300,050	11,777,869
Canakkale Highway and Bridge	136,316,749	47,674,860	-	1,939,234
Harmony Country Club Co., Ltd.	43,179,752	39,733,021	-	(553,270)
Jeonnam Shinan Photovoltaic Power Plant Inc.	87,673	-	-	(11,005)

In applying the equity method accounting, the Company used the latest audited or unaudited financial statements approved by the CEO and management of investees.

Changes in the carrying amount of goodwill arising from equity method investments for the year ended December 31, 2017 are as follows (Korean won in thousands):

	Jan. 1	Additions	Amortization	Dec. 31
SK TNS Co., Ltd.	₩ 144,916,369	₩ -	₩ (9,476,899)	₩ 135,439,470
Daehan New Stay REIT4	-	24,251	(24,251)	-
	₩ 144,916,369	₩ 24,251	₩ (9,501,150)	₩ 135,439,470

Changes in unrealized gains on equity method investments for the year ended December 31, 2017 are as follows (Korean won in thousands):

	Type	Jan. 1	Increase	Decrease	Dec. 31
Pentaport Development Co., Ltd.	Inventory	₩ 269,819	₩ 11,601	₩ -	₩ 281,420
SKEC Jurong Investment Pte. Ltd.	Fixed asset	7,560,703	277,144	-	7,837,847
Xe-Pian Xe-Namnoy Power Company	Fixed asset	12,394,414	-	209,705	12,184,709
Chungju Megapolis Co., Ltd.	Inventory	1,128,619	-	212,637	915,982
SK Holdco Pte. Ltd.	Investment	9,304,007	-	896,879	8,407,128

As at December 31, 2017 and 2016, the accumulated unrecognized losses of the respective equity method investees for which the application of the equity method of accounting was suspended as the Company's share in the accumulated losses of the investees exceeded the Company's interest in the investees are as follows (Korean won in thousands):

	2017		2016	
Pentaport Development Co., Ltd.	₩	57,042,102	₩	45,888,448
SKEC (Thai) Ltd.		4,499,243		8,588,448
SKEC Consultores Ecuador, S.A		251,902		578,428
SKEC Jurong Investment Pte. Ltd.		5,356,669		6,806,777
Thai Woo Ree Engineering Co., Ltd.		-		4,520,623
Seosuwon Development Co., Ltd.		20,184,115		17,439,899
Harmony Country Club Co., Ltd.		4,773,924		-

As at December 31, 2017, the Company provided the entire amount of its investment in Yongma Tunnel Co., Ltd., Masan I-port Co., Ltd., Gimhae Clean Water Co., Ltd., Ulsan-Chongchun Co., Ltd., Pohang Clean Water Co., Ltd., Ulju Chongchun Co., Ltd., Gimhae Clean Water Road Co., Ltd., Humphreys SLQ ONE Co., Ltd., Gwangju Clean Water Co., Ltd., Daejeon Clean Water Co., Ltd., Pohang Clean Water Road Co., Ltd., Smart Rail Co., Ltd., Ulsan Clean Environment Co., Ltd., Gapyung Yangju Ganggun Co., Ltd., Chungju Megapolis Co., Ltd., Korea Auto Valley Operation Co., Ltd., Goseong Green Power Co., Ltd. Seong Bon Industrial Complex Development Co., Ltd. Paju Green Hub Co., Ltd., Engineering Financial Cooperative, Xe-Pian Xe-Namnoy Power Company and a portion (673,818 shares) of its shares in Korea Housing & Urban Guarantee Co., Ltd. as collateral to the financial institutions for the Company's and investees' borrowings.

8. Property, plant and equipment

Changes in net book value of property, plant and equipment for the years ended December 31, 2017 and 2016 are as follows (Korean won in thousands):

	2017					
	Jan. 1	Additions	Disposals	Depreciation	Transfer	Dec. 31
Land	₩ 135,925,245	₩ 1,708,084	₩ (52,972,511)	₩ -	₩ 2,569,419	₩ 87,230,237
Building and structures	25,647,087	31,794	(405,662)	(998,783)	680,889	24,955,325
Machinery and equipment	13,078,386	113,200	(1,717,243)	(4,985,960)	-	6,488,383
Construction equipment	26,305,820	1,979,879	(7,502,598)	(17,342,369)	12,056,537	15,497,269
Other fixed assets	25,455,973	16,729,460	(3,404,809)	(6,068,540)	(12,056,537)	20,655,547
	₩ 226,412,511	₩ 20,562,417	₩ (66,002,823)	₩ (29,395,652)	₩ 3,250,308	₩ 154,826,761

	2016					
	Jan. 1	Additions	Disposals	Depreciation	Transfer	Dec. 31
Land	₩ 133,351,632	₩ 621,788	₩ (1,052,279)	₩ -	₩ 3,004,104	₩ 135,925,245
Building and structures	27,791,185	7,105	(1,045,186)	(1,106,017)	-	25,647,087
Machinery and equipment	21,067,397	2,619,883	(3,516,676)	(7,092,218)	-	13,078,386
Construction equipment	47,161,222	3,649,244	(8,206,907)	(30,087,173)	13,789,434	26,305,820
Other fixed assets	28,989,571	19,077,845	(1,647,685)	(7,174,324)	(13,789,434)	25,455,973
	₩ 258,361,007	₩ 25,975,865	₩ (15,468,733)	₩ (45,459,732)	₩ 3,004,104	₩ 226,412,511

The Company engaged Pacific Appraisal Co., Ltd., an accredited independent valuer, to determine the fair value of its land. Fair value is determined by reference to market-based evidence. This means that the valuation performed by the valuer is based on active market prices, adjusted for any difference in the nature, location or condition of the specific property. The date of the last valuation was August 1, 2015.

As at December 31, 2017, the revaluation surplus amounts to ₩27,279,196 thousand (₩51,668,041 thousand as at December 31, 2016), net of deferred income tax effect amounting to ₩8,709,190 thousand, and is recorded as part of revaluation surplus within accumulated other comprehensive income within equity.

Inventories and certain property, plant and equipment are insured against fire and other casualty losses for up to ₩48,885,894 thousand, USD 380,478,589, SAR 67,002,562 and SGD 2,212,960 as at December 31, 2017.

As at December 31, 2017, the Company's land to the extent of ₩142,000,000 thousand has been provided as collateral to the financial institution in connection with certain short-term borrowings.

9. Intangible assets

Changes in the net book value of intangible assets and amortization expense for the years ended December 31, 2017 and 2016 are as follows (Korean won in thousands):

	2017				
	Jan. 1	Additions	Disposals	Amortization	Dec. 31
Software	₩ 11,481,445	₩ 7,222,607	₩ (652,727)	₩ (5,041,346)	₩ 13,009,979

	2016				
	Jan. 1	Additions	Disposals	Amortization	Dec. 31
Software	₩ 11,488,766	₩ 5,756,116	₩ (30,611)	₩ (5,732,826)	₩ 11,481,445

10. Short-term borrowings and long-term debt

Short-term borrowings and long-term debt as at December 31, 2017 and 2016 consist of the following (Korean won in thousands):

Short-term borrowings	Annual interest rate in 2017(%)	2017	2016
General loans	-	₩ -	₩ 10,000,000
Loan on real estate	-	-	34,000,000
Commercial paper	-	-	32,500,000
		₩ -	₩ 76,500,000

Long-term borrowings	Annual interest rate in 2017(%)	2017	2016
General loans	1.00 - 4.65	₩ 16,886,400	₩ 7,747,200
Pre-shipment loans	-	-	37,679,000
Loans on future receivables, net of discount (*1)	5.20 - 5.60	69,272,431	220,444,038
Foreign currency loans, net of discount	4.09 - 4.40	28,377,026	194,225,562
Project financing loans	4.50 - 5.34	40,500,000	44,000,000
Bonds, net of discounts	4.30 - 5.41	948,247,529	1,097,642,247
		(388,148,519)	(511,836,337)
Less current portion			
Long-term debt		₩ 560,099,010	₩ 585,805,910

(*1) The Company provided future cash flows from the business as collateral for the borrowings.

Details of bonds issued as at December 31, 2017 and 2016 are as follows (Korean won in thousands):

Series (*1)	Annual interest rate in 2017(%)	2017	2016	Issuance date	Maturity
143 rd -2 nd	-	₩ -	₩ 100,000,000	Sep. 2014	Sep. 2017
144 th	-	-	30,000,000	Apr. 2015	Apr. 2017
145 th	4.97	150,000,000	150,000,000	Apr. 2015	Apr. 2018
146 th -1 st	-	-	30,000,000	Jul. 2015	Jul. 2017
146 th -2 nd	4.93	80,000,000	80,000,000	Jul. 2015	Jul. 2018

Series (*1)	Annual interest rate in 2017(%)	2017	2016	Issuance date	Maturity
147 th	-	-	10,000,000	Sep. 2015	Sep. 2017
148 th	-	-	30,000,000	May. 2016	May. 2017
149 th	4.84	85,000,000	85,000,000	Nov. 2016	Nov. 2018
150 th	-	-	80,000,000	Nov. 2016	Mar. 2017
151 st - 1 st	4.79	134,000,000	-	Apr. 2017	Apr. 2019
151 st - 2 nd	5.41	56,000,000	-	Apr. 2017	Apr. 2020
152 nd	4.79	20,000,000	-	Apr. 2017	Apr. 2019
153 rd	5.27	70,000,000	-	Aug. 2017	Aug. 2020
154 th	4.41	150,000,000	-	Sep. 2017	Sep. 2020
155 th	4.30	50,000,000	-	Sep. 2017	Mar. 2020
		795,000,000	595,000,000		
Discount on bonds		(1,788,328)	(1,453,552)		
		793,211,672	593,546,448		
Less current portion, net of discount		(314,721,839)	(199,817,827)		
		₩ 478,489,833	₩ 393,728,621		

(*1) All bonds issued are unsecured.

Repayment schedules of the long-term debt as at December 31, 2017 are summarized as follows (Korean won in thousands):

Year	Bonds	Long-term debt	Total
2018	₩ 315,000,000	₩ 73,579,392	₩ 388,579,392
2019	154,000,000	56,310,800	210,310,800
2020	326,000,000	21,110,800	347,110,800
2021 and thereafter	-	4,304,000	4,304,000
	₩ 795,000,000	₩ 155,304,992	₩ 950,304,992

11. Retirement benefits liability

Changes in carrying amount of severance and retirement benefit liability for the years ended December 31, 2017 and 2016 are as follows (Korean won in thousands):

	2017	2016
Beginning balance	₩ 269,757,927	₩ 248,256,178
Provision	52,664,921	48,743,842
Payment of retirement benefit	(35,105,504)	(27,242,093)
Ending balance	287,317,344	269,757,927
(less) Prepayments to NPS	(457,269)	(517,827)
(less) Defined plan assets	(286,769,198)	(269,089,783)
	₩ 90,877	₩ 150,317

Changes in carrying amount of defined benefit plan assets for the years ended December 31, 2017 and 2016 are as follows (Korean won in thousands):

	2017	2016
Beginning balance	₩ 269,089,783	₩ 229,535,313
Funding	50,000,000	74,200,000
Interest income	3,178,101	3,050,894
Payment of severance and retirement benefits	(35,498,686)	(37,696,424)
Ending balance	₩ 286,769,198	₩ 269,089,783

The major components of defined benefit plan assets as at December 31, 2017 and 2016 are as follows (Korean won in thousands):

	2017		2016	
	Book value	Fair value	Book value	Fair value
Time deposit	₩ 286,769,198	₩ 286,769,198	₩ 269,089,783	₩ 269,089,783

12. Related party disclosures

Related parties of the Company and nature of their relationship with the Company are as follows:

Company name	Parent company	Relationship with the Company
SK Holdings Co., Ltd.	-	Parent
BETEK	The Company	Subsidiary
SKEC (Thai) Ltd.	The Company	Subsidiary
SKEC (Nanjing) Co., Ltd.	The Company	Subsidiary
SKEC Consultores Ecuador, S.A	The Company	Subsidiary
Thai Woo Ree Engineering Co., Ltd.	The Company	Subsidiary
Seosuwon Development Co., Ltd.	The Company	Subsidiary
SKEC Anadolu LLC	The Company	Subsidiary
Sunlake Co., Ltd	The Company	Subsidiary
SK E&C India Pvt. Ltd.	The Company	Subsidiary
SK Holdco Pte., Ltd.	The Company	Subsidiary
SK TNS Co., Ltd.	The Company	Subsidiary

Transactions with related parties for the years ended December 31, 2017 and 2016 and related outstanding balances as at December 31, 2017 and 2016 are as follows (Korean won in thousands):

	2017			
	Sales and other income	Purchases and other expenses	Accounts receivable/ other assets	Accounts payable/ other liabilities
SK Holdings Co., Ltd.	₩ 91,836	₩ 29,776,362	₩ -	₩ 3,536,245
BETEK	292,528	-	2,635,932	-
SKEC (Nanjing) Co., Ltd.	872,791	-	-	-
SKEC Consultores Ecuador, S.A	-	-	33,171,726	-
Thai Woo Ree Engineering Co., Ltd.	179,934	-	14,854,455	18,579
Seosuwon Development Co., Ltd.	1,091,636	-	-	-
Sunlake Co., Ltd.	5,127,139	-	428,613	-
SK TNS Co., Ltd.	3,234,079	15,737,149	758,559	3,370,808
SKEC (THAI) Ltd.	-	-	22,364,074	-
SKEC Anadolu LLC	-	-	83,784,230	-
SK HOLDSCO Pte, Ltd.	-	-	136,715	-
Eurasia Tunnel	71,205,858	-	15,146,854	-
Xe-Pian Xe-Namnoy Power Company	123,958,714	-	29,924,758	30,558,064
Chungju Megapolis Co., Ltd.	185,359	-	-	-
TSK Water Co., Ltd.	-	3,903,320	-	872,300
SBC	134,709	235,867	3,050,623	541,261
Pentaport Development Co., Ltd.	-	-	117,462,101	-
SKEC Jurong Investment	-	-	74,375,361	-
SK Discovery Co., Ltd (previously, SK Chemical Co., Ltd.)	11,425,524	-	-	-
SK Chemical Co., Ltd.	2,138,019	-	995,170	-
SK Networks Co., Ltd.	14,830	2,333,290	-	744,220
SK Telecom Co., Ltd.	302,479	4,598,054	69,390	1,363,761
SK E&S Co., Ltd.	149,841	-	-	-

	2017			
	Sales and other income	Purchases and other expenses	Accounts receivable/ other assets	Accounts payable/ other liabilities
SK Energy Co., Ltd.	43,510,563	391	4,028,852	-
HAPPYNARAE Co., Ltd.	-	236,088,031	-	35,269,923
Wave City Development Co., Ltd.	-	-	50,384,000	-
SK Broadband Co., Ltd.	-	662,923	-	56,471
SK Gas Co., Ltd.	17,377,079	-	80,472	-
SK Innovation Co., Ltd.	40,652,163	4,203,213	-	385,719
SK Lubricants Co., Ltd.	4,513,200	-	-	-
SK Global Chemical Co., Ltd.	3,409,784	-	-	-
SK Forest Co., Ltd.	-	15,933,881	344,981	2,294,071
Jurong Aromatics Complex	4,467,252	-	64,553,276	-
SK M&SERVICE Co., Ltd.	-	4,506,012	-	92,331
Daejeon Clean Water Co., Ltd.	2,418,327	-	1,153,770	-
Paju Energy Service Co., Ltd.	121,538,805	-	48,970,460	920,000
Gwangju Clean Water Co., Ltd.	-	-	322,868	-
Smart Rail Co., Ltd.	98,400,088	-	27,482,500	-
Pohang Clean Water Road Co., Ltd.	232,134	-	-	-
Boryeong LNG Terminal Co., Ltd.	42,676,395	-	-	-
Narae Energy Service Co., Ltd.	3,590,047	310,000	-	-
SK Planet Co., Ltd.	-	904,418	-	-
SK Hynix Inc.	1,609,634,477	257,486	259,408,081	21,195
SK Incheon Petrochem Co., Ltd.	8,870,335	-	3,244,008	-
SK D&D Co., Ltd.	6,653,787	6,464,861	-	654,269
Wirye Energy Service Co., Ltd.	49,391,302	-	7,779,200	-
SK Pinx Co., Ltd.	-	433,098	-	-
SK Advanced Co., Ltd.	6,409,560	-	-	-
Ko-one energy service Co., Ltd.	-	387,766	-	-
SK Infosec Co., Ltd.	-	3,283,740	-	516,393
Sk Hystec Inc.	-	827,710	-	-
PS&Marketing Co., Ltd.	873,622	-	-	-
SK Hyeng Inc.	-	26,348,000	-	7,218,200
SKC LTD	2,639,283	400,266	-	-
SM Core Inc.	-	5,400,121	-	2,450,383
SK Magic Co., Ltd.	-	1,431,419	-	-
Daehan Oil Pipeline Corporation	-	322,700	-	-
SM Contents & Communications Co., Ltd.	-	536,466	-	-
	₩ 2,287,663,479	₩ 365,286,544	₩ 866,911,029	₩ 90,884,193

	2016			
	Sales and other income	Purchases and other expenses	Accounts receivable/ other assets	Accounts payable/ other liabilities
SK Holdings Co., Ltd.	₩ 2,366,611	₩ 34,640,815	₩ 55,873	₩ 3,085,093
BETEK	-	627,456	-	-
SKEC (Nanjing) Co., Ltd.	301,745	-	-	-
SKEC Consultores Ecuador, S.A	1,583,687	-	9,364,916	2,604,798
Thai Woo Ree Engineering Co., Ltd.	1,664,202	17,849,715	14,934,263	-
Seosuwon Development Co., Ltd.	1,200,000	-	-	-
Sunlake Co., Ltd.	14,945,306	-	662,503	-
SK E&C India Pvt. Ltd.	-	4,043,907	-	-
SK TNS Co., Ltd.	3,957,369	5,564,272	322,038	2,605,506
SKEC (THAI) LTD.	-	-	22,364,074	-
SKEC Anadolu LLC	-	-	83,784,230	-

	2016			
	Sales and other income	Purchases and other expenses	Accounts receivable/ other assets	Accounts payable/ other liabilities
Eurasia Tunnel	110,147,055	-	13,076,428	2,399,723
Ecoplus City Co., Ltd.	1,520,924	-	-	-
Xe-Pian Xe-Namnoy Power Company	224,367,692	-	27,118,723	34,044,065
Chungju Megapolis Co., Ltd.	7,477,258	-	-	-
TSK Water Co., Ltd.	-	3,412,209	-	71,384
SBC	154,181	905,571	4,289,110	555,258
Pentaport Development Co., Ltd.	-	-	125,022,101	-
SKEC Jurong Investment Pte. Ltd.	-	-	74,468,502	-
SK Chemical Co., Ltd.	15,034,662	41,067	-	1,079,850
SK Networks Co., Ltd.	9,110	4,898,929	-	4,605,348
SK Telecom Co., Ltd.	18,237,843	4,856,974	4,974,628	872,171
SK E&S Co., Ltd.	200,183	-	-	-
SK Energy Co., Ltd.	43,355,908	491	3,473,338	-
HAPPYNARAE Co., Ltd.	-	19,002,046	-	13,844,039
Wave City Development Co., Ltd.	-	-	68,391,932	-
SK Broadband Co., Ltd.	-	690,196	-	56,961
SK Gas Co., Ltd.	5,701,629	5,816	346,664	487,525
SK Innovation Co., Ltd.	14,521,595	-	-	370,462
SK Lubricants Co., Ltd.	2,171,150	-	783,640	-
SK Global Chemical Co., Ltd.	10,819,676	44,933	3,652,000	-
SK Forest Co., Ltd.	2,714	18,875,094	284,125	3,265,886
Jurong Aromatics Complex	8,165,423	-	92,201,755	25,480
UBCARE Co., Ltd.	-	2,042,080	-	748,269
SK M&SERVICE Co., Ltd.	-	4,686,428	-	85,936
SKSOL Lube Base Oils S.A.	65	-	-	-
Ulsan Aromatics Co., Ltd.	263,399	-	-	-
SK E&C USA, Inc.	123,979	91,718	3,752,579	-
Daejeon Clean Water Co., Ltd.	2,616,158	-	1,021,770	-
Paju Energy Service Co., Ltd.	295,430,745	-	3,871,881	-
Gwangju Clean Water Co., Ltd.	498,881	-	-	-
Smart Rail Co., Ltd.	93,075,422	-	6,132,300	-
Pohang Clean Water Road Co., Ltd.	70,852	-	-	-
Boryeong LNG Terminal Co., Ltd.	92,459,719	-	-	-
Narae Energy Service Co., Ltd.	24,409,609	317,000	183,700	-
SK Planet Co., Ltd.	-	1,442,737	-	181,804
SK Hynix Inc.	568,557,807	279,491	183,140,100	25,505
SK Incheon Petrochem Co., Ltd.	25,278,255	-	6,525,660	-
SK D&D Co., Ltd.	2,680,388	8,879,473	22,466	1,838,957
Wirye Energy Service Co., Ltd.	143,513,225	-	-	4,059,378
SK Pinx Co., Ltd.	-	-	-	-
SK Advanced Co., Ltd.	95,897,736	-	1,919,493	360,350
Ko-one energy service Co., Ltd.	-	212,663	-	-
SK Plasma Co., Ltd.	22,715,021	-	330,000	-
SK Infosec Co., Ltd.	-	3,392,317	-	479,595
Sk Hystec Inc.	-	535,762	-	-
PS&Marketing Co., Ltd.	811,381	-	-	-
SK Hyeng Inc.	-	1,753,408	-	1,919,500
SKC Ltd.	980,985	-	1,309,000	-
	₩ 1,857,289,550	₩ 139,092,568	₩ 757,779,792	₩ 79,672,843

The Company recognized bad debt expense amounting to ₩25,749,891 thousand for the year ended December 31, 2017 (₩120,317,363 thousand for the year ended December 31, 2016) with respect to the above receivables from related parties and the balance of the allowance for doubtful accounts amounted to ₩348,586,201 thousand as at December 31, 2017 (₩322,660,305 thousand as at December 31, 2016).

As at December 31, 2017, the Company has provided guarantees to related parties for the performance of construction contracts and the repayment of borrowings to the extent of US\$39,585,627, THB37,178,000, KWD4,325,038, CAD33,000,000 and ₩260,129,127 thousand.

13. Commitments and contingencies

As at December 31, 2017, as guarantees for the completion of certain construction projects, the Company provided financial institutions with 13 blank promissory notes and one blank check.

As at December 31, 2017, the Company has notes receivable of ₩685,585,966 thousand that are not yet matured but factored to financial institutions without recourse (₩305,399,545 thousand as at December 31, 2016).

As at December 31, 2017, the Company is contingently liable for performance guarantees of local construction projects provided on behalf of unrelated construction companies totaling ₩2,210,310,525 thousand ₩2,899,239,617 thousand as at December 31, 2016).

As at December 31, 2017 and 2016, the Company has guaranteed the repayment of borrowings of related parties and unrelated construction companies totaling ₩1,214,812,362 thousand and ₩928,839,798 thousand, respectively. The Company also provides a commitment to complete the housing business of Shin Dongtan SK VIEW. In addition, the Company has guaranteed the repayments of loans and moving expenses totaling ₩507,924,331 thousand on behalf of buyers with rights to purchase apartments constructed by the Company. The Company has also provided payment guarantees to the extent of ₩7,669,179 thousand in relation to the borrowings for members of the employee stockholders association.

As at December 31, 2017, the Company has a total of 62 pending litigations as a defendant, which the total legal proceedings amount to approximately ₩182,648,792 thousand. As at December 31, 2017, the Company has recognized a provision for pending litigations which have high probability of losing and the expected losses can be reasonably measured. The reversal of provision for litigations during the current reporting period amounted to ₩3,559,560 thousand. The Company has not reflected in the financial statements the effects of legal proceedings of which the outcomes are indeterminable. Details of the Company's major pending litigations as a plaintiff are as follows.

During 2017, the Company entered into currency forward contracts with Standard Chartered Bank and other financial institutions to sell US dollars, Singapore dollars and Kuwait Dinar in exchange for Korean won at a pre-agreed exchange rate, of which the outstanding notional contract value amounted to US\$276,291,025, SGD71,538, and KWD369,112 as at December 31, 2017, respectively, to hedge the foreign currency risk of long-term construction contracts which qualified as firm commitments. As these instruments are designated as a fair value hedge, the Company applied hedge accounting to those instruments, and recorded firm commitment assets amounting to ₩24,625,801 thousand and firm commitment liabilities amounting to ₩4,094,324 thousand as other current assets and other current liabilities, respectively, until the firm commitments are realized.

During 2017, the Company entered into currency forward contracts with KEB Hana Bank and other financial institutions to sell US dollars and Kuwait dinar in exchange for Korean won at a pre-agreed exchange rate, of which the notional contract value amounted to US\$21,694,760 and KWD8,748,195, and to buy US dollars, Euro, Japanese yen and Swedish krona in exchange for Korean won at a pre-agreed exchange rate, of which the notional contract value amounted to US\$70,008,971, EUR13,168,674, JPY556,653,218, and SEK7,033,192 as at December 31, 2017, respectively, to hedge the foreign currency risk of sub-contracts. As these instruments are designated as a cash flow hedge, the fair value changes of the hedging instruments of ₩7,403,592 thousand, net of deferred income tax effect, have been recognized as a valuation loss in other comprehensive income within equity.

During 2017, the Company entered into currency forward contracts with KEB Hana Bank and other financial institutions to sell US dollars and Kuwait dinar in exchange for Korean won at a pre-agreed exchange rate, of which the notional contract value

amounted to US\$109,548,195, KWD1,169,498 and to buy US dollars, Euro and Saudi riyal in exchange for Korean won at a pre-agreed exchange rate, of which the notional contract value amounted to US\$36,977,709, EUR6,167,105 and SAR24,400,000 as at December 31, 2017, respectively, to minimize the foreign currency risk of sub-contracts denominated in foreign currencies. These currency forward contracts are held for trading purpose and the Company has valued these instruments at fair value. Net losses incurred from the instruments held for trading purpose amounting to ₩908,669 thousand were credited to current operations.

14. Payment guarantees received from other companies

28 financial institutions including the Export-Import Bank of Korea have provided performance guarantees on the Company's domestic and overseas construction projects on behalf of the Company to the extent of US\$1,367,248,490, THB1,159,263,457, KWD104,741,290, INR1,150,000,000, SAR466,032,411, SGD48,496,910, AED23,294,294, QAR628,022,697, TRY30,847,373, VND253,962,932,320, CAD50,000,000, KZT92,508,000, IQD2,600,000,000 and ₩9,833,235 thousand as at December 31, 2017. In connection with the above performance guarantees, Korea Export Insurance Corporation and 9 domestic or overseas financial institutions have provided guarantees to these 28 financial institutions to the extent of US\$831,864,348, THB1,020,136,479, KWD25,992,520, SAR187,972,044, TRY30,847,372, QAR82,500,000, VND 253,962,932,320, KZT92,508,000 and IQD2,860,000,000 as at December 31, 2017.

The Company has been provided with performance guarantees by four construction unions namely, Construction Guarantee, Seoul Guarantee Insurance Company, Korea Housing & Urban Guarantee Co., Ltd. and Engineering Financial Cooperative and three construction companies for the Company's completion of outstanding construction contracts totaling ₩6,358,687,419 thousand and ₩5,362,195,991 thousand as at December 31, 2017 and 2016, respectively.

15. Construction contracts

Changes in the balances of domestic and overseas construction contracts backlog for the years ended December 31, 2017 and 2016 are as follows (Korean won in thousands):

	2017				
		Jan. 1	Changes in contracts (*)	Realized revenue	Dec. 31
Domestic construction	₩	15,306,254,649	₩ 4,908,443,390	₩ (4,202,519,073)	₩ 16,012,178,966
Overseas construction		6,579,946,168	1,030,045,853	(2,194,279,506)	5,415,712,515
	₩	21,886,200,817	₩ 5,938,489,243	₩ (6,396,798,579)	₩ 21,427,891,481

	2016				
		Jan. 1	Changes in contracts (*)	Realized revenue	Dec. 31
Domestic construction	₩	12,865,325,531	₩ 5,567,853,370	₩ (3,126,924,252)	₩ 15,306,254,649
Overseas construction		9,684,304,220	852,246,432	(3,956,604,484)	6,579,946,168
	₩	22,549,629,751	₩ 6,420,099,802	₩ (7,083,528,736)	₩ 21,886,200,817

(*) Changes in contracts include new contracts, canceled contracts and foreign exchange difference of contract amounts and others.

The Company has major construction contracts in-progress amounting to ₩9,848,282,954 thousand as at December 31, 2017.

Accumulated profit related to construction contracts in progress as at December 31, 2017 and 2016 are as follows (Korean won in thousand):

	2017				
		Accumulated revenue	Accumulated cost	Accumulated profit (loss)	Provision for construction losses
Infrastructure	₩	7,598,843,035	₩ 7,151,667,290	₩ 447,175,745	₩ 20,761,800
Architectural construction		4,195,556,503	4,154,642,810	40,913,693	1,441,704
Plant		26,938,717,563	25,743,849,552	1,194,868,011	15,509,902
	₩	38,733,117,101	₩ 37,050,159,652	₩ 1,682,957,449	₩ 37,713,406

2016								
	Accumulated revenue		Accumulated cost		Accumulated profit (loss)		Provision for construction losses	
Infrastructure	₩	6,988,860,806	₩	6,548,144,181	₩	440,716,625	₩	22,495,061
Architectural construction		4,426,018,091		4,508,063,983		(82,045,892)		15,408,577
Plant		25,797,497,374		24,578,191,785		1,219,305,589		32,060,666
	₩	37,212,376,271	₩	35,634,399,949	₩	1,577,976,322	₩	69,964,304

Details of construction receivables related to construction contracts in progress as at December 31, 2017 and 2016 are as follows (Korean won in thousands):

2017								
		Construction receivables				Retention		
		Advance receipts	Billed	Unbilled				
Infrastructure	₩	81,613,673	₩	86,296,011	₩	194,682,165	₩	38,516,230
Architectural construction		157,736,486		268,833,761		146,540,641		-
Plant		410,121,823		369,513,317		206,427,838		136,202,484
	₩	649,471,982	₩	724,643,089	₩	547,650,644	₩	174,718,714

2016								
		Construction receivables				Retention		
		Advance receipts	Billed	Unbilled				
Infrastructure	₩	186,916,934	₩	37,483,250	₩	241,985,764	₩	27,552,928
Architectural construction		179,863,289		456,260,341		113,418,796		225,168
Plant		379,925,733		502,183,467		450,178,982		143,162,741
	₩	746,705,956	₩	995,927,058	₩	805,583,542	₩	170,940,837

Major impact from changes in total estimated construction revenue and total estimated construction costs, related to construction contracts in progress as at December 31, 2017 are as follows (Korean won in thousands):

	Change in total estimated construction revenue		Change in total estimated construction costs		Impact on current net income		Impact on future net income		Provision for construction losses	
Infrastructure	₩	77,544,698	₩	110,349,344	₩	(27,863,333)	₩	(4,941,313)	₩	20,761,800
Architectural construction		308,299,196		220,323,502		87,104,578		871,116		1,441,704
Plant		(107,896,527)		116,096,238		(204,701,514)		(19,291,251)		15,509,902
	₩	277,947,367	₩	446,769,084	₩	(145,460,269)	₩	(23,361,448)	₩	37,713,406

Impact on net income was measured based on the estimations of total construction revenue and total construction costs in consideration of events occurred up until December 31, 2017. The estimation of total construction revenue and total construction costs may change in the future.

Under the percentage-of-completion method, the construction contracts of which the total contract revenues exceed 5% of the preceding year's revenues are as follows (Korean won in thousands):

Contract	Contract date	Contractual completion deadline	Progress rate(%)	Construction receivable			
				Unbilled		Billed	
				Total	Impairment losses	Total	Impairment losses
Al-Zour Refinery Project(ZOR#5)	Oct. 2015	Jul. 2019	46.35	₩	- ₩	- ₩	- ₩
Esmeraldas Refinery Project	Dec. 2008	Feb. 2016	94.31	-	-	17,225,600 ₩	-
FORT HILLS SE PROJECT(EPC)	Aug. 2014	Jun. 2017	96.81	-	-	-	-
JZR & TP	Dec. 2012	Jul. 2018	87.69	-	-	-	-

Contract	Contract date	Contractual completion deadline	Progress rate(%)	Construction receivable			
				Unbilled		Billed	
				Total	Impairment losses	Total	Impairment losses
Karbala Refinery Project	May. 2014	Jul. 2020	44.24	-	-	-	-
KNPC CFP	Apr. 2014	Dec. 2017	75.39	2,973,309	-	74,067,564	-
Magnolia LNG PJT	Nov. 2015	May. 2020	0.02	198,767	-	-	-
NSRP Project	Jun. 2013	Apr. 2017	99.31	1,674,093	-	40,727,053	-
PACO Coal Fired Power Plant Project	May. 2012	Jan. 2016	93.07	4,333,921	-	234,181	-
PIEM Project	Jan. 2015	Jun. 2018	85.76	18,334,861	-	10,085,115	-
P-Project (PDH)	May. 2013	Apr. 2017	99.98	-	-	-	-
RRE Project	Dec. 2009	May. 2016	99.89	2,983,703	-	13,545,888	-
UHV Project	Oct. 2012	Aug. 2015	99.81	18,407,776	-	-	-
Vietnam NSRP Marine Works PJT	Jul. 2013	Jul. 2016	99.47	-	-	-	-
Wasit PJT(Package No.1)	Feb. 2011	Dec. 2016	99.42	-	-	3,692,631	-
Wasit PJT(Package No.3)	Feb. 2011	Dec. 2016	99.93	-	-	-	-
Goseong Green Power Project	Jul. 2014	Jul. 2021	13.87	-	-	-	-
Laos Xe-Pian Xe Namnoy Waterpower Generation Project	Aug. 2012	Feb. 2019	82.25	22,932,548	-	-	-
Bujeon-Masan electronic railroad project	Dec. 2010	Jun. 2020	49.91	30,456,486	-	27,482,500	-
Jangmoon natural gas power plant	Jun. 2014	May. 2017	97.59	-	-	31,175,570	-
Quatar Doha metro red line	Jun. 2013	Mar. 2018	99.99	39,422,216	-	-	-
Pyeongtaek US Army base site & common facility	Dec. 2008	May. 2018	91.00	-	-	-	-
Turkey-Istanbul road project (Turnkey EPC)	Dec. 2012	Mar. 2017	98.14	1,421,882	-	-	-
Shin Hanul Nuclear Power Plant Units 1,2 Project	Mar. 2010	Feb. 2019	96.27	37,218,866	-	-	-
KES Project	Oct. 2012	Dec. 2017	92.01	-	-	30,122,873	-
WIRYE Combined Heat & Power Plant	Feb. 2015	Jun. 2017	98.91	-	-	3,032,223	-
Songdo SK VIEW	Jun. 2016	Jul. 2019	36.79	29,106,208	-	-	-
Boryeong LNG Terminal Project	May. 2013	Sep. 2019	88.68	-	-	-	-
SK Hynix M14 PH-2 Project	Dec. 2015	Jun. 2017	93.68	-	-	-	-
SK Hynix M15 FAB/CUB Project	Jan. 2017	Dec. 2018	37.41	70,990,672	-	17,140,750	-
SK Hynix M14 ph-2B Project(ICHEON)	Mar. 2017	Dec. 2017	77.26	-	-	2,114,391	-
SK Hynix MF Project(ICHEON)	Oct. 2017	Feb. 2019	0.27	1,105,241	-	-	-

Relating to certain local and overseas construction projects including Gyeongbu High Speed Railway Section 10-3A, the Company has purchased insurance policies for up to ₩4,843,453,137 thousand, US\$1,702,535,974, and QAR138,065,384 against certain casualty losses. Also, the Company carries various insurance policies for its employees and construction projects, such as travelers insurance, theft insurance and indemnity insurances.

16. Equity

As at December 31, 2017, two members of the SK Group together with the Employee Stock Ownership Association hold 72.73% of the total outstanding common stock of the Group. The largest stockholder is SK Holdings Co., Ltd., which owns 44.48% of the Company's outstanding common shares.

The details of common stock and redeemable preferred stock ("RPS") are as follows (Korean won in thousands, except for par value):

	2017		2016	
Authorized shares:				
Common stock		120,000,000		120,000,000
Redeemable preferred stock		40,000,000		40,000,000
Issued shares:				
Common stock		35,297,293		35,297,293
Redeemable preferred stock		9,000		10,500
Par value:				
Common stock	₩	5,000	₩	5,000
Redeemable preferred stock		5,000		5,000
Paid in capital:				
Common stock	₩	176,486,465	₩	176,486,465
Redeemable preferred stock		76,367,500		76,362,500

The holders of RPS are entitled to receive preferential and cumulative dividends of certain percentage of par value per year. As at December 31, 2017, details of outstanding RPS are as follows (Korean won in thousands, except par value and issuance price per share):

	RPS (2014)		RPS (2015)		RPS(2017)	
Issuance date	Dec. 23. 2014		Jan. 23. 2015		Mar. 23. 2015	
Redemption date	Jan. 23. 2018		Jan. 23. 2018		Mar. 23. 2019	
Number of shares issued	2,000		1,000		4,000	
Capital stock	₩	10,000	₩	5,000	₩	20,000
Paid-in capital in excess of par value	₩	97,740,000	₩	49,995,000	₩	197,800,000
Par value per share	₩	5,000	₩	5,000	₩	5,000
Issuance price per share	₩	50,000,000	₩	50,000,000	₩	50,000,000
Dividend ratio to issuance price per share	5.80%		5.80%		6.40%	
					4.28%	

As at December 31, 2017, the Company has entered into a cash deficiency support agreement amounting to ₩260,000,000 thousand with the investors of the redeemable preferred stock in relation with the issuance of RPS.

The Company has redeemed the RPS through appropriation of the retained earnings reserved for redemption of preferred stock. As a result of the redemption, the number of shares of RPS decreased whereas the carrying amount of RPS was not changed. Details of redemption of RPSs are as follows (Korean won in thousands, except issuance price per share):

Issuance date	Redemption date	Number of shares issued	Issuance price per share	Redemption amount
Jun. 4, 2004	Feb. 4, 2006	3,000,000	₩ 6,500	₩ 19,500,000
Sep. 24, 2004	Sep. 24, 2006	2,350,000	6,500	15,275,000
Dec. 2, 2005	Jun. 2, 2008	1,400,000	20,000	28,000,000
Sep. 28, 2006	Sep. 28, 2007	1,000,000	20,000	20,000,000
Sep. 28, 2006	Mar. 28, 2009	1,500,000	20,000	30,000,000
Dec. 26, 2008	Dec. 26, 2009	2,000,000	20,000	40,000,000
Oct. 30, 2007	Oct. 30, 2010	1,500,000	20,000	30,000,000
Dec. 4, 2009	Jul. 4, 2010	2,500,000	20,000	50,000,000
Sep. 17, 2010	Sep. 16, 2015	10,000	8,000,000	80,000,000
Mar. 18, 2013	Sep. 16, 2015	2,000	50,000,000	100,000,000
Jun. 26, 2014	Dec. 26, 2016	1,000	50,000,000	50,000,000
Jul. 25, 2014	Jun. 26, 2017	500	50,000,000	25,000,000
Jun. 27, 2016	Jun. 26, 2017	1,000	50,000,000	50,000,000
		15,264,500		₩ 537,775,000

Capital surplus as at December 31, 2017 and 2016 consist of the following (Korean won in thousands):

	2017		2016	
Paid-in capital in excess of par value	₩	676,605,948	₩	676,605,948
Capital surplus arising from equity method investments		15,903,201		35,484,595
	₩	692,509,149	₩	712,090,543

The Company received 1,325,000 shares of treasury stock (common stock) without consideration from a major shareholder during the year ended December 31, 2013 and recognized the effect of corporate income taxes amounting to ₩13,650,712 thousand on contribution as capital adjustments.

In addition, the Company made an early redemption of the 1st CB in 2014 and recognized a loss on acquisition of conversion right amounting to ₩12,322,432 thousand as capital adjustments.

Appropriated retained earnings as at December 31, 2017 and 2016 consist of the following (Korean won in thousands):

	2017		2016	
Legal reserve (*1)	₩	10,223,323	₩	6,449,722
Reserve for redemption of preferred stock (*2)		107,008,543		51,466,918
	₩	117,232,866	₩	57,916,640

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

(*2) For the redemption of the RPS which will mature on January 23, 2018 and June 25, 2018 payment of upcoming dividends for RPS, the required amounts were appropriated as a reserve for redemption of preferred stock.

17. Statements of appropriation of retained earnings

Details of the appropriation of retained earnings for the years ended December 31, 2017 and 2016 are as follows (Korean won in thousands):

	2017		2016	
Retained earnings before appropriations:				
Unappropriated retained earnings carried forward from the prior year	₩	134,680,833	₩	213,670,237
Unappropriated reserve for redemption of preferred stock carried forward from the prior year		107,008,543		51,466,918
Retained earnings adjustment arising from equity method investments		(505,248)		122,861
Net income for the year		55,505,353		87,397,345
		296,689,481		352,657,361
Appropriations (2017 proposed):				
Legal reserve		1,983,108		3,773,601
Dividends to redeemable preferred stockholders		19,831,082		32,194,384
Reserve for redemption of preferred stock		100,000,000		182,008,543
		(121,814,190)		(217,976,528)
Unappropriated retained earnings to be carried forward to the next year	₩	174,875,291	₩	134,534,143

The proposed date of appropriation of retained earnings for 2017 is March 23, 2018 and the approved date of appropriation of retained earnings for 2016 was March 24, 2017.

18. Cumulative translation adjustments

The summarized financial statements of overseas projects as at December 31, 2017 and 2016, and the resulting cumulative translation gains are as follows (Korean won in thousands):

Statements of financial position

	2017		2016	
Assets	₩	984,381,077	₩	1,709,102,617
Liabilities and equity		996,366,895		1,672,046,456
Cumulative translation gains		(11,985,818)		37,056,161

Statements of operations

	2017		2016	
Revenue	₩	1,993,965,640	₩	2,748,403,775
Expense		2,152,491,426		2,871,104,788
Net loss		(158,525,786)		(122,701,013)

19. Income taxes

For the financial year ended December 31, 2017, the Company is subject to corporate income taxes, including resident surtax, at the aggregate rates of 11% on taxable income of up to ₩200,000 thousand and 22% on taxable income between ₩200,000 thousand and ₩20,000,000 thousand and 24.2% on taxable income in excess of ₩20,000,000 thousand.

Provision for income taxes for the years ended December 31, 2017 and 2016 consisted of the following (Korean won in thousands):

	2017		2016	
Current income taxes	₩	22,994,594	₩	56,267,598
Deferred income tax assets arising from temporary differences		24,647,910		(47,480,358)
Deferred income taxes arising from tax loss carry forwards		17,441,050		34,722,772
Deferred income taxes assets arising from tax credit carry forwards		46,108,439		(25,991,495)
Deferred income taxes charged or credited directly to equity		(924,163)		(963,301)
Provision for income taxes	₩	110,267,830	₩	16,555,216

A reconciliation of provision for income taxes applicable to income before income taxes at the Korea statutory tax rate to provision for income taxes at the effective income tax rate of the Company for the years ended December 31, 2017 and 2016 are summarized as follows (Korean won in thousands):

	2017		2016	
Earnings before income taxes	₩	165,773,182	₩	103,952,561
Tax at the statutory income tax rate of 24.2% in 2017 and 2016		40,117,110		25,156,520
Adjustments:		70,150,720		(8,601,304)
Expenses not deductible for tax purposes and others (₩15,560,731 thousand in 2017, (-) ₩10,533,762 thousand in 2016)		3,765,697		(2,549,171)
Deferred income tax assets not recognized		(4,320,154)		(6,311,598)
Additional tax refund, net		22,994,594		710,286
Tax credit		46,108,438		-
Others		1,602,145		(450,821)
Provision for income taxes	₩	110,267,830	₩	16,555,216
Effective income tax rate		66.52%		15.93%

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax reporting purposes. The changes in cumulative temporary differences for the year ended December 31, 2017 are as follows (Korean won in thousands):

Temporary differences	2017			
	Jan. 1	Changes in tax filling	Net changes	Dec. 31
Deductible temporary differences:				
Allowance for doubtful accounts	₩ 1,062,384,232	₩ 1,163,139	₩ (132,749,826)	₩ 930,797,545
Provision for construction warranty	51,877,181	-	3,956,646	55,833,827
Provision for construction losses	69,964,305	-	(32,250,898)	37,713,407
Severance and retirement benefits	254,771,453	(10,454,331)	17,166,236	261,483,358
Equity adjustments arising from valuation of derivatives	21,606,715	-	(11,839,444)	9,767,271
Loss carried forward	-	-	72,070,455	72,070,455
Other	402,966,468	(4,580)	(137,461,946)	265,499,942
	1,863,570,354	(9,295,772)	(221,108,777)	1,633,165,805
Taxable temporary differences:				
Gain on valuation of derivative instruments	(2,132,671)	-	2,129,021	(3,650)
Accrued income	(21,370,954)	-	3,074,790	(18,296,164)
Deposit for severance and retirement benefits	(254,771,454)	10,454,331	(17,166,236)	(261,483,359)
Technology and human resources development reserve	(333,334)	-	333,334	-
Revaluation surplus	(68,187,578)	-	32,199,192	(35,988,386)
Other	(70,877,303)	832,839	24,625,957	(45,418,507)
	(417,673,294)	11,287,170	45,196,058	(361,190,066)
Net balance	1,445,897,060	1,991,398	(175,912,719)	1,271,975,739
Temporary difference not subject to deferred income tax (*)	128,181,806	(1,340,398)	(1,630,095)	125,211,313
	₩ 1,574,078,866	₩ 651,000	₩ (177,542,814)	₩ 1,397,187,052

(*) The Company did not recognize deferred income tax assets for the temporary differences of ₩125,211,313 thousand, for which the possibility of realization is not certain in the near future.

Details of deferred income tax assets and liabilities as at December 31, 2017 are as follows (Korean won in thousands):

	Temporary differences				
	Temporary differences as at Dec. 31, 2017	Beginning balance		Ending balance	
		Current	Non-current	Current	Non-current
Deductible temporary differences:					
Allowance for doubtful accounts	₩ 930,797,545	₩ 650,415,071	₩ 411,969,161	₩ 459,379,778	₩ 471,417,767
Provision for construction warranty	55,833,827	51,877,181	-	55,833,827	-
Provision for construction losses	37,713,407	69,964,304	-	37,713,407	-
Severance and retirement benefits	261,483,358	-	254,771,454	-	261,483,357
Equity adjustments arising from valuation of derivatives	9,767,271	21,606,715	-	9,767,271	-
Loss carried forward	72,070,455	-	-	-	72,070,455
Other	265,499,942	68,957,557	334,008,912	54,475,530	211,024,412
	1,633,165,805	862,820,828	1,000,749,527	617,169,813	1,015,995,991
Taxable temporary differences:					
Gain on valuation of derivative instruments	(3,650)	(2,132,671)	-	(3,650)	-
Accrued income	(18,296,164)	(21,370,955)	-	(18,296,164)	-
Deposit for severance and retirement benefits	(261,483,359)	-	(254,771,454)	-	(261,483,358)
Technology and human resources development reserve	-	(1,000,000)	666,667	-	-
Revaluation surplus	(35,988,386)	-	(68,187,578)	-	(35,988,386)
Other	(45,418,507)	(7,651,693)	(63,225,608)	(9,416,658)	(36,001,849)
	(361,190,066)	(32,155,319)	(385,517,973)	(27,716,472)	(333,473,593)
Net balance	₩ 1,271,975,739	₩ 830,665,509	₩ 615,231,554	₩ 589,453,341	₩ 682,522,398
Tax rate		24.20%	24.20%	24.20%	24.20%
Deferred income tax assets arising from temporary difference					
	₩ 201,021,053	₩ 148,886,036	₩ 142,647,708	₩ 165,170,420	
Deferred income tax assets arising from tax credit carry forwards					
	-	60,544,890	-	14,436,453	
Total deferred income tax assets	₩ 201,021,053	₩ 209,430,926	₩ 142,647,708	₩ 179,606,873	

The Company recognized fully deferred income tax assets for all the deductible temporary differences above because the aggregate amount of the total amount of taxable temporary differences and the expected taxable income before reflecting tax adjustment items exceed the total amount of deductible temporary differences.

20. Per share amounts

The Company's per share amounts for the years ended December 31, 2017 and 2016 are computed as follows (Korean won in thousands, except per share amounts):

	2017		2016	
Net income	₩	55,505,353	₩	87,397,345
Dividends attributable to preferred shares		(26,428,548)		(33,253,005)
Net income (loss) attributable to common stock		29,076,805		54,144,340
Weighted-average number of shares of common stock outstanding		33,972,293		33,972,293
Profit (loss) per share	₩	856	₩	1,594

The number of issued shares of common stock and weighted-average number of shares common stock are equal as at December 31, 2017 and 2016.

21. Comprehensive income

Details of comprehensive income for the years ended December 31, 2017 and 2016 are as follows (Korean won in thousands):

	2017		2016	
Net income	₩	55,505,353	₩	87,397,345
Other comprehensive:				
Gain (loss) on valuation of available-for-sale securities		25,302,474		(2,758,471)
Equity adjustment in equity method		(12,919,889)		3,275,489
Gain on valuation of derivative instruments		8,974,298		1,972,649
Foreign currency translation adjustments		(49,041,979)		7,382,141
Changes in revaluation surplus		(24,388,845)		(74,970)
Changes in equity method earned surplus		(505,249)		122,862
		(52,579,190)		9,919,700
Comprehensive income	₩	2,926,163	₩	97,317,045

22. Segment information

Revenue by business segments for the years ended December 31, 2017 and 2016 are as follow (Korean won in thousands):

	2017		2016	
Infrastructure	₩	1,129,481,556	₩	1,398,428,139
Construction		1,601,552,007		1,031,538,369
Petrochemical plant		2,875,509,179		3,627,904,973
Industrial plant		812,486,880		1,089,260,757
Others		20,785,016		34,989,231
	₩	6,439,814,638	₩	7,182,121,469

All revenues derive from external customers and there have been no intercompany sales transactions.

23. Supplementary cash flow information

Significant transactions not involving cash flow for the years ended December 31, 2017 and 2016 are as follows (Korean won in thousands):

	2017		2016	
Changes in gain (loss) on valuation of available-for-sale securities	₩	33,380,573	₩	(3,639,144)
Changes in equity adjustment in equity method		12,919,889		4,489,672
Write-off of trade accounts and notes receivable		968,018		95,631,117
Acquisition of land as a substitute for receivables		2,569,419		3,004,104
Acquisition of buildings as a substitute for receivables		680,889		-
Transfer of current portion of long-term debt		388,426,680		512,018,510
Acquisition of investment properties as a substitute for receivables		4,720,000		-
Decrease in revaluation surplus due to disposal of land		(32,227,025)		(74,970)
Transfer of construction in progress to construction equipment		12,056,537		13,789,434

24. Fourth quarter financial information (unaudited)

A summary of the Company's operating results (unaudited) for the three-month periods ended December 31, 2017 and 2016 are summarized as follows (Korean won in thousands, except for per share amounts):

	Unaudited			
		4 th quarter of 2017		4 th quarter of 2016
Revenue	₩	1,868,273,368	₩	1,949,832,080
Gross profit		165,843,615		102,673,410
Operating Income		62,620,616		27,420,999
Net Income	₩	(21,403,253)	₩	34,777,752
Earnings per share	₩	(821)	₩	772

25. Approval of financial statements

The accompanying 2017 financial statements are scheduled to be approved by the Company's stockholders at their annual ordinary meeting to be held on March 23, 2018.

Independent auditors' review report on internal control over financial reporting**Representative Director
SK Engineering & Construction Co., Ltd.**

We have reviewed the accompanying management's report on the operations of the internal control over financial reporting ("ICFR") of SK Engineering & Construction Co., Ltd. (the "Company") as at December 31, 2017. The Company's management is responsible for the design and operations of its ICFR, including the reporting of its operations. Our responsibility is to review management's ICFR report and issue a report based on our review. Management's report on the operations of the ICFR of the Company states that "Based on the assessment of the operations of the ICFR, the Company's ICFR has been effectively designed and has operated as at December 31, 2017, in all material respects, in accordance with the ICFR standard."

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

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

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

We conducted our review of the ICFR in existence as at December 31, 2017, and we did not review the ICFR subsequent to December 31, 2017. This report has been prepared for Korean regulatory purposes pursuant to the Act on External Audit for Stock Companies, and may not be appropriate for other purposes or for other users.

March 9, 2018

This report is annexed in relation to the audit of the financial statements as at December 31, 2017 and the review of internal accounting control system pursuant to Article 2-3 of the Act on External Audit for Stock Companies of the Republic of Korea.

Report on the operations of the internal control over financial reporting

The Board of Directors and internal auditor (Audit Committee) of SK Engineering & Construction Co., Ltd.

I, as the internal control over financial reporting officer ("ICFR Officer") of SK Engineering & Construction Co., Ltd. ("the Company"), assessed the status of the design and operations of the Company's internal control over financial reporting ("ICFR") for the year ended December 31, 2017.

The Company's management including the ICFR Officer is responsible for the design and operations of its ICFR. I, as the ICFR Officer, assessed whether the ICFR has been effectively designed and has operated to prevent and detect any error or fraud which may cause any misstatement of the financial statements, for the purpose of establishing the reliability of financial reporting and the preparation of financial statements for external financial reporting purposes. I, as the ICFR Officer, applied the ICFR standards for the assessment of design and operations of the ICFR

Based on the assessment of the operations of the ICFR, the Company's ICFR has been effectively designed and has operated as of December 31, 2017, in all material respects, in accordance with the ICFR standard.

05-Mar-18

Kim, Jin-Gon 
Internal Control over Financial Reporting Officer

Cho, Ki-Haeng 
Chief Executive Officer

Company Milestone

1977

- Sunkyung Constructions Co., Ltd. established
- Begins the construction of Walkerhill Apartment

1980

- Wins a contract for the Banwol New Town Housing Complex Project

1984

- Launches business in Malaysia
- Advancement into the engineering sector to be a total engineering constructor

1985

- Participates in the modernization project of the Yugong Oil Refinery

1987

- Starts business in Indonesia (Sunkyung Synthetic Fibers DMT / PTA)

1988

- Completes the construction of the Yugong Gas LPG Underground Reserve Facilities in Ulsan

1989

- Establishes an Annexed Research Institute of Sunkyung Constructions

1991

- Wins a contract for the construction of a polymer plant from Eastman Chemical Company in the U.S.
- Wins a contract for the Suriracha Petroleum Extension Project in Thailand

1992

- Launches business in Ghana and Mexico
- Wins a second phase contract for the Ansan New Town Project
- Acquires ASME Certificate (American Society of Mechanical Engineers)

1993

- Wins a contract for the construction of Gyeongbu High-speed Railway (Section 5-3)

1994

- Acquires ISO9001 Certificate
- Wins a contract for the ATC Complex turnkey in Thailand

1996

- Completes the expansion of Honam Expressway
- Completes the construction of Yeosu Oil Reserve Facility
- Wins a contract for the Tianjin ABS Plant Project in China

1997

- Starts business in Brazil
- Acquires a patent for SUPEX-CUT blasting mechanism
- Completes the construction of Daejeon Government Building No.3
- Wins a contract for the Cadereita Oil Refining turn-key in Mexico

1998

- Wins a contract for the Madero Oil Refining turn-key in Mexico
- Changes the company name to SK Engineering & Construction Co., Ltd.
- Acquires KEPIC Certificate

1999

- Completes the construction of Incheon City Railway Sections 1-4 & 1-5

2000

- Launches SK View apartment brand
- Wins a contract for the construction of additional reserve facilities in Yeosu

2001

- Completes the construction of SK Bukhansan City Apartment
- Completes the construction of Donghae Thermal Power Plant

2002

- Completes the construction of Jungbu Inland Highway Section 2
- Develops LNG underground storage technology
- Launches SK Hub brand
- Wins a base construction order for the Sihwa Techno Valley Section 5

2003

- Participates in the construction of Shingori Nuclear Power Plant, Units 1-2
- Wins contracts for the construction of the RMAA and KOCRP in Kuwait

2004

- Wins contracts for the construction of VGO Hydrotreating Unit and Sulphuric Acid Alkylation Unit in Rumania
- Wins a contract for the construction of Gyeongbu Express Railroad Section 14-3
- Wins a contract for the Gwangju Stream Natural Watercourse Maintenance Project

2005

- Wins contracts for the FUP(Facility Upgrade Project) of crude oil collecting facilities and entrance facilities in Kuwait

2006

- Wins a contract for the construction of an aromatic production complex turnkey from Kuwait KPC
- Wins a PF business for the construction of multi-complexes in Dohwa Civil Development Project Area

2007

- Wins a contract for the construction of the Jurong Aromatics Complex in Singapore
- Wins a PF business for the construction of mixed-use buildings Unjeong, Paju

2008

- Early completion of the L-Project in Indonesia
- Wins a contract for the Pyeongtaek U.S. Bases Relocation Project

2009

- Wins a contract for the expansion of the UAE Ruwais Oil Refinery
- Wins a contract for the construction of a mixed-use complex in Abu Dhabi
- Wins a contract for the construction of an oil reserve base in India

2010

- Wins a contract for the Ecuador Manabi FEED (Front-End Engineering & Design) Project
- Wins a contract for the construction of Sinuljin Nuclear Power Plant main facilities, Units 1-2
- Wins a contract for the construction of the Tufanbeyli Thermal Power Plant in Turkey

2011

- Wins a contract for the construction of the WASIT Gas Plant in Saudi
- Wins contracts for the construction of the Sentosa Gateway Tunnel and DTL3 C930 in Singapore
- Wins a contract for the construction of the PACO Thermal Power Plant in Panama

2012

- Wins a contract for the JAZAN Project in Saudi
- Wins contracts for the Transmission Cable Tunnel NW & EW Project in Singapore

2013

- Wins a contract for Iraq Karbala Refinery Project
- Wins a contract for Vietnam NSRP Project

2014

- New orders received for the Goseong Green Power project
- New orders received for the Clean Fuel project in Kuwait

2015

- New order received for the NRP Project in Kuwait
- New order received for the M-LNG Project in the U.S.

2016

- Won order for Songdo SK VIEW
- Won order to build underground Ulsan reserve base

2017

- Won order for PTTGC Polyols Project in Thailand
- Won order for housing redevelopment project for Noryangjin Area 7

Global Network



Overseas Branches

Country	Branch	Address	Office (Tel.)	Office (Fax.)
Thailand	Bangkok Branch	Unit 2702, 27th Floor, Two Pacific Place, 142 Sukhumvit Road, Klongtoey, Bangkok 10110, Thailand	66-2-254-7211~4	66-2-254-7215
Singapore	Singapore Branch	#16-02, GB Building 143 Cecil Street Singapore 069542	65-6294-7177	65-6294-7178
Indonesia	Jakarta Branch	S. Widjojo 7th Fl. Jl. Jenderal Sudirman 71 Jakarta 12910	62-21-521-1883, 1884	62-21-521-1867
Hong Kong	Hong Kong Branch	Rm 1403, 14 F/L, Jubilee Center, 18 Fenwick Street/46, Gloucester Road, Wanchai, Hong Kong SAR	852-3583-0650, 0542	852-3583-1347
China	Shanghai Office	No. 2312, 23th floor, International trade center, 2201 Yan An Road(W), Shanghai, China	86-21-6278-1772	86-21-6278-1774
India	New Delhi Office	6TH Floor, Tower A, Building No.6, DLF Cyber City Phase-III, Gurgaon, Haryana - 122002.	91-124-423-9000	
Vietnam	Hanoi Branch	Unit 801, 8th Floor, Schmidt Tower, 239 Xuan Thuy Road, Cau Giay District, Hanoi, Vietnam	84-4-3768-9305~7	84-4-3768-9308
Kuwait	Kuwait Branch	Bldg. #13, Street #12, Block #7, Abu Fatira, Mubarak Al Kabeer, Kuwait	965-2543-4709	965-2543-4710
Arab Emirates	Abu Dhabi Branch	Abu Dhabi Branch, 5 Floor, Unit 501-502, Dhafir Building, Najda Street, Abu Dhabi, U.A.E.	971-2-674-7227	971-2-674-7228
Arab Emirates	Fujairah Branch	M2, Mina Tower, Opp. Fujairah Port Gate No.2 Sea Port Signal, Next to ENOC Petrol Station, Fujairah, UAE	971-050-4392890	
Qatar	Doha Branch	Suite G-8, Al-Emadi Business Center, C-Ring Road, P.O. Box 24162, Doha, Qatar	972-4477-2664	974-465-7200
Germany	Frankfurt Office	T.O.P.A.S 1, Mergenthaler Allee 77, 65760, Eschborn, Germany	49-(0)6196-470741~42	49-(0)6196-470740
Turkey	Istanbul Branch	Dereboyu Cad. Meydan Sok. No. 1, Beybi Giz Plaza Kat 21, D. 79 34398 Maslak, Istanbul, Turkey	90-212-290-2660	
Mexico	Mexico City Branch	SK Engineering & Construction Co., Ltd. Paseo de la Reforma 404, Piso 3, Col. Juarez 06600 Mexico, D.F.	52-55-5241-1120	52-55-5525-7536
Ecuador	Ecuador Project Office	Av. Amazonas #E13-131 y Pasaje Guayas, Barrio Batan, Edificio Ruminahui Piso 11, Quito, Pichincha	593-2-245-7053	
Saudi Arabia	Al Khobar Branch	Office No.12, 3rd Floor, Taba Center, Prince Sultan Road, Al Khobar, KSA, PO Box No. 3721	966-13-849-3415	966-13-887-0300
Chile	Santiago Office	Av. Apoquindo 3721, Piso 15 Las Condes, Santiago, Chile	562-2768-7144	
Iraq	Iraq Branch	35Km Southern Strategic Road, Karbala City, Republic of Iraq	964-78-2782-0186	
USA	Houston Office	1430 Enclave Parkway Suite 150, Houston, TX 77077	1-281-258-2600	1-281-258-2860
Italy	Milano Office	Via milanofiori strada 1, Palazzo F1 20090 Assago (MI) Italy	39-02-6666-8370	39-02-6666-8377
Colombia	Colombia Branch	CRA. 7 #74-21 PISO 6 Santafe de Bogota, Colombia	571-7444-441	

Local Subsidiaries

Country	Branch	Address	Office (Tel.)	Office (Fax.)
China	SK Engineering & Construction (Nanjing) Co., Ltd.	Room 505, CFC, 300# Zhongshan dong Road, Qinhuai District, Nanjing, China(Zip code : 210000)	86-25-8470-1223	86-25-8470-1809
Thailand	Thai Woo Ree Engineering CO., Ltd.	379 Sukhumvit Road, Tambon Maptaphut, Ampur Muangrayong, Rayong 21150, Thailand	66-38-606-234	66-38-606-164~5
	SKEC Thai	Unit 2702, 27th Floor, Two Pacific Place, 142 Sukhumvit Road, Klongtoey, Bangkok 10110, Thailand	66-2-254-7211~4	66-2-254-7215
Laos	Xe-Pian Xe-Namnoy Power Company Limited	6th Floor Capital Tower, 23 Singha Road, Nongbone Village, Saysettha District, Vientiane Capital, Lao PDR	856-021-455-025	856-021-455-025
Kuwait	SBC- SBC General Trading & Contracting Co., Ltd.	Office No. C5, 3rd floor, Ajial Mall, Fahaheel, Kuwait	965-2392-5934~5	965-2392 5936
Arab Emirates	CB&I Emirates Pipes Manufacturing LLC	Industrial City of Abu Dhabi III, 29WR7, ICAD III, Abu Dhabi, UAE	971-50-44-33-515	
USA	SK E&C BETEK corp.	2 Park Plaza Suite 1250 Irvine, CA 92614	1-949-336-5100	1-949-336-5107
Canada	Sunlake Co., Ltd	Suite 204, 5 Richard Way SW, Calgary, AB T3E7M8	1-587-779-2688	
Ecuador	SK E&C Consultores	Av. Naciones Unidas # 1014 y Av. Amazonas, Edificio La Previsora, Torre A, Piso 11, Oficina 1102	593-2-226-0500	593-2-245-7066
Turkey	AVRASYA TUNELI ISLETME INSAAT VE YATIRIM A.S.	Avrasya Tureli Isletme ve Bakim Binası - Barbaros Mahallesi Dr. Eyup Aksoy Caddesi No: 9 34662 Uskudar, stanbul, Turkiye	90-0216-474-0520	
	CANAKKALE HIGHWAY AND BRIDGE CONSTRUCTION INVESTMENT AND OPERATION JOINT STOCK COMPANY	Yapi Kredi Plaza B Blok, Kat: 12, Daire 30, Büyükdere Caddesi Levent, 34330 stanbul	90-212-270-4766	
	SK E&C Anadolu LLC.	718. Sokak 13/5, Yildizevler Mah. Yildiz, Cankaya/Ankara, Turkey	90-216-474-0520-23	