

**RESOLUTION TO CALL
THE ANNUAL GENERAL MEETING OF SHAREHOLDERS**

The Board of Directors of SK Telecom Co., Ltd. (the “Company”) has resolved to call the Annual General Meeting of Shareholders, to be held at the following time and place and the agenda of which shall be as follows:

1. Date / Time	March 21, 2018 09:00 AM (Seoul time)	
2. Place	SUPEX Hall, 4th Floor, SK T-Tower, 65, Eulji-ro, Jung-gu, Seoul, Korea	
3. Agenda	<ol style="list-style-type: none"> 1. Approval of financial statements for the 34th fiscal year(2017) 2. Stock Option Grant 3. Approval of the appointment of directors as set forth in Item 3 of the Company’s agenda enclosed herewith <ol style="list-style-type: none"> 3.1 Election of an executive director(Ryu, Young Sang) 3.2 Election of an independent non-executive director(Yoon, Young Min) 4. Approval of the appointment of members of the Audit Committee as set forth in Item 3 of the Company’s agenda enclosed herewith(Yoon, Young Min) 5. Approval of ceiling amount of the remuneration for directors 	
4. Date of the resolution by the Board of Directors	February 20, 2018	
- Attendance of external directors	Present	4
	Absent	0
5. Other Noteworthy Matters	-	

Documents relating to the Annual Meeting of Shareholders

1. Approval of Financial Statements for the 34th Fiscal Year(2017)

SK TELECOM CO., LTD. AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2017

SK TELECOM CO., LTD. and Subsidiaries
Consolidated Statements of Financial Position

As of December 31, 2017 and 2016

<i>(In millions of won)</i>	<u>Note</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Assets			
Current Assets:			
Cash and cash equivalents	33, 34	₩ 1,457,735	1,505,242
Short-term financial instruments	6, 33, 34, 36	616,780	468,768
Short-term investment securities	9, 33, 34	144,386	107,364
Accounts receivable - trade, net	7, 33, 34, 35	2,126,007	2,240,926
Short-term loans, net	7, 33, 34, 35	62,830	58,979
Accounts receivable - other, net	7, 33, 34, 35, 36	1,260,835	1,121,444
Prepaid expenses		197,046	169,173
Inventories, net	8	272,403	259,846
Advanced payments and other	7, 9, 33, 34, 35	63,777	64,886
Total Current Assets		<u>6,201,799</u>	<u>5,996,628</u>
Non-Current Assets:			
Long-term financial instruments	6, 33, 34	1,222	937
Long-term investment securities	9, 33, 34	887,007	828,521
Investments in associates and joint ventures	11	9,538,438	7,404,323
Property and equipment, net	12, 35, 36	10,144,882	10,374,212
Goodwill	10, 13	1,915,017	1,932,452
Intangible assets, net	14	3,586,965	3,776,354
Long-term loans, net	7, 33, 34, 35	50,874	65,476
Long-term accounts receivable - other	7, 33, 34, 36	287,048	149,669
Long-term prepaid expenses		90,834	88,130
Guarantee deposits	7, 33, 34, 35	292,590	298,964
Long-term derivative financial assets	20, 33, 34	253,213	214,770
Defined benefit assets	19	45,952	30,247
Deferred tax assets	30	88,132	75,111
Other non-current assets	7, 33, 34	44,696	61,869
Total Non-Current Assets		<u>27,226,870</u>	<u>25,301,035</u>
Total Assets		<u>₩ 33,428,669</u>	<u>31,297,663</u>

See accompanying notes to the consolidated financial statements.

SK TELECOM CO., LTD. and Subsidiaries
Consolidated Statements of Financial Position, Continued

As of December 31, 2017 and 2016

<i>(In millions of won)</i>	<u>Note</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Liabilities and Shareholders' Equity			
Current Liabilities:			
Short-term borrowings	15, 33, 34	₩ 130,000	2,614
Current installments of long-term debt, net	15, 33, 34	1,530,948	888,467
Current installments of long-term payables – other	16, 33, 34	302,703	301,773
Accounts payable - trade	33, 34, 35	351,711	402,445
Accounts payable - other	33, 34, 35	1,867,074	1,767,799
Withholdings	33, 34, 35	961,501	964,084
Accrued expenses	33, 34	1,327,906	1,125,816
Income tax payable	30	219,791	474,931
Unearned revenue		175,732	188,403
Provisions	17	52,057	66,227
Receipts in advance		161,266	174,588
Derivative financial liabilities	20, 33, 34	28,406	86,950
Other current liabilities		28	2
Total Current Liabilities		<u>7,109,123</u>	<u>6,444,099</u>
Non-Current Liabilities:			
Debentures, excluding current installments, net	15, 33, 34	5,596,570	6,338,930
Long-term borrowings, excluding current installments, net	15, 33, 34	211,486	139,716
Long-term payables - other	16, 33, 34	1,346,763	1,624,590
Long-term unearned revenue		7,052	2,389
Defined benefit liabilities	19	61,960	70,739
Long-term derivative financial liabilities	20, 33, 34	11,064	203
Long-term provisions	17	32,669	31,690
Deferred tax liabilities	30	978,693	479,765
Other non-current liabilities	33, 34	44,094	49,112
Total Non-Current Liabilities		<u>8,290,351</u>	<u>8,737,134</u>
Total Liabilities		<u>15,399,474</u>	<u>15,181,233</u>
Shareholders' Equity			
Share capital	1, 21	44,639	44,639
Capital surplus and others	21, 22, 23, 24	196,281	199,779
Retained earnings	25	17,835,946	15,953,164
Reserves	26	(234,727)	(226,183)
Equity attributable to owners of the Parent Company		<u>17,842,139</u>	<u>15,971,399</u>
Non-controlling interests		<u>187,056</u>	<u>145,031</u>
Total Shareholders' Equity		<u>18,029,195</u>	<u>16,116,430</u>
Total Liabilities and Shareholders' Equity		<u>₩ 33,428,669</u>	<u>31,297,663</u>

See accompanying notes to the consolidated financial statements.

SK TELECOM CO., LTD. and Subsidiaries
Consolidated Statements of Income

For the years ended December 31, 2017 and 2016

<i>(In millions of won except for per share data)</i>	<i>Note</i>	2017	2016
Operating revenue:	5, 35		
Revenue		₩ 17,520,013	17,091,816
Operating expenses:	35		
Labor		1,966,156	1,869,763
Commissions		5,486,263	5,376,726
Depreciation and amortization	5	3,097,466	2,941,886
Network interconnection		875,045	954,267
Leased line		342,240	394,412
Advertising		522,753	438,453
Rent		520,244	517,305
Cost of products that have been resold		1,886,524	1,838,368
Others	27	1,286,696	1,224,892
		<u>15,983,387</u>	<u>15,556,072</u>
Operating profit	5	1,536,626	1,535,744
Finance income	5, 29	366,561	575,050
Finance costs	5, 29	(433,616)	(326,830)
Gain relating to investments in subsidiaries, associates and joint ventures, net	5, 11	2,245,732	544,501
Other non-operating income	5, 28	31,818	66,303
Other non-operating expenses	5, 28	(343,872)	(298,629)
Profit before income tax	5	3,403,249	2,096,139
Income tax expense	30	745,654	436,038
Profit for the year		<u>2,657,595</u>	<u>1,660,101</u>
Attributable to :			
Owners of the Parent Company		₩ 2,599,829	1,675,967
Non-controlling interests		57,766	(15,866)
Earnings per share	31		
Basic and diluted earnings per share (in won)		₩ 36,582	23,497

See accompanying notes to the consolidated financial statements.

SK TELECOM CO., LTD. and Subsidiaries
 Consolidated Statements of Comprehensive Income

For the years ended December 31, 2017 and 2016

<i>(In millions of won)</i>	<u>Note</u>	<u>2017</u>	<u>2016</u>
Profit for the year	₩	2,657,595	1,660,101
Other comprehensive income (loss)			
Items that will never be reclassified to profit or loss, net of taxes:			
Remeasurement of defined benefit liabilities	19	5,921	(7,524)
Items that are or may be reclassified subsequently to profit or loss, net of taxes:			
Net change in unrealized fair value of available-for-sale financial assets	26,29	158,440	(223,981)
Net change in other comprehensive income of investments in associates and joint ventures	11,26	(141,008)	(9,939)
Net change in unrealized fair value of derivatives	20,26,29	22,586	(13,218)
Foreign currency translation differences for foreign operations	26	(46,952)	7,331
Other comprehensive loss for the year, net of taxes		(1,013)	(247,331)
Total comprehensive income	₩	<u>2,656,582</u>	<u>1,412,770</u>
Total comprehensive income (loss) attributable to:			
Owners of the Parent Company	₩	2,597,160	1,432,982
Non-controlling interests		59,422	(20,212)

See accompanying notes to the consolidated financial statements.

SK TELECOM CO., LTD. and Subsidiaries
Consolidated Statements of Changes in Equity

For the years ended December 31, 2017 and 2016

(In millions of won)

	Controlling Interest					Non-controlling interests	Total equity
	Share capital	Capital surplus (deficit) and others	Retained earnings	Reserves	Sub-total		
Balance at January 1, 2016	₩ 44,639	189,510	15,007,627	9,303	15,251,079	123,017	15,374,096
Total comprehensive income:							
Profit (loss) for the year	-	-	1,675,967	-	1,675,967	(15,866)	1,660,101
Other comprehensive loss	-	-	(7,499)	(235,486)	(242,985)	(4,346)	(247,331)
	-	-	1,668,468	(235,486)	1,432,982	(20,212)	1,412,770
Transactions with owners:							
Annual dividends	-	-	(635,482)	-	(635,482)	(300)	(635,782)
Interim dividends	-	-	(70,609)	-	(70,609)	-	(70,609)
Interest on hybrid bonds	-	-	(16,840)	-	(16,840)	-	(16,840)
Changes in ownership in subsidiaries	-	10,269	-	-	10,269	42,526	52,795
	-	10,269	(722,931)	-	(712,662)	42,226	(670,436)
Balance at December 31, 2016	₩ 44,639	199,779	15,953,164	(226,183)	15,971,399	145,031	16,116,430
Balance at January 1, 2017	₩ 44,639	199,779	15,953,164	(226,183)	15,971,399	145,031	16,116,430
Total comprehensive income:							
Profit for the year	-	-	2,599,829	-	2,599,829	57,766	2,657,595
Other comprehensive income (loss)	-	-	5,875	(8,544)	(2,669)	1,656	(1,013)
	-	-	2,605,704	(8,544)	2,597,160	59,422	2,656,582
Transactions with owners:							
Annual dividends	-	-	(635,482)	-	(635,482)	(281)	(635,763)
Interim dividends	-	-	(70,609)	-	(70,609)	-	(70,609)
Interest on hybrid bonds	-	-	(16,840)	-	(16,840)	-	(16,840)
Share option	-	414	-	-	414	-	414
Changes in ownership in subsidiaries	-	(3,912)	9	-	(3,903)	(17,116)	(21,019)
	-	(3,498)	(722,922)	-	(726,420)	(17,397)	(743,817)
Balance at December 31, 2017	₩ 44,639	196,281	17,835,946	(234,727)	17,842,139	187,056	18,029,195

See accompanying notes to the consolidated financial statements.

SK TELECOM CO., LTD. and Subsidiaries
Consolidated Statements of Cash Flows

For the years ended December 31, 2017 and 2016

<i>(In millions of won)</i>	<u>Note</u>	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:			
Cash generated from operating activities			
Profit for the year		₩ 2,657,595	1,660,101
Adjustments for income and expenses	37	2,096,764	3,039,561
Changes in assets and liabilities related to operating activities	37	<u>(261,468)</u>	<u>13,764</u>
Sub-total		4,492,891	4,713,426
Interest received		66,713	44,602
Dividends received		106,674	98,267
Interest paid		(234,127)	(245,236)
Income tax paid		<u>(576,331)</u>	<u>(367,891)</u>
Net cash provided by operating activities		<u>3,855,820</u>	<u>4,243,168</u>
Cash flows from investing activities:			
Cash inflows from investing activities:			
Decrease in short-term financial instruments, net		-	222,322
Collection of short-term loans		216,700	238,980
Decrease in long-term financial instruments		27	28
Proceeds from disposals of long-term investment securities		129,726	555,519
Proceeds from disposals of investments in associates and joint ventures		5,925	66,852
Proceeds from disposals of property and equipment		29,368	22,549
Proceeds from disposals of intangible assets		8,848	16,532
Collection of long-term loans		6,205	1,960
Decrease in deposits		24,550	14,894
Proceeds from disposals of other non-current assets		1,185	728
Proceeds from disposals of subsidiaries		30,132	-
Increase in cash due to merger		4,112	-
Receipt of government grants		-	300
Sub-total		<u>456,778</u>	<u>1,140,664</u>
Cash outflows for investing activities:			
Increase in short-term financial instruments, net		(156,012)	-
Increase in short-term investment securities, net		(28,975)	(6,334)
Increase in short-term loans		(205,878)	(239,303)
Increase in long-term loans		(5,869)	(32,287)
Increase in long-term financial instruments		(2,034)	(342)
Acquisitions of long-term investment securities		(19,328)	(30,949)
Acquisitions of investments in associates and joint ventures		(193,100)	(130,388)
Acquisitions of property and equipment		(2,715,859)	(2,490,455)
Acquisitions of intangible assets		(145,740)	(635,387)
Increase in deposits		(26,377)	(12,943)
Increase in other non-current assets		(47)	(763)
Acquisitions of business, net of cash acquired		-	(4,498)
Acquisitions of subsidiaries, net of cash acquired		(26,566)	(19,032)
Liquidation of subsidiary		<u>(1,600)</u>	<u>191</u>
Sub-total		<u>(3,527,385)</u>	<u>(3,602,872)</u>
Net cash used in investing activities		₩ <u>(3,070,607)</u>	<u>(2,462,208)</u>

See accompanying notes to the consolidated financial statements.

SK TELECOM CO., LTD. and Subsidiaries
Consolidated Statements of Cash Flows, Continued

For the years ended December 31, 2017 and 2016

<i>(In millions of won)</i>	<i>Note</i>	2017	2016
Cash flows from financing activities:			
Cash inflows from financing activities:			
Proceeds from short-term borrowings, net	₩	127,386	-
Proceeds from issuance of debentures		973,291	776,727
Proceeds from long-term borrowings		120,000	49,000
Cash inflows from settlement of derivatives		188	251
Cash inflows from capital increase by subsidiary		40,938	35,646
Sub-total		<u>1,261,803</u>	<u>861,624</u>
Cash outflows for financing activities:			
Decrease in short-term borrowings, net		-	(257,386)
Repayments of long-term accounts payable-other		(305,476)	(122,723)
Repayments of debentures		(842,733)	(770,000)
Repayments of long-term borrowings		(32,701)	(33,387)
Cash outflows from settlement of derivatives		(105,269)	-
Payments of finance lease liabilities		-	(26)
Payments of dividends		(706,091)	(706,091)
Payments of interest on hybrid bonds		(16,840)	(16,840)
Transactions with non-controlling shareholders		(79,311)	-
Sub-total		<u>(2,088,421)</u>	<u>(1,906,453)</u>
Net cash used in financing activities		<u>(826,618)</u>	<u>(1,044,829)</u>
Net increase (decrease) in cash and cash equivalents			
Cash and cash equivalents at beginning of the year		1,505,242	768,922
Effects of exchange rate changes on cash and cash equivalents		(6,102)	189
Cash and cash equivalents at end of the year	₩	<u>1,457,735</u>	<u>1,505,242</u>

See accompanying notes to the consolidated financial statements.

1. Reporting Entity

(1) General

SK Telecom Co., Ltd. (“the Parent Company”) was incorporated in March 1984 under the laws of the Republic of Korea (“Korea”) to provide cellular telephone communication services in Korea. The Parent Company mainly provides wireless telecommunications services in Korea. The head office of the Parent Company is located at 65, Eulji-ro, Jung-gu, Seoul, Korea.

The Parent Company’s common shares and depositary receipts (DRs) are listed on the Stock Market of Korea Exchange, the New York Stock Exchange and the London Stock Exchange. As of December 31, 2017, the Parent Company’s total issued shares are held by the following shareholders:

	<u>Number of shares</u>	<u>Percentage of total shares issued(%)</u>
SK Holdings Co., Ltd.	20,363,452	25.22
National Pension Service	7,392,350	9.16
Institutional investors and other minority stockholders	42,853,358	53.07
Treasury shares	<u>10,136,551</u>	<u>12.55</u>
Total number of shares	<u><u>80,745,711</u></u>	<u><u>100.00</u></u>

These consolidated financial statements comprise the Parent Company and its subsidiaries (together referred to as the “Group” and individually as “Group entities”). SK Holdings Co., Ltd. is the ultimate controlling entity of the Parent Company.

(2) List of subsidiaries

The list of subsidiaries as of December 31, 2017 and 2016 is as follows:

	<u>Subsidiary</u>	<u>Location</u>	<u>Primary business</u>	<u>Ownership (%)(*1)</u>	
				<u>Dec. 31, 2017</u>	<u>Dec. 31, 2016</u>
Subsidiaries owned by the Parent Company	SK Telink Co., Ltd.(*2)	Korea	Telecommunication and MVNO service	100.0	85.9
	SK Communications Co., Ltd.(*3)	Korea	Internet website services	100.0	64.5
	SK Broadband Co., Ltd	Korea	Telecommunication services	100.0	100.0
	PS&Marketing Corporation	Korea	Communications device retail business	100.0	100.0
	SERVICEACE Co., Ltd.	Korea	Customer center management service	100.0	100.0
	SERVICE TOP Co., Ltd.	Korea	Customer center management service	100.0	100.0
	Network O&S Co., Ltd.	Korea	Base station maintenance service	100.0	100.0
	SK Planet Co., Ltd.	Korea	Telecommunication service	98.1	98.1
	IRIVER LIMITED (*4, 5)	Korea	Manufacturing digital audio players and other portable media devices.	45.9	48.9
	SK Telecom China Holdings Co., Ltd.	China	Investment	100.0	100.0
	SK Global Healthcare Business Group, Ltd.	Hong Kong	Investment	100.0	100.0
	SKT Vietnam PTE. Ltd.	Singapore	Telecommunication service	73.3	73.3
	SKT Americas, Inc.	USA	Information gathering and consulting	100.0	100.0
	YTK Investment Ltd.	Cayman Islands	Investment association	100.0	100.0
	Atlas Investment	Cayman Islands	Investment association	100.0	100.0
	Entrix Co., Ltd. (*6)	Korea	Cloud streaming services	-	100.0
SK techx Co., Ltd.	Korea	System software development and supply	100.0	100.0	
One Store Co., Ltd.	Korea	Telecommunication services	65.5	65.5	

1. Reporting Entity, Continued

(2) List of subsidiaries, Continued

The list of subsidiaries as of December 31, 2017 and 2016 is as follows, Continued:

			Ownership (%)(*1)		
Subsidiary	Location	Primary business	Dec. 31, 2017	Dec. 31, 2016	
Subsidiaries owned by SK Planet Co., Ltd.	SK m&service Co., Ltd. (formerly, M&Service Co., Ltd.)	Korea	Data base and internet website service	100.0	100.0
	SK Planet Japan, K. K. (*5)	Japan	Digital contents sourcing service	79.5	100.0
	SK Planet Global PTE. Ltd.	Singapore	Digital contents sourcing service	100.0	100.0
	SKP GLOBAL HOLDINGS PTE. LTD.	Singapore	Investment	100.0	100.0
	SKP America LLC.	USA	Digital contents sourcing service	100.0	100.0
	shopkick Management Company, Inc.	USA	Investment	100.0	100.0
	shopkick, Inc.	USA	Reward points-based in-store shopping app development	100.0	100.0
	Planet11 E-commerce Solutions India Pvt. Ltd.(*6)	India	Electronic commerce platform service	-	99.0
	11street (Thailand) Co., Ltd.	Thailand	Electronic commerce	100.0	100.0
	Hello Nature Ltd.	Korea	Retail of agro-fisheries and livestock	100.0	100.0
Subsidiaries owned by IRIVER LIMITED	iriver Enterprise Ltd.	Hong Kong	Management of Chinese subsidiary	100.0	100.0
	iriver Inc.	USA	Marketing and sales in North America	100.0	100.0
	iriver China Co., Ltd.	China	Sales and manufacturing MP3,4 in China	100.0	100.0
	Dongguan iriver Electronics Co., Ltd.	China	Sales and manufacturing e-book in China	100.0	100.0
	groovers JP Ltd.	Japan	Digital music contents sourcing and distribution service	100.0	100.0
	S.M. LIFE DESIGN COMPANY JAPAN INC.(*6)	Japan	Selling of goods in Japan	100.0	-
	S.M. Mobile Communications JAPAN Inc.(*6)	Japan	Digital contents service	100.0	-
Subsidiaries owned by SK Telink Co., Ltd.	NSOK Co., Ltd. (formerly, Neosnetworks Co., Ltd.)(*7)	Korea	Guarding of facilities	100.0	100.0
Subsidiaries owned by SK techx Co., Ltd.	K-net Culture and Contents Venture Fund	Korea	Capital investing in startups	59.0	59.0
Subsidiaries owned by SK Broadband Co., Ltd.	Home & Service Co., Ltd (*6)	Korea	Operation of information and communication facility	100.0	-
	SK stoa Co., Ltd. (*6)	Korea	Other telecommunication retail business	100.0	-
Others(*8)	SK Telecom Innovation Fund, L.P.	USA	Investment	100.0	100.0
	SK Telecom China Fund I L.P.	Cayman Islands	Investment	100.0	100.0
	Stonebridge Cinema Fund (*6)	Korea	Capital investing in startups	-	60.0

1. Reporting Entity, Continued

(2) List of subsidiaries, Continued

The list of subsidiaries as of December 31, 2017 and 2016 is as follows, Continued:

- (*1) The ownership interest represents direct ownership interest in subsidiaries either by the Parent Company or subsidiaries of the Parent Company.
- (*2) On September 28, 2017, the board of directors of the Parent Company resolved to acquire the shares of SK Telink Co., Ltd. held by the non-controlling shareholders of SK Telink Co., Ltd. on December 14, 2017 at ₩270,583 per share in cash. The Parent Company paid ₩35,281 million in cash, in aggregate, and wholly owns SK Telink Co., Ltd. as of December 31, 2017.
- (*3) On November 24, 2016, the board of directors of the Parent Company resolved to acquire all of the shares of SK Communications Co., Ltd. held by the non-controlling shareholders of SK Communications Co., Ltd. on February 7, 2017 at ₩2,814 per share in cash. The Parent Company paid ₩41,550 million in cash, in aggregate, and wholly owns SK Communications Co., Ltd. as of December 31, 2017.
- (*4) Although the Group has less than 50% of the voting rights of IRIVER LIMITED, the Group is considered to have control over IRIVER LIMITED since the Group holds significantly more voting rights than any other vote holder or organized group of vote holders, and the other shareholdings are widely dispersed.
- (*5) The ownership interest changed due to the non-proportional capital increase during the year ended December 31, 2017.
- (*6) Details of changes in consolidation scope for the year ended December 31, 2017 are presented in Note 1-(4).
- (*7) During the year ended December 31, 2017, Neosnetworks Co., Ltd. changed its name to NSOK Co., Ltd.
- (*8) Others are owned together by Atlas Investment and one other subsidiary of the Parent Company.

1. Reporting Entity, Continued

(3) Condensed financial information of subsidiaries

Condensed financial information of the significant subsidiaries as of and for the year ended December 31, 2017 is as follows:

(In millions of won)

Subsidiary	As of December 31, 2017			2017	
	Total assets	Total liabilities	Total equity	Revenue	Profit (loss)
SK Telink Co., Ltd.	₩ 455,685	104,727	350,958	389,944	32,728
SK m&service Co., Ltd. (formerly, M&Service Co., Ltd.)	113,515	62,795	50,720	193,256	1,249
SK Communications Co., Ltd.	90,923	28,410	62,513	47,546	(35,454)
SK Broadband Co., Ltd.	3,802,349	2,616,317	1,186,032	3,050,083	32,030
K-net Culture and Contents Venture Fund	250,747	35,900	214,847	-	196,250
PS&Marketing Corporation	506,883	288,881	218,002	1,766,142	391
SERVICEACE Co., Ltd.	77,681	45,501	32,180	197,408	2,599
SERVICE TOP Co., Ltd.	65,406	41,860	23,546	186,117	3,309
Network O&S Co., Ltd.	87,000	45,248	41,752	255,841	6,283
SK Planet Co., Ltd.	1,534,866	920,677	614,189	1,082,685	(513,667)
IRIVER LIMITED(*)	130,878	17,204	113,674	69,452	(14,092)
SKP America LLC.	412,251	-	412,251	-	(57)
SK techx Co., Ltd.	237,700	41,561	196,139	195,948	26,827
One Store Co., Ltd.	104,891	39,874	65,017	115,596	(27,254)
Home & Service Co., Ltd.	83,698	38,350	45,348	141,739	11
shopkick Management Company, Inc.	338,650	-	338,650	-	(238)
shopkick, Inc.	37,336	32,219	5,117	48,836	(25,249)

(*) The condensed financial information of IRIVER LIMITED is consolidated financial information including iriver Enterprise Ltd. and six other subsidiaries of IRIVER LIMITED.

1. Reporting Entity, Continued

(3) Condensed financial information of subsidiaries, Continued

Condensed financial information of the significant subsidiaries as of and for the year ended December 31, 2016 is as follows:

(In millions of won)

Subsidiary	As of December 31, 2016			2016	
	Total assets	Total liabilities	Total equity	Revenue	Profit (loss)
SK Telink Co., Ltd.	₩ 440,956	122,741	318,215	406,930	61,585
SK m&service Co., Ltd. (formerly, M&Service Co., Ltd.)	107,768	56,596	51,172	173,816	4,958
SK Communications Co., Ltd.	128,233	31,592	96,641	58,154	(20,411)
SK Broadband Co., Ltd.	3,523,494	2,376,429	1,147,065	2,942,976	21,526
PS&Marketing Corporation	546,803	328,846	217,957	1,679,735	11,908
SERVICEACE Co., Ltd.	67,735	40,014	27,721	199,828	3,605
SERVICE TOP Co., Ltd.	59,004	39,121	19,883	186,740	3,971
Network O&S Co., Ltd.	69,774	35,798	33,976	218,917	3,755
SK Planet Co., Ltd.(*1)	1,935,663	834,151	1,101,512	1,177,323	(30,959)
IRIVER LIMITED(*2)	50,075	11,941	38,134	52,328	(9,987)
SKP America LLC.	439,209	-	439,209	-	1,226
SK techx Co., Ltd.	212,819	52,563	160,256	193,396	28,213
One Store Co., Ltd.	134,207	41,738	92,469	106,809	(22,161)
shopkick Management Company, Inc.	354,627	-	354,627	-	(85)
shopkick, Inc.	37,947	34,024	3,923	45,876	(27,149)

(*1) The separate financial information of SK Planet Co., Ltd. includes pre-merger income and expenses of Commerce Planet Co., Ltd. prior to the merger date of February 1, 2016.

(*2) The condensed financial information of IRIVER LIMITED is consolidated financial information including iriver Enterprise Ltd. and five other subsidiaries of IRIVER LIMITED.

1. Reporting Entity, Continued

(4) Changes in subsidiaries

The list of subsidiaries that were newly included in consolidation during the year ended December 31, 2017 is as follows:

<u>Subsidiary</u>	<u>Reason</u>
S.M. LIFE DESIGN COMPANY JAPAN INC. (Refer to Note10)	Acquired by IRIVER LIMITED
S.M. Mobile Communications JAPAN Inc. (Refer to Note10)	Acquired by IRIVER LIMITED
Home & Service Co., Ltd.	Established by SK Boradband Co., Ltd.
SK stoa Co., Ltd.	Established by SK Boradband Co., Ltd.

The list of subsidiaries that were excluded from consolidation during the year ended December 31, 2017 is as follows:

<u>Subsidiary</u>	<u>Reason</u>
Entrix Co., Ltd.	Merged into SK techx Co., Ltd. during the year ended December 31, 2017.
Planet11 E-commerce Solutions India Pvt. Ltd.	Disposed during the year ended December 31, 2017
Stonebridge Cinema Fund	Liquidated during the year ended December 31, 2017.

(5) The information of significant non-controlling interests of the Group as of and for the years ended December 31, 2017 and 2016 are as follows. There were no dividends paid during the years ended December 31, 2017 and 2016 by subsidiaries of which non-controlling interests are significant.

(In millions of won)

	K-net Culture and Contents Venture		
	Fund	IRIVER LIMITED	One Store Co., Ltd.
Ownership of non-controlling interests (%)	41.00	54.10	34.46
	As of December 31, 2017		
Current assets	₩ 625	74,873	76,810
Non-current assets	250,122	56,005	28,081
Current liabilities	(35,900)	(9,563)	(38,547)
Non-current liabilities	-	(7,641)	(1,327)
Net assets	214,847	113,674	65,017
Carrying amount of non-controlling interests	88,087	63,382	22,405
	2017		
Revenue	₩ -	69,452	115,596
Profit (loss) for the year	196,250	(14,092)	(27,254)
Total comprehensive profit (loss)	201,693	(14,278)	(27,452)
Profit (loss) attributable to non-controlling interests	80,463	(7,438)	(9,392)
Net cash provided by (used in) operating activities	₩ (7)	(7,553)	13,912
Net cash used in investing activities	(600)	(45,002)	(2,000)
Net cash provided by (used in) financing activities	-	64,571	(7)
Net increase (decrease) in cash and cash equivalents	(607)	12,016	11,905

1. Reporting Entity, Continued

(5) The information of significant non-controlling interests of the Group as of and for the years ended December 31, 2017 and 2016 are as follows. There were no dividends paid during the years ended December 31, 2017 and 2016 by subsidiaries of which non-controlling interests are significant, Continued.

(In millions of won)

	<u>SK Communications Co., Ltd.</u>	<u>One Store Co., Ltd.</u>
Ownership of non-controlling interests (%)	35.46	34.46
	<u>As of December 31, 2016</u>	
Current assets	₩ 81,806	90,414
Non-current assets	46,427	43,793
Current liabilities	(30,098)	(40,969)
Non-current liabilities	(1,494)	(769)
Net assets	96,641	92,469
Carrying amount of non-controlling interests	34,265	31,863
	<u>2016</u>	
Revenue	₩ 58,154	106,809
Loss for the year	20,411	22,161
Total comprehensive loss	20,841	22,402
Loss attributable to non-controlling interests	7,240	6,772
Net cash used in operating activities	₩ (4,891)	(4,447)
Net cash provided by (used in) investing activities	3,625	(20,796)
Net cash provided by financing activities	-	51,426
Net increase (decrease) in cash and cash equivalents	(1,266)	26,183

2. Basis of Presentation

(1) Statement of compliance

These consolidated financial statements were prepared in accordance with Korean International Financial Reporting Standards ("K-IFRS"), as prescribed in the *Act on External Audits of Stock Companies in the Republic of Korea*.

The consolidated financial statements were authorized for issuance by the Board of Directors on February 2, 2018, which will be submitted for approval at the shareholders' meeting to be held on March 21, 2018.

(2) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for the following material items in the consolidated statement of financial position:

- ✓ derivative financial instruments measured at fair value;
- ✓ financial instruments at fair value through profit or loss measured at fair value;
- ✓ available-for-sale financial assets measured at fair value; and
- ✓ liabilities(assets) for defined benefit plans recognized at the net of the total present value of defined benefit obligations less the fair value of plan assets.

2. Basis of Presentation, Continued

(3) Functional and presentation currency

Financial statements of Group entities within the Group are prepared in functional currency of each group entity, which is the currency of the primary economic environment in which each entity operates. Consolidated financial statements of the Group are presented in Korean won, which is the Parent Company's functional and presentation currency.

(4) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with K-IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period prospectively.

1) Critical judgments

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in Note 4 for the following areas: consolidation: whether the Group has de facto control over an investee, and classification of lease.

2) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes: allowance for doubtful accounts, estimated useful lives of property and equipment and intangible assets, impairment of goodwill, recognition of provision, measurement of defined benefit liabilities, and recognition of deferred tax assets (liabilities).

3) Fair value measurement

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. The Group has an established policies and processes with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the finance executives.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of K-IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

2. Basis of Presentation, Continued

(4) Use of estimates and judgments, Continued

3) Fair value measurement, Continued

- ✓ Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- ✓ Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- ✓ Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Information about assumptions used for fair value measurements are included in Note 34.

3. Changes in accounting policies

Except the following amendments to the standards that are effective for annual periods beginning on January 1, 2017, the accounting policies have been applied consistently to all periods presented in these consolidated financial statements.

1) K-IFRS No. 1007, *Cash Flow Statements*

The Group adopted the amendments to K-IFRS No. 1007, which form a part of the IASB's broader disclosure in the period beginning on January 1, 2017. The amendment requires the Group to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Group disclosed the reconciliation of the opening and closing balances of liabilities arising from financing activities including changes from financing cash flows; changes arising from obtaining or losing control of subsidiaries or other businesses; the effect of changes in foreign exchange rates; changes in fair values; and other changes in Note 37.

2) K-IFRS No. 1012, *Income Taxes*

The Group adopted the amendments to K-IFRS No. 1012 in the period beginning January 1, 2017. The amendments clarify the necessity to consider whether there are restrictions on tax laws on the sources of taxable profits which may be used for the reversal of deductible temporary difference. In addition, the amendments provide the guidance on how to estimate the probable future taxable profit and specify the circumstances where an asset can be recovered for more than its carrying amount. These amendments have no impact on the Group's consolidated financial statements.

4. Significant Accounting Policies

The significant accounting policies applied by the Group in the preparation of its consolidated financial statements in accordance with K-IFRSs are included below. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(1) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. The Group's operating segments have been determined to be each business unit, for which the Group generates separately identifiable financial information that is regularly reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance. The Group has four reportable segments which consist of cellular services, fixed-line telecommunication services, e-commerce services and others, as described in Note 5. Segment results that are reported to the chief operating decision maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

(2) Basis of consolidation

(i) Business combination

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control.

Consideration transferred is generally measured at fair value, identical to the measurement of identifiable net assets acquired at fair value. The difference between the acquired company's fair value and the consideration transferred is accounted for goodwill. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in profit or loss immediately. Acquisition-related costs are expensed in the periods in which the costs are incurred and the services are received excluding costs to issue debt or equity securities recognized based on K-IFRS No. 1032 and 1039.

Consideration transferred does not include the amount settled in relation to the pre-existing relationship and the amount settled in relation to the pre-existing relationship is generally recognized through profit or loss.

Contingent consideration is measured at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. If contingent consideration is not classified as equity, the Group subsequently recognizes changes in fair value of contingent consideration through profit or loss.

4. Significant Accounting Policies, Continued

(2) Basis of consolidation, Continued

(ii) Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in a Controlling Company's ownership interest in a subsidiary that do not result in the Controlling Company losing control of the subsidiary are accounted for as equity transactions.

(iii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Consolidation of an investee begins from the date the Group obtains control of the investee and ceases when the Group loses control of the investee.

(iv) Loss of control

If the Group loses control of a subsidiary, the Group derecognizes the assets and liabilities of the former subsidiary from the consolidated statement of financial position and recognizes gain or loss associated with the loss of control attributable to the former controlling interest. Any investment retained in the former subsidiary is recognized at its fair value when control is lost.

(v) Interest in investees accounted for using the equity method

Interest in investees accounted for using the equity method composed of interest in associates and joint ventures. An associate is an entity in which the Group has significant influence, but not control, over the entity's financial and operating policies. A joint venture is a joint arrangement whereby the Group that has joint control of the arrangement has rights to the net assets of the arrangement.

The investment in an associate and a joint venture is initially recognized at cost including transaction costs and the carrying amount is increased or decreased to recognize the Group's share of the profit or loss and changes in equity of the associate or the joint venture after the date of acquisition.

(vi) Intra-group transactions

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. The Group's share of unrealized gain incurred from transactions with investees accounted for using the equity method are eliminated and unrealized loss are eliminated using the same basis if there are no evidence of asset impairments.

(vii) Business combinations under common control

SK Holdings Co., Ltd. is the ultimate controlling entity of the Group. The assets and liabilities acquired under business combination under common control are recognized at the carrying amounts in the ultimate controlling shareholder's consolidated financial statements. The difference between consideration and carrying amount of net assets acquired is added to or subtracted from capital surplus and others.

4. Significant Accounting Policies, Continued

(3) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits and financial asset with maturities of three months or less from the acquisition date that are easily convertible to cash and subject to an insignificant risk of changes in their fair value.

(4) Inventories

Inventories are stated at the acquisition cost using the average method. During the period, a perpetual inventory system is used to track inventory quantities, which is adjusted to the physical inventory counts performed at the period end. When the net realizable value of inventories is less than the acquisition cost, the carrying amount is reduced to the net realizable value and any difference is charged to current operations as operating expenses.

(5) Non-derivative financial assets

The Group recognizes and measures non-derivative financial assets by the following four categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The Group recognizes financial assets in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Upon initial recognition, non-derivative financial assets not at fair value through profit or loss are measured at their fair value plus transaction costs that are directly attributable to the acquisition of the asset.

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

A financial asset is classified as financial asset at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Upon initial recognition, transaction costs are recognized in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

(ii) Held-to-maturity investments

A non-derivative financial asset with a fixed or determinable payment and fixed maturity, for which the Group has the positive intention and ability to hold to maturity, are classified as held-to-maturity investment. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest rate method.

(iii) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method except for loans and receivables of which the effect of discounting is immaterial.

4. Significant Accounting Policies, Continued

(5) Non-derivative financial assets, Continued

(iv) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. Subsequent to initial recognition, they are measured at fair value with changes in fair value, net of any tax effect, recorded in other comprehensive income (OCI) in equity. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

(v) De-recognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability. If the Group retains substantially all the risks and rewards of ownership of the transferred financial assets, the Group continues to recognize the transferred financial assets and recognizes financial liabilities for the consideration received.

(vi) Offsetting between financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount is presented in the consolidated statement of financial position only when the Group currently has a legally enforceable right to offset the recognized amounts, and there is the intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

(6) Derivative financial instruments, including hedge accounting

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

(i) Hedge accounting

The Group holds forward exchange contracts, interest rate swaps, currency swaps and other derivative contracts to manage interest rate risk and foreign exchange risk. The Group designates derivatives as hedging instruments to hedge the risk of changes in the fair value of assets, liabilities or firm commitments (a fair value hedge) and foreign currency risk of highly probable forecasted transactions or firm commitments (a cash flow hedge).

On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship.

4. Significant Accounting Policies, Continued

(6) Derivative financial instruments, including hedge accounting, Continued

(i) Hedge accounting, Continued

Fair value hedge

Changes in the fair value of a derivative hedging instrument designated as a fair value hedge are recognized in profit or loss. The gain or loss from remeasuring the hedging instrument at fair value for a derivative hedging instrument and the gain or loss on the hedged item attributable to the hedged risk are recognized in profit or loss in the same line item of the consolidated statement of income. The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, or if the hedge no longer meets the criteria for hedge accounting. Any adjustment arising from gain or loss on the hedged item attributable to the hedged risk is amortized to profit or loss from the date the hedge accounting is discontinued.

Cash flow hedge

When a derivative is designated to hedge the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income, net of tax, and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income is reclassified to profit or loss in the periods during which the forecasted transaction occurs. If the forecasted transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in profit or loss.

(ii) Separable embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately only if the following criteria have been met:

- (a) the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;
- (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- (c) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognized in profit or loss.

Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

(iii) Other derivative financial instruments

Changes in the fair value of other derivative financial instrument not designated as a hedging instrument are recognized immediately in profit or loss.

4. Significant Accounting Policies, Continued

(7) Impairment of financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. However, losses expected as a result of future events, regardless of likelihood, are not recognized.

Objective evidence that a financial asset is impaired includes following loss events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If financial assets have objective evidence that they are impaired, impairment losses are measured and recognized.

(i) Financial assets measured at amortized cost

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective interest rate. The Group can recognize impairment losses directly or by establishing an allowance account. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed either directly or by adjusting an allowance account.

(ii) Financial assets carried at cost

If there is objective evidence that an impairment loss has occurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

4. Significant Accounting Policies, Continued

(7) Impairment of financial assets, Continued

(iii) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss subsequently. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

(8) Property and equipment

Property and equipment are initially measured at cost. The cost of property and equipment includes expenditures arising directly from the construction or acquisition of the asset, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent to initial recognition, an item of property and equipment is carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Subsequent costs are recognized in the carrying amount of property and equipment at cost or, if appropriate, as a separate item if it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing are recognized in profit or loss as incurred.

Property and equipment, except for land, are depreciated on a straight-line basis over estimated useful lives that appropriately reflect the pattern in which the asset's future economic benefits are expected to be consumed. A component that is significant compared to the total cost of property and equipment is depreciated over its separate useful life.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized as other non-operating income (loss).

The estimated useful lives of the Group's property and equipment are as follows:

	<u>Useful lives (years)</u>
Buildings and structures	15 ~ 40
Machinery	3 ~ 15
Other property and equipment	2 ~ 10

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate. The change is accounted for as a change in accounting estimate.

4. Significant Accounting Policies, Continued

(9) Borrowing costs

The Group capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognized in expense as incurred. A qualifying asset is an asset that requires a substantial period of time to get ready for its intended use or sale. Financial assets are not qualifying assets. Assets that are ready for their intended use or sale when acquired are not qualifying assets.

To the extent that the Group borrows funds specifically for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. To the extent that the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Group capitalizes during a period do not exceed the amount of borrowing costs incurred during that period.

(10) Intangible assets

Intangible assets are measured initially at cost and, subsequently, are carried at cost less accumulated amortization and accumulated impairment losses.

Amortization of intangible assets except for goodwill is calculated on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The residual value of intangible assets is zero. However, club memberships are expected to be available for use as there are no foreseeable limits to the periods. This intangible asset is determined as having indefinite useful lives and not amortized.

The estimated useful lives of the Group's intangible assets are as follows:

	<u>Useful lives (years)</u>
Frequency usage rights	5 ~ 13
Land usage rights	5
Industrial rights	5, 10
Development costs	3 ~ 5
Facility usage rights	10, 20
Customer relations	3 ~ 7
Other	3 ~ 20

Amortization periods and the amortization methods for intangible assets with finite useful lives are reviewed at the end of each reporting period. The useful lives of intangible assets that are not being amortized are reviewed at the end of each reporting period to determine whether events and circumstances continue to support indefinite useful life assessments for those assets. Changes are accounted for as changes in accounting estimates.

4. Significant Accounting Policies, Continued

(10) Intangible assets, Continued

Expenditures on research activities are recognized in profit or loss as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Other development expenditures are recognized in profit or loss as incurred.

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditures on internally generated goodwill and brands, are recognized in profit or loss as incurred.

(11) Government grants

Government grants are not recognized unless there is reasonable assurance that the Group will comply with the grant's conditions and that the grant will be received.

(i) Grants related to assets

Government grants whose primary condition is that the Group purchases, constructs or otherwise acquires a long-term asset are deducted in calculating the carrying amount of the asset. The grant is recognized in profit or loss over the life of a depreciable asset as a reduction to depreciation expense.

(ii) Grants related to income

Government grants which are intended to compensate the Group for expenses incurred are deducted from the related expenses.

(12) Investment property

Property held for the purpose of earning rentals or benefiting from capital appreciation is classified as investment property. Investment property is initially measured at its cost. Transaction costs are included in the initial measurement. Subsequently, investment property is carried at depreciated cost less any accumulated impairment losses.

Subsequent costs are recognized in the carrying amount of investment property at cost or, if appropriate, as a separate item if it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing are recognized in profit or loss as incurred.

Investment property except for land, are depreciated on a straight-line basis over 15~40 years as estimated useful lives.

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate. The change is accounted for as a change in an accounting estimate.

4. Significant Accounting Policies, Continued

(13) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than assets arising from employee benefits, inventories, deferred tax assets and non-current assets held for sale, are reviewed at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, irrespective of whether there is any indication of impairment, are tested for impairment annually by comparing their recoverable amount to their carrying amount.

The Group estimates the recoverable amount of an individual asset, if it is impossible to measure the individual recoverable amount of an asset, then the Group estimates the recoverable amount of cash-generating unit ("CGU"). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. The value in use is estimated by applying a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted, to the estimated future cash flows expected to be generated by the asset or CGU.

An impairment loss is recognized in profit or loss to the extent the carrying amount of the asset exceeds its recoverable amount.

Goodwill acquired in a business combination is allocated to each CGU that is expected to benefit from the synergies arising from the business acquired. Any impairment identified at the CGU level will first reduce the carrying value of goodwill and then be used to reduce the carrying amount of the other assets in the CGU on a pro rata basis. Except for impairment losses in respect of goodwill which are never reversed, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(14) Leases

The Group classifies and accounts for leases as either a finance or operating lease, depending on the terms. Leases where the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases.

(i) Finance leases

At the commencement of the lease term, the Group recognizes as finance assets and finance liabilities in its consolidated statement of financial position, the lower amount of the fair value of the leased property and the present value of the minimum lease payments, each determined at the inception of the lease. Any initial direct costs are added to the amount recognized as an asset.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

4. Significant Accounting Policies, Continued

(14) Leases, Continued

(i) Finance leases, Continued

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the Group adopts for depreciable assets that are owned. If there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life. The Group reviews to determine whether the leased assets are impaired at the reporting date.

(ii) Operating leases

Leases where the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the period of the lease.

(iii) Determining whether an arrangement contains a lease

Determining whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether fulfillment of the arrangement is dependent on the use of a specific asset and the arrangement conveys a right to use the asset.

At inception or reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a financial lease that it is impracticable to separate the payments reliably, the Group recognizes an asset and a liability at an amount equal to the fair value of the underlying asset that was identified as the subject of the lease. Subsequently, the liability is reduced as payments are made and an imputed finance charge on the liability is recognized using the Group's incremental borrowing rate of interest.

(15) Non-current assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. In order to be classified as held for sale, the asset (or disposal group) must be available for immediate sale in its present condition and its sale must be highly probable. The assets or disposal group that are classified as non-current assets held for sale are measured at the lower of their carrying amount and fair value less cost to sell. The Group recognizes an impairment loss for any initial or subsequent write-down of an asset (or disposal group) to fair value less costs to sell, and a gain for any subsequent increase in fair value less costs to sell, up to the cumulative impairment loss previously recognized in accordance with K-IFRS No. 1036, *Impairment of Assets*.

A non-current asset that is classified as held for sale or part of a disposal group classified as held for sale is not depreciated (or amortized).

4. Significant Accounting Policies, Continued

(16) Non-derivative financial liabilities

The Group classifies non-derivative financial liabilities into financial liabilities at fair value through profit or loss or other financial liabilities in accordance with the substance of the contractual arrangement. The Group recognizes financial liabilities in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the financial liability.

(i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading or designated as such upon initial recognition. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Upon initial recognition, transaction costs that are directly attributable to the issue of the financial liability are recognized in profit or loss as incurred.

(ii) Other financial liabilities

Non-derivative financial liabilities other than financial liabilities at fair value through profit or loss are classified as other financial liabilities. At the date of initial recognition, other financial liabilities are measured at fair value minus transaction costs that are directly attributable to the issue of the financial liability. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

The Group derecognizes a financial liability from the consolidated statement of financial position when it is extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

(17) Employee benefits

(i) Short-term employee benefits

Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service. When an employee has rendered service to the Group during an accounting period, the Group recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

(ii) Other long-term employee benefits

Other long-term employee benefits include employee benefits that are settled beyond 12 months after the end of the period in which the employees render the related service. The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognized in profit or loss in the period in which they arise.

4. Significant Accounting Policies, Continued

(17) Employee benefits, Continued

(iii) Retirement benefits: defined contribution plans

When an employee has rendered service to the Group during a period, the Group recognizes the contribution payable to a defined contribution plan in exchange for that service as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, the Group recognizes that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

(iv) Retirement benefits: defined benefit plans

At the end of reporting period, defined benefits liabilities relating to defined benefit plans are recognized at present value of defined benefit obligations net of fair value of plan assets.

The calculation is performed annually by an independent actuary using the projected unit credit method. When the fair value of plan assets exceeds the present value of the defined benefit obligation, the Group recognizes an asset, to the extent of the present value of any economic benefits available in the form of refunds from the plan or reduction in the future contributions to the plan.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Group determines net interests on net defined benefit liability (asset) by multiplying discount rate determined at the beginning of the annual reporting period and considers changes in net defined benefit liability (asset) from contributions and benefit payments. Net interest costs and other costs relating to the defined benefit plan are recognized through profit or loss.

When the plan amendment or curtailment occurs, gains or losses on amendment or curtailment in benefits for the past service provided are recognized through profit or loss. The Group recognizes gain or loss on a settlement when the settlement of defined benefit plan occurs.

(v) Termination benefits

The Group recognizes a liability and expense for termination benefits at the earlier of the period when the Group can no longer withdraw the offer of those benefits and the period when the Group recognizes costs for a restructuring that involves the payment of termination benefits. If benefits are payable more than 12 months after the reporting period, they are discounted to their present value.

4. Significant Accounting Policies, Continued

(18) Provisions

Provisions are recognized when the Group has a present legal or constructive obligation 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 risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows.

Where some or all of the expenditures required to settle a provision are expected to be reimbursed by another party, the reimbursement is recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement is treated as a separate asset.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimates. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

A provision is used only for expenditures for which the provision was originally recognized.

(19) Transactions in foreign currencies

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of Group at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency using the reporting date's exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments.

(ii) Foreign operations

If the presentation currency of the Group is different from a foreign operation's functional currency, the financial statements of the foreign operation are translated into the presentation currency using the following methods:

The assets and liabilities of foreign operations, whose functional currency is not the currency of a hyperinflationary economy, are translated to presentation currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to functional currency at exchange rates at the dates of the transactions. Foreign currency differences are recognized in other comprehensive income.

4. Significant Accounting Policies, Continued

(19) Transactions in foreign currencies, Continued

(ii) Foreign operations, Continued

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation is treated as assets and liabilities of the foreign operation. Thus they are expressed in the functional currency of the foreign operation and translated at the closing rate at the reporting date.

When a foreign operation is disposed of, the relevant amount in the translation is transferred to profit or loss as part of the profit or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

(20) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

When the Group repurchases its own shares, the amount of the consideration paid is recognized as a deduction from equity and classified as treasury shares. The profits or losses from the purchase, disposal, reissue, or retirement of treasury shares are directly recognized in equity being as transaction with owners

(21) Hybrid bond

The Group recognizes a financial instrument issued by the Group as an equity instrument if it does not include contractual obligation to deliver financial assets including cash to the counter party.

(22) Share-based Payment

For equity-settled share-based payment transaction, if the fair value of the goods or services received cannot be reliably estimated, the Group measures their value indirectly by reference to the fair value of the equity instruments granted. Related expense, with a corresponding increase in capital surplus and others is recognized over the vesting period of the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

(23) Revenue

Revenue from the sale of goods, rendering of services or use of the Group assets is measured at the fair value of the consideration received or receivable. Returns, trade discounts and volume rebates are recognized as a reduction of revenue.

When two or more revenue generating activities or deliverables are sold under a single arrangement, each deliverable that is considered to be a separate unit of account is accounted for separately. The allocation of consideration from a revenue arrangement to its separate units of account is based on the relative fair values of each unit.

4. Significant Accounting Policies, Continued

(23) Revenue, Continued

(i) Services rendered

Revenue from cellular services consists of revenue from basic charges, voice charges, data charges, data-roaming services and interconnection charges. Such revenues are recognized as services are performed.

Revenue from fixed-line services includes domestic and long-distance call charges, international phone connection charges, and broadband internet services. Such revenues are recognized as the related services are performed.

Revenue from other services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(ii) Goods sold

Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

(iii) Commission revenue

The Group has determined that it is acting as an agent due to the following factors.

- The Group does not have ownership, exposure to the inventory risk, and significant responsibilities on goods sold.
- All of the credit risks are borne by the supplier of the goods though the Group collects the proceeds from the end customer.

(iv) Customer loyalty programs

For customer loyalty programs, the fair value of the consideration received or receivable in respect of the initial sale is allocated between the award credits and the other components of the sale. The amount allocated to the award credits is estimated by reference to the fair value of the services to be provided with respect to the redeemable award credits. The fair value of the services to be provided with respect to the redeemable portion of the award credits granted to the customers in accordance with customer loyalty programs is estimated taking into account the expected redemption rate and timing of the expected redemption. Considerations allocated to the award credits are deferred and revenue is recognized when the award credits are recovered and the Group performs its obligation to provide the service. The amount of revenue recognized is based on the relative size of the total award credits that are expected to be redeemed and the redeemed award credits in exchange for services.

4. Significant Accounting Policies, Continued

(24) Finance income and finance costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on disposal of available-for-sale financial assets, changes in fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognized in profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest rate method. Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established.

Finance costs comprise interest expense on borrowings, changes in fair value of financial assets at fair value through profit or loss, and losses on hedging instruments that are recognized in profit or loss. Interest expense on borrowings and debentures are recognized in profit or loss using the effective interest rate method.

(25) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

The Group pays income tax in accordance with the tax-consolidation system when the parent company and its subsidiaries are economically unified.

(i) Current tax

In accordance with the tax-consolidation system, the Parent Company calculates current taxes for the Parent Company and its wholly owned domestic subsidiaries and recognizes the income tax payable as current tax liabilities of the Parent Company. Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period and includes interests and fines related to income taxes paid or payable. The taxable profit is different from the accounting profit for the period since the taxable profit is calculated excluding the temporary differences, which will be taxable or deductible in determining taxable profit (tax loss) of future periods, and non-taxable or non-deductible items from the accounting profit.

(ii) Deferred tax

Deferred tax is recognized, using the asset-liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The Group recognizes a deferred tax liability for all taxable temporary differences, except for the difference associated with investments in subsidiaries and associates that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The Group recognizes a deferred tax asset for all deductible temporary differences to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

4. Significant Accounting Policies, Continued

(25) Income taxes, Continued

(ii) Deferred tax, Continued

A deferred tax asset is recognized for the carryforward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilized. Future taxable profit is dependent on the reversal of taxable temporary differences. If there are insufficient taxable temporary differences to recognize the deferred tax asset, the business plan of the Group and the reversal of existing temporary differences are considered in determining the future taxable profit.

(ii) Deferred tax, Continued

The Group reviews the carrying amount of a deferred tax asset at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset the related current tax liabilities and assets, and they relate to income taxes levied by the same tax authority and they are intended to be settled current tax liabilities and assets on a net basis. Income tax expense in relation to dividend payments is recognized when liabilities relating to the dividend payments are recognized.

(26) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Parent Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees, if any.

4. Significant Accounting Policies, Continued

(27) Standards issued but not yet effective

The following new standards are effective for annual periods beginning after January 1, 2017 and earlier application is permitted; however, the Group has not early adopted the following new standards in preparing these financial statements.

1) K-IFRS No. 1109, *Financial Instruments*

K-IFRS No. 1109, published on September 25, 2015 which will replace the K-IFRS No. 1039 *Financial Instruments: Recognition and Measurement*, is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Group currently plans to apply K-IFRS No.1109 in the period beginning on January 1, 2018.

Adoption of K-IFRS No. 1109 will generally be applied retrospectively, except for the following:

- exemption allowing the Group not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes; and
- Prospective application of new hedge accounting except for those specified in K-IFRS No. 1109 for retrospective application such as accounting for the time value of options and the forward element of forward contracts.

Key features of K-IFRS No. 1109 includes new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics, impairment model based on changes in expected credit losses, and new approach to hedge qualification and methods for assessing hedge effectiveness.

To ensure smooth implementation of K-IFRS No.1109, the Group needs to assess the financial impact of adopting K-IFRS No. 1109, to formulate the accounting policy, and to design, implement and enhance the accounting system and related controls. The expected quantitative impact of adopting K-IFRS No. 1109 on the Group's financial statements cannot be reliably estimated because it will be dependent on the financial instruments that the Group holds and economic conditions at that time as well as accounting elections and judgments that it will make in the future.

Based on the circumstances and information available as of December 31 2017, the Group preliminary assessed the financial impact on its consolidated financial statements resulting from the adoption of K-IFRS No. 1109. The results of the preliminary assessment are as follows. The results are subject to change according to the additional information available in subsequent periods.

i) Classification and measurement of financial assets

Classification of financial assets under K-IFRS No. 1109 is driven by the entity's business model for managing financial assets and their contractual cash flows. This contains three principal classification categories: financial assets measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). Derivatives embedded in contracts where the host is a financial asset are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. Details of the classification based on business models and contractual cash flows are as follows:

4. Significant Accounting Policies, Continued

(27) Standards issued but not yet effective, Continued

1) K-IFRS No. 1109, *Financial Instruments*, Continued

i) Classification and measurement of financial assets, Continued

Business model assessment (*3)	Contractual cash flow characteristics	
	Solely payments of principal and interest	Others
Hold to collect contractual cash flows	Amortized cost(*1)	
Hold to collect contractual cash flows and sell financial assets	FVOCI- measured at fair value (*1)	FVTPL-measured at fair value (*2)
Hold to sell financial assets and others	FVTPL-measured at fair value	

(*1) To eliminate or significantly reduce the accounting mismatch, the Group may irrevocably designate a financial asset as measured at FVTPL using the fair value option at initial recognition.

(*2) Equity instruments that are not held for trading may be irrevocably designated as FVOCI using the fair value option. This election is made on an investment-by-investment basis.

(*3) The business model was assessed at portfolio level.

As new classification requirements for financial assets under K-IFRS No. 1109 are more stringent than requirements under K-IFRS No. 1039, the adoption of the new standard may result in increase in financial assets designated as FVTPL and higher volatility in profit or loss of the Group. As of December 31, 2017, the Group's financial assets consist of ₩6,176,575 million of loans and receivables, ₩934,390 million of available-for-sale financial assets, and ₩328,314 million of financial assets at fair value through profit or loss.

A financial asset is measured at amortized cost under K-IFRS No. 1109 if the asset is held by the Group to collect its contractual cash flows and the asset's contractual cash flows represent solely payments of principal and interest. As of December 31, 2017, the Group has ₩6,176,575 million of loans and receivables measured at amortized cost.

Based on preliminary assessment, most of the Group's financial assets are held to collect their contractual cash flows and the asset's contractual cash flows represent solely payments of principal and interest. Though some are held for the purpose of collecting their contractual cash flows or transfer, there would be no material impact on the Group's consolidated financial statements due to their short holding period.

A financial asset is measured at FVOCI under K-IFRS No. 1109 if the objective of the business model is achieved both by collecting contractual cash flows and selling financial assets; and the asset's contractual cash flows represent solely payments of principal and interest. As of December 31, 2017, the Group has ₩19,928 million of debt instruments classified as available-for-sale financial assets.

Most of the debt instruments held by the Group classified as available-for-sale financial assets would be classified as financial assets measured at amortized cost, if K-IFRS No. 1109 were applied at December 31, 2017.

4. Significant Accounting Policies, Continued

(27) Standards issued but not yet effective, Continued

1) K-IFRS No. 1109, *Financial Instruments*, Continued

i) Classification and measurement of financial assets, Continued

Under K-IFRS No. 1109, equity instruments that are not held for trading may be irrevocably designated as FVOCI on initial recognition with no recycling of amounts from OCI to profit and loss. As of December 31, 2017, the Group has ₩914,462 million of available-for-sale equity instruments.

As the Group plans to classify the equity instruments with long-term investment purposes to financial assets measured at FVOCI using the fair value option under K-IFRS No. 1109, the Group's preliminary assessment did not indicate any material impact on the Group's consolidated financial statements except no recycling of amounts from OCI to profit and loss is allowed.

All other financial assets are measured at FVTPL. As of December 31, 2017, the Group has ₩97,003 million of debt instruments classified as financial assets at FVTPL.

Most of the financial assets classified as FVTPL under K-IFRS No. 1039 of the Group are expected to be designated as financial assets measured at FVTPL using the fair value option under K-IFRS No. 1109. Therefore, the Group's preliminary assessment did not indicate any material impact on the Group's consolidated financial statements if K-IFRS No. 1109 were applied at December 31, 2017.

ii) Classification and measurement of financial liabilities

Under K-IFRS No. 1109, for the financial liabilities designated as FVTPL using the fair value option, the element of gains or losses attributable to changes in the own credit risk should normally be recognized in OCI, with the remainder recognized in profit or loss. These amounts recognized in OCI are not recycled to profit or loss even when the liability is derecognized. However, if presentation of the fair value change in respect of the liability's credit risk in OCI results in or enlarges an accounting mismatch in profit or loss, gains and losses are entirely presented in profit or loss.

Adoption of K-IFRS No. 1109 may result in decrease in profit or loss, since the amount of fair value changes that is attributable to changes in the credit risk of the liability will be presented in OCI.

As of December 31, 2017, the Group's total financial liability amounts to ₩12,725,704 million, among which the financial liabilities designated as FVTPL using fair value option amount to ₩60,278 million.

As of December 31, 2017, most of the financial liabilities designated as FVTPL of the Group have short-term maturities with no significant changes in their credit risks. The Group's preliminary assessment did not indicate any material impact on the Group's consolidated financial statements if K-IFRS No. 1109 were applied at December 31, 2017.

iii) Impairment: financial assets and contract assets

The current impairment requirements under K-IFRS No. 1039 are based on an 'incurred loss model', where the impairment exists if there is objective evidence as a result of one or more events that occurred after the initial recognition of an asset. However, K-IFRS No. 1109 replaces the incurred loss model in K-IFRS No. 1039 with an 'expected credit loss model' which applies to debt instruments measured at amortized cost or at fair value through other comprehensive income.

4. Significant Accounting Policies, Continued

(27) Standards issued but not yet effective, Continued

1) K-IFRS No. 1109, *Financial Instruments*, Continued

iii) Impairment: financial assets and contract assets, Continued

Under K-IFRS No. 1109, the Group should recognize a loss allowance or provision at an amount equal to 12-month expected credit losses or lifetime expected credit losses for financial assets determined by the extent of probable credit deterioration since initial recognition as explained below. Therefore, the new impairment requirements are expected to result in earlier recognition of credit losses compared to the incurred loss model of K-IFRS No. 1039.

Stages (*1)	Loss allowances
Stage 1 No significant increase in credit risk since initial recognition (*2)	Loss allowances are determined for the amount of the expected credit losses that result from default events that are possible within 12 months after the reporting date.
Stage 2 Significant increase in credit risk since initial recognition	Loss allowances are determined for the amount of the expected credit losses that result from all possible default events over the expected life of the financial instrument.
Stage 3 Objective evidence of credit risk impairment	

(*1) Under K-IFRS No. 1115, *Revenue from Contracts with Customers* (see note 4 (27) (2)), for trade receivables and contract assets arising with no significant credit risk, loss allowances are recognized at an amount equal to lifetime expected credit losses. However, for trade receivables and contract assets with a significant financing component arising under K-IFRS No. 1115, the Group may choose as its accounting policy to recognize loss allowances at an amount equal to lifetime expected credit losses. In addition, for receivables under lease arrangement, the Group may choose to recognize loss allowances at an amount equal to lifetime expected credit losses.

(*2) The Group may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date.

K-IFRS No. 1109 allows the Group to only recognize the cumulative changes in lifetime expected credit losses since initial recognition as a loss allowance for purchased or originated credit-impaired financial assets at the reporting date. As of December 31, 2017, the Group has ₩6,176,575 million of debt instrument financial assets measured at amortized cost and ₩362,171 million as loss allowances for these assets. The Group's preliminary assessment did not indicate any material impact on the Group's consolidated financial statements upon adoption of K-IFRS No. 1109 on January 1, 2018.

iv) Hedge accounting

K-IFRS No. 1109 maintains the mechanics of hedge accounting from those in K-IFRS No. 1039. However, K-IFRS No. 1109 replaces existing rule-based requirements under K-IFRS No. 1039 that are complex and difficult to apply with principle based requirement focusing more on the Group's risk management purposes and procedures. Under K-IFRS No. 1109, more hedging instruments and hedged items are permitted and 80%-125% effectiveness requirement is removed.

4. Significant Accounting Policies, Continued

(27) Standards issued but not yet effective, Continued

1) K-IFRS No. 1109, *Financial Instruments*, Continued

iv) Hedge accounting, Continued

By complying with the hedging rules in K-IFRS No. 1109, the Group may apply hedge accounting for transactions that currently do not meet the hedging criteria under K-IFRS No. 1039 thereby reducing volatility in profit or loss. As of December 31, 2016, the Group recognized the total amount of ₩2,026,434 million as hedged liabilities that applied hedge accounting and changes in fair value of cash flow hedge in the amount of ₩73,828 million was recognized in OCI for the year ended December 31, 2017.

Upon initial application of K-IFRS No. 1109, the Group may choose as its accounting policy to continue to apply hedge accounting requirements under K-IFRS No. 1039 instead of the requirements in K-IFRS No. 1109.

The Group is yet to decide on its accounting policy whether to continuously apply the hedge accounting requirements of K-IFRS No. 1039 instead of the requirements in K-IFRS No. 1109 when initially applying K-IFRS No. 1109. Therefore, the preliminary assessment was done as if the Group chose to apply K-IFRS No. 1109. The Group designates derivatives such as currency swaps as hedging instruments to hedge the risk of variability in cash flows associated with the foreign currency debentures and borrowings. As the Group's hedging instruments as of December 31, 2017 satisfy the hedge requirements of prospective and retrospective testing (80~125%) under K-IFRS No. 1039, the adoption of K-IFRS No. 1109 is not expected to have material impact on the Group's consolidated financial statements.

2) K-IFRS No. 1115, *Revenue from Contracts with Customers*

K-IFRS No. 1115, *Revenue from Contracts with Customers*, published on November 6, 2015 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. It replaces existing revenue recognition guidance, including K-IFRS No. 1018, *Revenue*, K-IFRS No. 1011, *Construction Contracts*, K-IFRS No. 2031, *Revenue: Barter Transactions Involving Advertising Services*, K-IFRS No. 2113, *Customer Loyalty Programs*, K-IFRS No. 2115, *Agreements for the Construction of Real Estate*, and K-IFRS No. 2118, *Transfers of Assets from Customers*. The Group plans to adopt K-IFRS No. 1115 on January 1, 2018. The Group plans to apply K-IFRS No. 1115 by recognizing the cumulative effect of initially applying the K-IFRS No. 1115 as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) of the year beginning January 1, 2018. The Group elected to apply K-IFRS No. 1115 retrospectively only to contracts that are not completed contracts at the date of initial application (January 1, 2018) using the transition method permitted by K-IFRS No. 1115.

K-IFRS No. 1018 provides separate revenue recognition criteria by transaction type which include sale of goods, rendering of services, and use of entity assets by others yielding interest, royalties and dividends. However, K-IFRS No. 1115 introduces a five-step model for revenue recognition that focuses on the 'transfer of control' rather than the 'transfer of risks and rewards'. The steps in five-step model are as follows:

4. Significant Accounting Policies, Continued

(27) Standards issued but not yet effective, Continued

2) K-IFRS No. 1115, *Revenue from Contracts with Customers*, Continued

- ✓ identification of the contract with a customer;
- ✓ identification of the performance obligations in the contract;
- ✓ determination of the transaction price;
- ✓ allocation of the transaction price to the performance obligations in the contract; and
- ✓ recognition of revenue when (or as) the entity satisfies a performance obligation.

The Group updated its accounting system and related controls based on the understanding of the revenue stream of the Group with the assistance of external information technology and accounting specialists. The Group is assessing the financial impact of the adoption of K-IFRS No. 1115 on its consolidated financial statements and plans to complete the assessment by March 31, 2018. The results of the assessment will be disclosed in the Group's condensed consolidated interim financial statements for the three-month period ending March 31, 2018.

Based on the circumstances and information available as of December 31, 2017, the Group preliminary assessed the financial impact on its consolidated financial statements resulting from the adoption of K-IFRS No. 1115. The results of the preliminary assessment are as follows. The results are subject to change according to the additional information available to use in subsequent periods.

i) Identification of performance obligations in the contract

A substantial portion of the Group's revenues are generated from provision of wireless telecommunications services. K-IFRS No. 1115 requires the Group to evaluate goods or services promised to customers to determine if they are performance obligations other than wireless telecommunications service that should be accounted for separately. The amount and timing of revenue recognition under K-IFRS No. 1105 may be different from those under K-IFRS No. 1018 depending on the conclusion over the existence of separately identifiable performance obligations and the timing of satisfying each performance obligation.

In the case that the Group provides the wireless telecommunications services and a handset to one customer, the Group will allocate considerations from the customer between handset sale revenue and wireless telecommunications service revenue. The handset sales revenue is recognized when handset is sold and the wireless telecommunications service revenue is recognized as revenue over the period of the contract term.

ii) Allocate the transaction price to the separate performance obligations

In accordance with K-IFRS No. 1115, the Group should allocate the transaction price to each performance obligation in a contract in proportion to their stand-alone selling price. The Group plans to use adjusted market assessment method for estimating the stand-alone selling price. However, in some circumstances, 'expected cost plus a margin' approach will be used.

The Group is in the progress of assessing the financial impact of allocating the transaction price to each performance obligation in a contract in proportion to their stand-alone selling price for the case where the Group provides the wireless telecommunications services and handset to one customer.

4. Significant Accounting Policies, Continued

(27) Standards issued but not yet effective, Continued

2) K-IFRS No. 1115, *Revenue from Contracts with Customers*, Continued

iii) Incremental costs to acquire a contract

The Group has exclusive contracts with its sales agents to sell the Group's wireless telecommunications services to subscribers. These agents receive commissions depending on the number of subscribers newly added and retained. The commissions paid to the agents constitute a significant portion of the Group's operating expenses. Currently, the portion of these commissions that would not have been incurred if there have been no binding contracts with the subscribers are expensed.

Under K-IFRS No. 1115, incremental costs to acquire a contract and certain costs to fulfill a contract are capitalized and amortized over the period the goods and services are delivered. However, as a practical expedient, the Group plans to expense the incremental cost as incurred if the amortization period of the contract acquisition and fulfillment cost is considered to be not longer than one year.

As of December 31, 2017, the Group is assessing the impact of capitalizing the incremental costs associated with obtaining customer contracts. Based on the preliminary assessment, the Group expects commission expenses to decrease, while corresponding assets capitalized (incremental costs of obtaining a contract) and amortization expenses to be recognized and incurred, respectively.

3) K-IFRS No. 1116, *Leases*

K-IFRS No. 1116, published on May 22, 2017 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. K-IFRS No. 1116 replaces existing leases guidance including K-IFRS No. 1017, *Leases*, K-IFRS No. 2104, *Determining whether an Arrangement contains a Lease*, K-IFRS No. 2015, *Operating Leases - Incentives* and K-IFRS No. 2027, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

K-IFRS No. 1116, at the inception date of a contract and the first implementation of the standard, requires the Group to determine whether a contract is, or contains, a lease unless the Group applies the practical expedient for the existing lease contract at the date of adoption of the standard.

When accounting for lease, lessee and lessor should account for each lease component within the contract as a lease separately from non-lease components of the contract.

Lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. However, there are optional exemptions for short-term leases and leases of low value items. As a practical expedient, a lessee may elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

4. Significant Accounting Policies, Continued

(27) Standards issued but not yet effective, Continued

3) K-IFRS No. 1116, *Leases*, Continued

Lessor accounting remains similar to the current standard K-IFRS No. 1017. For a sale and leaseback arrangement, K-IFRS No. 1116 requires the Group to apply the requirements for determining when a performance obligation is satisfied in K-IFRS No. 1115 to determine whether the transfer of an asset is accounted for as a sale of that asset. However, sale and leaseback arrangements entered into before the adoption of K-IFRS No. 1116 may not be reassessed.

i) Lease accounting for lessees

As a lessee, the Group can either apply the K-IFRS No. 1116 using a full retrospective approach; or modified retrospective approach. The full retrospective approach requires the Group to retrospectively apply the new standard to each prior reporting period presented, while modified retrospective approach requires the lessee to recognize the cumulative effect of initial application at the date of initial application of the new leases standard.

ii) Lease accounting for lessors

In case where the Group is an intermediate lessor, the Group should reassess subleases that were classified as operating leases applying K-IFRS No. 1017 and are ongoing at the date of initial application, whether each sublease should be classified as an operating lease or a finance lease applying K-IFRS No. 1116. For subleases that were classified as operating leases applying K-IFRS No. 1017 but finance leases applying K-IFRS No. 1116, the Group should accounts for such sublease as a new finance lease entered into at the date of initial application of K-IFRS No. 1116.

The Group plans to update its accounting system and related controls and complete the assessment of impact on its consolidated financial statements resulting from the adoption of K-IFRS No. 1116 by December 31, 2018.

SK TELECOM CO., LTD.

Separate Financial Statements

December 31, 2017 and 2016

SK TELECOM CO., LTD.
Separate Statements of Financial Position, Continued

As of December 31, 2017 and 2016

<i>(In millions of won)</i>	<i>Note</i>	December 31, 2017	December 31, 2016
Assets			
Current Assets:			
Cash and cash equivalents	30,31 ₩	880,583	874,350
Short-term financial instruments	5,30,31	94,000	95,000
Short-term investment securities	7,30,31	47,383	97,340
Accounts receivable - trade, net	6,30,31,32	1,520,209	1,594,504
Short-term loans, net	6,30,31,32	54,403	54,143
Accounts receivable - other, net	6,30,31,32,34	1,003,509	772,570
Prepaid expenses		121,121	107,989
Inventories, net		29,837	32,479
Advanced payments and other	6,7,30,31	17,053	32,740
Total Current Assets		3,768,098	3,661,115
Non-Current Assets:			
Long-term financial instruments	5,30,31	382	102
Long-term investment securities	7,30,31	724,603	560,966
Investments in subsidiaries, associates and joint ventures	8	9,152,321	8,726,538
Property and equipment, net	9,32	6,923,133	7,298,539
Goodwill	10	1,306,236	1,306,236
Intangible assets, net	11	3,089,545	3,275,663
Long-term loans, net	6,30,31,32	7,512	11,160
Long-term accounts receivable - other	6,30,31,34	285,118	147,139
Long-term prepaid expenses		25,169	27,918
Guarantee deposits	6,30,31,32	173,513	173,287
Long-term derivative financial assets	16,30,31	30,608	176,465
Deferred tax assets	27	30,953	58,410
Defined benefit assets	15	40,082	24,787
Other non-current assets		249	249
Total Non-Current Assets		21,789,424	21,787,459
Total Assets	₩	25,557,522	25,448,574

See accompanying notes to the separate financial statements.

SK TELECOM CO., LTD.
Separate Statements of Financial Position, Continued

As of December 31, 2017 and 2016

<i>(In millions of won)</i>	<i>Note</i>	December 31, 2017	December 31, 2016
Liabilities and Shareholders' Equity			
Current Liabilities:			
Current installments of long-term debt, net	<i>12,30,31</i>	₩ 1,131,047	628,868
Current installments of long-term payables - other	<i>13,30,31</i>	301,751	301,773
Accounts payable – other	<i>30,31,32</i>	1,664,054	1,546,252
Withholdings	<i>30,31</i>	517,991	642,582
Accrued expenses	<i>30,31</i>	790,368	663,918
Income tax payable	<i>27</i>	206,060	461,999
Unearned revenue		3,705	1,360
Derivative financial liabilities	<i>16,30,31</i>	27,791	86,950
Provisions	<i>14</i>	48,508	59,027
Receipts in advance		76,126	71,431
Total Current Liabilities		4,767,401	4,464,160
Non-Current Liabilities:			
Debentures, excluding current installments, net	<i>12,30,31</i>	4,334,848	4,991,067
Long-term borrowings, excluding current installments, net	<i>12,30,31</i>	42,486	61,416
Long-term payables - other	<i>13,30,31</i>	1,328,630	1,602,943
Long-term unearned revenue		7,033	2,389
Long-term derivative financial liabilities	<i>16,30,31</i>	10,719	-
Long-term provisions	<i>14</i>	16,178	21,493
Other non-current liabilities	<i>30,31</i>	42,836	48,152
Total Non-Current Liabilities		5,782,730	6,727,460
Total Liabilities		10,550,131	11,191,620
Shareholders' Equity			
Share capital	<i>1,17</i>	44,639	44,639
Capital surplus and others	<i>17,18,19,20</i>	371,895	371,481
Retained earnings	<i>21,22</i>	14,512,556	13,902,627
Reserves	<i>23</i>	78,301	(61,793)
Total Shareholders' Equity		15,007,391	14,256,954
Total Liabilities and Shareholders' Equity	₩	25,557,522	25,448,574

See accompanying notes to the separate financial statements.

SK TELECOM CO., LTD.
Separate Statements of Income

For the years ended December 31, 2017 and 2016

(In millions of won except for per share data)

	<u>Note</u>	<u>2017</u>	<u>2016</u>
Operating revenue:	32		
Revenue	₩	12,468,035	12,350,479
Operating expenses:	32		
Labor		624,900	634,754
Commissions		4,864,463	4,716,555
Depreciation and amortization		2,370,192	2,242,546
Network interconnection		628,610	687,048
Leased line		290,324	347,741
Advertising		150,361	174,186
Rent		435,170	424,929
Cost of products that have been resold		515,013	502,770
Others	24	891,293	837,778
		<u>10,770,326</u>	<u>10,568,307</u>
Operating profit		1,697,709	1,782,172
Finance income	26	188,025	323,563
Finance costs	26	(274,098)	(261,393)
Other non-operating income	25	18,471	54,288
Other non-operating expenses	25	(165,783)	(200,771)
Profit (loss) on investments in associates and joint ventures, net	8	139,484	(135,077)
Profit before income tax		1,603,808	1,562,782
Income tax expense	27	272,694	345,508
Profit for the year		₩ 1,331,114	1,217,274
Earnings per share	28		
Basic and diluted earnings per share (in won)	₩	<u>18,613</u>	<u>17,001</u>

See accompanying notes to the separate financial statements.

SK TELECOM CO., LTD.
 Separate Statements of Comprehensive Income

For the years ended December 31, 2017 and 2016

<i>(In millions of won)</i>	<u>Note</u>	<u>2016</u>	<u>2015</u>
Profit for the year	₩	1,217,274	1,106,761
Other comprehensive income (loss)			
Items that will never be reclassified to profit or loss, net of taxes:			
Remeasurement of defined benefit liabilities	14	(10,319)	386
Items that are or may be reclassified subsequently to profit or loss, net of taxes:			
Net change in unrealized fair value of available-for-sale financial assets	21	5,385	(121,528)
Net change in unrealized fair value of derivatives	15,21	(13,950)	1,402
Other comprehensive loss for the year, net of taxes		<u>(18,884)</u>	<u>(119,740)</u>
Total comprehensive income	₩	<u>1,198,390</u>	<u>987,021</u>

See accompanying notes to the separate financial statements.

SK TELECOM CO., LTD.
Separate Statements of Changes in Equity

For the years ended December 31, 2017 and 2016

(In millions of won)

	Share capital	Capital surplus and others					Sub-total	Retained earnings	Reserves	Total equity
		Paid-in surplus	Treasury share	Hybrid bonds	Share option	Other				
Balance at January 1, 2016	₩ 44,639	2,915,887	(2,260,626)	398,518	-	(684,333)	369,446	13,418,603	(53,228)	13,779,460
Total comprehensive income:										
Profit for the year	-	-	-	-	-	-	-	1,217,274	-	1,217,274
Other comprehensive loss	-	-	-	-	-	-	-	(10,319)	(8,565)	(18,884)
	-	-	-	-	-	-	-	1,206,955	(8,565)	1,198,390
Transactions with owners:										
Annual dividends	-	-	-	-	-	-	-	(635,482)	-	(635,482)
Interim dividends	-	-	-	-	-	-	-	(70,609)	-	(70,609)
Business combination under common control	-	-	-	-	-	2,035	2,035	-	-	2,035
Interest on hybrid bonds	-	-	-	-	-	-	-	(16,840)	-	(16,840)
	-	-	-	-	-	2,035	2,035	(722,931)	-	(720,896)
Balance at December 31, 2016	₩ 44,639	2,915,887	(2,260,626)	398,518	-	(682,298)	371,481	13,902,627	(61,793)	14,256,954
Balance at January 1, 2017	₩ 44,639	2,915,887	(2,260,626)	398,518	-	(682,298)	371,481	13,902,627	(61,793)	14,256,954
Total comprehensive income:										
Profit for the year	-	-	-	-	-	-	-	1,331,114	-	1,331,114
Other comprehensive income	-	-	-	-	-	-	-	1,746	140,094	141,840
	-	-	-	-	-	-	-	1,332,860	140,094	1,472,954
Transactions with owners:										
Annual dividends	-	-	-	-	-	-	-	(635,482)	-	(635,482)
Interim dividends	-	-	-	-	-	-	-	(70,609)	-	(70,609)
Share option	-	-	-	-	414	-	414	-	-	414
Interest on hybrid bonds	-	-	-	-	-	-	-	(16,840)	-	(16,840)
	-	-	-	-	414	-	414	(722,931)	-	(722,517)
Balance at December 31, 2017	₩ 44,639	2,915,887	(2,260,626)	398,518	414	(682,298)	371,895	14,512,556	78,301	15,007,391

See accompanying notes to the separate financial statements.

SK TELECOM CO., LTD.
Separate Statements of Cash Flows

For the years ended December 31, 2017 and 2016

(In millions of won)

	<i>Note</i>	2017	2016
Cash flows from operating activities:			
Cash generated from operating activities			
Profit for the year		₩ 1,331,114	1,217,274
Adjustments for income and expenses	35	2,804,239	2,931,278
Changes in assets and liabilities related to operating activities	35	<u>(293,836)</u>	<u>(143,263)</u>
Sub-total		3,841,517	4,005,289
Interest received		46,774	23,014
Dividends received		101,256	113,955
Interest paid		(183,939)	(199,332)
Income tax paid		<u>(548,138)</u>	<u>(367,354)</u>
Net cash provided by operating activities		<u>3,257,470</u>	<u>3,575,572</u>
Cash flows from investing activities:			
Cash inflows from investing activities:			
Decrease in short-term investment securities, net		50,000	-
Decrease in short-term financial instruments, net		1,000	36,500
Collection of short-term loans		206,932	232,745
Proceeds from disposals of long-term investment securities		15,276	336,669
Proceeds from disposals of investments in subsidiaries and associates		-	1,063
Increase in cash due to business combination		-	360
Proceeds from disposals of property and equipment		19,667	14,539
Proceeds from disposals of intangible assets		<u>3,811</u>	<u>7,689</u>
Sub-total		296,686	629,565
Cash outflows from investing activities:			
Increase in short-term investment securities, net		-	(6,335)
Increase in short-term loans		(203,511)	(237,197)
Increase in long-term financial instruments		-	(40)
Acquisitions of long-term investment securities		(12,863)	(19,501)
Increase in investments in subsidiaries and associates		(286,298)	(87,088)
Acquisitions of property and equipment		(1,870,634)	(1,674,027)
Acquisitions of intangible assets		<u>(75,298)</u>	<u>(580,219)</u>
Sub-total		<u>(2,448,604)</u>	<u>(2,604,407)</u>
Net cash used in investing activities		₩ <u>(2,151,918)</u>	<u>(1,974,842)</u>

See accompanying notes to the separate financial statements.

SK TELECOM CO., LTD.
Separate Statements of Cash Flows, Continued

For the years ended December 31, 2017 and 2016

<i>(In millions of won)</i>	<u>Note</u>	<u>2017</u>	<u>2016</u>
Cash flows from financing activities:			
Cash inflows from financing activities:			
Proceeds from issuance of debentures	₩	647,328	607,474
Cash inflows from settlement of derivatives		188	251
Sub-total		<u>647,516</u>	<u>607,725</u>
Cash outflows for financing activities:			
Decrease in short-term borrowings, net		-	(230,000)
Repayments of long-term borrowings		(13,002)	(12,814)
Repayments of long-term accounts payable - other		(302,867)	(120,718)
Repayments of debentures		(602,733)	(680,000)
Payments of dividends		(706,091)	(706,091)
Payments of interest on hybrid bonds		(16,840)	(16,840)
Cash outflows from settlement of derivatives		<u>(105,269)</u>	<u>-</u>
Sub-total		<u>(1,746,802)</u>	<u>(1,766,463)</u>
Net cash used in financing activities		<u>(1,099,286)</u>	<u>(1,158,738)</u>
Net increase in cash and cash equivalents			
Cash and cash equivalents at beginning of the year		874,350	431,666
Effects of exchange rate changes on cash and cash equivalents		(33)	692
Cash and cash equivalents at end of the year	₩	<u>880,583</u>	<u>874,350</u>

See accompanying notes to the separate financial statements.

1. Reporting Entity

SK Telecom Co., Ltd. (“the Company”) was incorporated in March 1984 under the laws of the Republic of Korea (“Korea”) to provide cellular telephone communication services in Korea. The Company mainly provides wireless telecommunications services in Korea. The head office of the Company is located at 65, Eulji-ro, Jung-gu, Seoul, Korea.

The Company’s common shares and depositary receipts (DRs) are listed on the Stock Market of Korea Exchange, the New York Stock Exchange and the London Stock Exchange. As of December 31, 2017, the Company’s total issued shares are held by the following shareholders:

	Number of shares	Percentage of total shares issued (%)
SK Holdings Co., Ltd.	20,363,452	25.22
National Pension Service	7,392,350	9.16
Institutional investors and other minority stockholders	42,853,358	53.07
Treasury shares	10,136,551	12.55
Total number of shares	<u>80,745,711</u>	<u>100.00</u>

2. Basis of Presentation

(1) Statement of compliance

These separate financial statements were prepared in accordance with Korean International Financial Reporting Standards (“K-IFRS”), as prescribed in the *Act on External Audits of Stock Companies in the Republic of Korea*.

These financial statements are separate financial statements prepared in accordance with K-IFRS No.1027, *Separate Financial Statements*, presented by a parent or an investor with joint control of or significant influence over an investee, in which the investments are accounted for at cost.

The separate financial statements were authorized for issuance by the Board of Directors on February 2, 2018, which will be submitted for approval at the shareholders’ meeting to be held on March 21, 2018.

(2) Basis of measurement

The separate financial statements have been prepared on the historical cost basis, except for the following material items in the separate statement of financial position:

- ✓ derivative financial instruments measured at fair value;
- ✓ financial instruments at fair value through profit or loss measured at fair value;
- ✓ available-for-sale financial assets measured at fair value; and
- ✓ assets for defined benefit plans recognized at the net of the fair value of plan assets less the total present value of defined benefit obligations.

2. Basis of Presentation, Continued

(3) Functional and presentation currency

These separate financial statements are presented in Korean won, which is the currency of the primary economic environment in which the Company operates.

(4) Use of estimates and judgments

The preparation of the separate financial statements in conformity with K-IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period prospectively.

1) Critical judgments

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the separate financial statements is included in Note 4 for classification of lease.

2) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes: allowance for doubtful accounts, estimated useful lives of property and equipment and intangible assets, impairment of goodwill, recognition of provision, measurement of defined benefit liabilities, and recognition of deferred tax assets (liabilities).

3) Fair value measurement

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. The Company has an established policies and processes with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the finance executives.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, are used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of K-IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

2. Basis of Presentation, Continued

(4) Use of estimates and judgments, Continued

3) Fair value measurement, Continued

- ✓ Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- ✓ Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- ✓ Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Information about assumptions used for fair value measurements are included in Note 31.

4. Changes in accounting policies

Except the following amendments to the standards that are effective for annual periods beginning on January 1, 2017, the accounting policies have been applied consistently to all periods presented in these separate financial statements.

1) K-IFRS No. 1007, *Cash Flow Statements*

The Company adopted the amendments to K-IFRS No. 1007, which form a part of the IASB's broader disclosure initiative, in the period beginning on January 1, 2017. The amendment requires the Company to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Company disclosed the reconciliation of the opening and closing balances of liabilities arising from financing activities including changes from financing cash flows; changes arising from obtaining or losing control of subsidiaries or other businesses; the effect of changes in foreign exchange rates; changes in fair values; and other changes in Note 35.

2) K-IFRS No. 1012, *Income Taxes*

The Company adopted the amendments to K-IFRS No. 1012 in the period beginning January 1, 2017. The amendments clarify the necessity to consider whether there are restrictions on tax laws on the sources of taxable profits which may be used for the reversal of deductible temporary difference. In addition, the amendments provide the guidance on how to estimate the probable future taxable profit and specify the circumstances where an asset can be recovered for more than its carrying amount. These amendments have no impact on the Company's separate financial statements.

4. Significant Accounting Policies

The significant accounting policies applied by the Company in the preparation of its separate financial statements in accordance with K-IFRSs are included below. The accounting policies set out below have been applied consistently to all periods presented in these separate financial statements.

(1) Operating segments

The Company presents disclosures relating to operating segments on its consolidated financial statements in accordance with K-IFRS No. 1108, *Operating Segments* and such disclosures are not separately disclosed on these separate financial statements.

(2) Investments in subsidiaries and associates

These separate financial statements are prepared and presented in accordance with K-IFRS No. 1027, *Separate Financial Statements*. The Company applies the cost method to investments in subsidiaries and associates in accordance with K-IFRS No. 1027. Dividends from a subsidiary or associate are recognized in profit or loss when the right to receive the dividend is established.

The assets and liabilities acquired under business combination under common control are recognized at the carrying amounts in the ultimate controlling shareholder's consolidated financial statements. The difference between consideration and carrying amount of net assets acquired is added to or subtracted from capital surplus and others.

(3) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits and financial asset with maturities of three months or less from the acquisition date that are easily convertible to cash and subject to an insignificant risk of changes in their fair value.

(4) Inventories

Inventories are stated at the acquisition cost using the average method. During the period, a perpetual inventory system is used to track inventory quantities, which is adjusted to the physical inventory counts performed at the period end. When the net realizable value of inventories is less than the acquisition cost, the carrying amount is reduced to the net realizable value and any difference is charged to current operations as operating expenses.

(5) Non-derivative financial assets

The Company recognizes and measures non-derivative financial assets by the following four categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The Company recognizes financial assets in the separate statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

Upon initial recognition, non-derivative financial assets not at fair value through profit or loss are measured at their fair value plus transaction costs that are directly attributable to the acquisition of asset.

4. Significant Accounting Policies, Continued

(5) Non-derivative financial assets, Continued

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

A financial asset is classified as financial asset at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Upon initial recognition, transaction costs are recognized in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

(ii) Held-to-maturity investments

A non-derivative financial asset with a fixed or determinable payment and fixed maturity, for which the Company has the positive intention and ability to hold to maturity, are classified as held-to-maturity investment. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest rate method.

(iii) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method except for loans and receivables of which the effect of discounting is immaterial.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. Subsequent to initial recognition, they are measured at fair value, with changes in fair value, net of any tax effect, recorded in other comprehensive income (OCI) in equity. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

(v) De-recognition of financial assets

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability. If the Company retains substantially all the risks and rewards of ownership of the transferred financial assets, the Company continues to recognize the transferred financial assets and recognizes financial liabilities for the consideration received.

(vi) Offsetting between financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position only when the Company currently has a legally enforceable right to offset the recognized amounts, and there is the intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

4. Significant Accounting Policies, Continued

(6) Derivative financial instruments, including hedge accounting

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

(i) Hedge accounting

The Company holds forward exchange contracts, interest rate swaps, currency swaps and other derivative contracts to manage interest rate risk and foreign exchange risk. The Company designates derivatives as hedging instruments to hedge the risk of changes in the fair value of assets, liabilities or firm commitments (a fair value hedge) and foreign currency risk of highly probable forecasted transactions or firm commitments (a cash flow hedge).

On initial designation of the hedge, the Company formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship.

Fair value hedge

Changes in the fair value of a derivative hedging instrument designated as a fair value hedge are recognized in profit or loss. The gain or loss from remeasuring the hedging instrument at fair value for a derivative hedging instrument and the gain or loss on the hedged item attributable to the hedged risk are recognized in profit or loss in the same line item of the statement of income. The Company discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, or if the hedge no longer meets the criteria for hedge accounting. Any adjustment arising from gain or loss on the hedged item attributable to the hedged risk is amortized to profit or loss from the date the hedge accounting is discontinued.

Cash flow hedge

When a derivative is designated to hedge the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income, net of tax, and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income is reclassified to profit or loss in the periods during which the forecasted transaction occurs. If the forecasted transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in profit or loss.

4. Significant Accounting Policies, Continued

(6) Derivative financial instruments, including hedge accounting, Continued

(ii) Separable embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately only if the following criteria have been met:

- (a) the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;
- (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- (c) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognized in profit or loss.

Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss.

(iii) Other derivative financial instruments

Changes in the fair value of other derivative financial instrument not designated as a hedging instrument are recognized immediately in profit or loss.

(7) Impairment of financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. However, losses expected as a result of future events, regardless of likelihood, are not recognized.

Objective evidence that a financial asset is impaired includes following loss events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If financial assets have objective evidence that they are impaired, impairment losses are measured and recognized.

4. Significant Accounting Policies, Continued

(7) Impairment of financial assets, Continued

(i) Financial assets measured at amortized cost

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective interest rate. The Company can recognize impairment losses directly or by establishing an allowance account. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed either directly or by adjusting an allowance account.

(ii) Financial assets carried at cost

If there is objective evidence that an impairment loss has occurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

(iii) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss subsequently. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

(8) Property and equipment

Property and equipment are initially measured at cost. The cost of property and equipment includes expenditures arising directly from the construction or acquisition of the asset, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent to initial recognition, an item of property and equipment is carried at its cost less any accumulated depreciation and any accumulated impairment losses.

4. Significant Accounting Policies, Continued

(8) Property and equipment, Continued

Subsequent costs are recognized in the carrying amount of property and equipment at cost or, if appropriate, as a separate item if it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing are recognized in profit or loss as incurred.

Property and equipment, except for land, are depreciated on a straight-line basis over estimated useful lives that appropriately reflect the pattern in which the asset's future economic benefits are expected to be consumed. A component that is significant compared to the total cost of property and equipment is depreciated over its separate useful life.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized as other non-operating income (loss).

The estimated useful lives of the Company's property and equipment are as follows:

	<u>Useful lives (years)</u>
Buildings and structures	15, 30
Machinery	3 ~ 6
Other property and equipment	4 ~10

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate. The change is accounted for as a change in an accounting estimate.

(9) Borrowing costs

The Company capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognized in expense as incurred. A qualifying asset is an asset that requires a substantial period of time to get ready for its intended use or sale. Financial assets are not qualifying assets. Assets that are ready for their intended use or sale when acquired are not qualifying assets.

To the extent that the Company borrows funds specifically for the purpose of obtaining a qualifying asset, the Company determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. To the extent that the Company borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Company determines the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the Company that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Company capitalizes during a period do not exceed the amount of borrowing costs incurred during that period.

4. Significant Accounting Policies, Continued

(10) Intangible assets

Intangible assets are measured initially at cost and, subsequently, are carried at cost less accumulated amortization and accumulated impairment losses.

Amortization of intangible assets except for goodwill is calculated on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The residual value of intangible assets is zero. However, club memberships are expected to be available for use as there are no foreseeable limits to the periods. This intangible asset is determined as having indefinite useful lives and not amortized.

The estimated useful lives of the Company's intangible assets are as follows:

	<u>Useful lives (years)</u>
Frequency usage rights	5 ~ 13
Land usage rights	5
Industrial rights	5, 10
Development costs	5
Facility usage rights	10, 20
Other	3 ~ 20

Amortization periods and the amortization methods for intangible assets with finite useful lives are reviewed at the end of each reporting period. The useful lives of intangible assets that are not being amortized are reviewed at the end of each reporting period to determine whether events and circumstances continue to support indefinite useful life assessments for those assets. Changes are accounted for as changes in accounting estimates.

Expenditures on research activities are recognized in profit or loss as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. Other development expenditures are recognized in profit or loss as incurred.

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditures on internally generated goodwill and brands, are recognized in profit or loss as incurred.

4. Significant Accounting Policies, Continued

(11) Government grants

Government grants are not recognized unless there is reasonable assurance that the Company will comply with the grant's conditions and that the grant will be received.

(i) Grants related to assets

Government grants whose primary condition is that the Company purchases, constructs or otherwise acquires a long-term asset are deducted in calculating the carrying amount of the asset. The grant is recognized in profit or loss over the life of a depreciable asset as a reduction to depreciation expense.

(ii) Grants related to income

Government grants which are intended to compensate the Company for expenses incurred are deducted from the related expenses.

(12) Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, other than assets arising from employee benefits, inventories, deferred tax assets and non-current assets held for sale, are reviewed at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, irrespective of whether there is any indication of impairment, are tested for impairment annually by comparing their recoverable amount to their carrying amount.

The Company estimates the recoverable amount of an individual asset, if it is impossible to measure the individual recoverable amount of an asset, then the Company estimates the recoverable amount of cash-generating unit ("CGU"). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. The value in use is estimated by applying a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU, for which estimated future cash flows have not been adjusted, to the estimated future cash flows expected to be generated by the asset or CGU.

An impairment loss is recognized in profit or loss to the extent the carrying amount of the asset exceeds its recoverable amount.

Goodwill acquired in a business combination is allocated to each CGU that is expected to benefit from the synergies arising from the business acquired. Any impairment identified at the CGU level will first reduce the carrying value of goodwill and then be used to reduce the carrying amount of the other assets in the CGU on a pro rata basis. Except for impairment losses in respect of goodwill which are never reversed, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

4. Significant Accounting Policies, Continued

(13) Leases

The Company classifies and accounts for leases as either a finance or operating lease, depending on the terms. Leases where the Company assumes substantially all of the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases.

(i) Finance leases

At the commencement of the lease term, the Company recognizes as finance assets and finance liabilities in its separate statement of financial position, the lower amount of the fair value of the leased property and the present value of the minimum lease payments, each determined at the inception of the lease. Any initial direct costs are added to the amount recognized as an asset.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the Company adopts for depreciable assets that are owned. If there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life. The Company reviews to determine whether the leased assets are impaired at the reporting date.

(ii) Operating leases

Leases where the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the period of the lease.

(iii) Determining whether an arrangement contains a lease

Determining whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether fulfillment of the arrangement is dependent on the use of a specific asset and the arrangement conveys a right to use the asset.

At inception or reassessment of the arrangement, the Company separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Company concludes for a financial lease that it is impracticable to separate the payments reliably, the Company recognizes an asset and a liability at an amount equal to the fair value of the underlying asset that was identified as the subject of the lease. Subsequently, the liability is reduced as payments are made and an imputed finance charge on the liability is recognized using the Company's incremental borrowing rate of interest.

4. Significant Accounting Policies, Continued

(14) Non-current assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. In order to be classified as held for sale, the asset (or disposal group) must be available for immediate sale in its present condition and its sale must be highly probable. The assets or disposal group that are classified as non-current assets held for sale are measured at the lower of their carrying amount and fair value less cost to sell. The Company recognizes an impairment loss for any initial or subsequent write-down of an asset (or disposal group) to fair value less costs to sell, and a gain for any subsequent increase in fair value less costs to sell, up to the cumulative impairment loss previously recognized in accordance with K-IFRS No. 1036, *Impairment of Assets*.

A non-current asset that is classified as held for sale or part of a disposal group classified as held for sale is not depreciated (or amortized).

(15) Non-derivative financial liabilities

The Company classifies non-derivative financial liabilities into financial liabilities at fair value through profit or loss or other financial liabilities in accordance with the substance of the contractual arrangement. The Company recognizes financial liabilities in the separate statement of financial position when the Company becomes a party to the contractual provisions of the financial liability.

(i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading or designated as such upon initial recognition. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Upon initial recognition, transaction costs that are directly attributable to the issue of the financial liability are recognized in profit or loss as incurred.

(ii) Other financial liabilities

Non-derivative financial liabilities other than financial liabilities at fair value through profit or loss are classified as other financial liabilities. At the date of initial recognition, other financial liabilities are measured at fair value minus transaction costs that are directly attributable to the issue of the financial liability. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

The Company derecognizes a financial liability from the separate statement of financial position when it is extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

4. Significant Accounting Policies, Continued

(16) Employee benefits

(i) Short-term employee benefits

Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service. When an employee has rendered service to the Company during an accounting period, the Company recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

(ii) Other long-term employee benefits

Other long-term employee benefits include employee benefits that are settled beyond 12 months after the end of the period in which the employees render the related service. The Company's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognized in profit or loss in the period in which they arise.

(iii) Retirement benefits: defined contribution plans

When an employee has rendered service to the Company during a period, the Company recognizes the contribution payable to a defined contribution plan in exchange for that service as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, the Company recognizes that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

(iv) Retirement benefits: defined benefit plans

At the end of reporting period, defined benefits liabilities relating to defined benefit plans are recognized at present value of defined benefit obligations net of fair value of plan assets.

The calculation is performed annually by an independent actuary using the projected unit credit method. When the fair value of plan assets exceeds the present value of the defined benefit obligation, the Company recognizes an asset, to the extent of the present value of any economic benefits available in the form of refunds from the plan or reduction in the future contributions to the plan.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Company determines net interests on net defined benefit liability (asset) by multiplying discount rate determined at the beginning of the annual reporting period and considers changes in net defined benefit liability (asset) from contributions and benefit payments. Net interest costs and other costs relating to the defined benefit plan are recognized through profit or loss.

When the plan amendment or curtailment occurs, gains or losses on amendment or curtailment in benefits for the past service provided are recognized through profit or loss. The Company recognizes gain or loss on a settlement when the settlement of defined benefit plan occurs.

4. Significant Accounting Policies, Continued

(16) Employee benefits, Continued

(v) Termination benefits

The Company recognizes a liability and expense for termination benefits at the earlier of the period when the Company can no longer withdraw the offer of those benefits and the period when the Company recognizes costs for a restructuring that involves the payment of termination benefits. If benefits are payable more than 12 months after the reporting period, they are discounted to their present value.

(17) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation 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 risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows.

Where some or all of the expenditures required to settle a provision are expected to be reimbursed by another party, the reimbursement is recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement is treated as a separate asset.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimates. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

A provision is used only for expenditures for which the provision was originally recognized.

(18) Transactions in foreign currencies

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency using the reporting date's exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments.

4. Significant Accounting Policies, Continued

(19) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

When the Company repurchases its own shares, the amount of the consideration paid is recognized as a deduction from equity and classified as treasury shares. The profits or losses from the purchase, disposal, reissue, or retirement of treasury shares are directly recognized in equity being as transaction with owners.

(20) Hybrid bond

The Company recognizes a financial instrument issued by the Company as an equity instrument if it does not include contractual obligation to deliver financial assets including cash to the counter party.

(21) Share-based Payment

For equity-settled share-based payment transaction, if the fair value of the goods or services received cannot be reliably estimated, the Company measures their value indirectly by reference to the fair value of the equity instruments granted. Related expense, with a corresponding increase in capital surplus and others, is recognized over the vesting period of the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

(22) Revenue

Revenue from the sale of goods, rendering of services or use of assets is measured at the fair value of the consideration received or receivable. Returns, trade discounts and volume rebates are recognized as a reduction of revenue.

When two or more revenue generating activities or deliverables are sold under a single arrangement, each deliverable that is considered to be a separate unit of account is accounted for separately. The allocation of consideration from a revenue arrangement to its separate units of account is based on the relative fair values of each unit.

(i) Services rendered

Revenue from cellular services consists of revenue from basic charges, voice charges, data charges, data-roaming services and interconnection charges. Such revenues are recognized as services are performed.

Revenue from other services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

4. Significant Accounting Policies, Continued

(22) Revenue, Continued

(ii) Goods sold

Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

(iii) Customer loyalty programs

For customer loyalty programs, the fair value of the consideration received or receivable in respect of the initial sale is allocated between the award credits and the other components of the sale. The amount allocated to the award credits is estimated by reference to the fair value of the services to be provided with respect to the redeemable award credits. The fair value of the services to be provided with respect to the redeemable portion of the award credits granted to the customers in accordance with customer loyalty programs is estimated taking into account the expected redemption rate and timing of the expected redemption. Considerations allocated to the award credits are deferred and revenue is recognized when the award credits are recovered and the Company performs its obligation to provide the service. The amount of revenue recognized is based on the relative size of the total award credits that are expected to be redeemed and the redeemed award credits in exchange for services.

(23) Finance income and finance costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on disposal of available-for-sale financial assets, changes in fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognized in profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest rate method. Dividend income is recognized in profit or loss on the date that the Company's right to receive payment is established.

Finance costs comprise interest expense on borrowings, changes in fair value of financial assets at fair value through profit or loss, and losses on hedging instruments that are recognized in profit or loss. Interest expense on borrowings and debentures are recognized in profit or loss using the effective interest rate method.

(24) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

The Company prepares consolidated income tax returns under the tax-consolidation system and its economically unified wholly owned subsidiaries.

4. Significant Accounting Policies, Continued

(24) Income taxes, Continued

(i) Current tax

In accordance with the tax-consolidation system, the Company calculates current taxes on the consolidated taxable income for the Company and its wholly owned domestic subsidiaries and recognizes the income tax payable as current tax liabilities of the Company.

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period and includes interests and fines related to income taxes paid or payable. The taxable profit is different from the accounting profit for the period since the taxable profit is calculated excluding the temporary differences, which will be taxable or deductible in determining taxable profit (tax loss) of future periods, and non-taxable or non-deductible items from the accounting profit.

(ii) Deferred tax

Deferred tax is recognized, using the asset-liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The Company recognizes a deferred tax liability for all taxable temporary differences, except for the difference associated with investments in subsidiaries and associates that the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The Company recognizes a deferred tax asset for all deductible temporary differences, to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

A deferred tax asset is recognized for the carryforward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilized. Future taxable profit is dependent on the reversal of taxable temporary differences. If there are insufficient taxable temporary differences to recognize the deferred tax asset, the business plan of the Company and the reversal of existing temporary differences are considered in determining the future taxable profit.

The Company reviews the carrying amount of a deferred tax asset at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

4. Significant Accounting Policies, Continued

(24) Income taxes, Continued

(ii) Deferred tax, Continued

Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset the related current tax liabilities and assets, and they relate to income taxes levied by the same tax authority and they are intended to be settled current tax liabilities and assets on a net basis. Income tax expense in relation to dividend payments is recognized when liabilities relating to the dividend payments are recognized.

(25) Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees, if any.

(26) Standards issued but not yet effective

The following new standards are effective for annual periods beginning after January 1, 2017 and earlier application is permitted; however, the Company has not early adopted the following new standards in preparing these financial statements.

1) K-IFRS No. 1109, *Financial Instruments*

K-IFRS No. 1109, published on September 25, 2015 which will replace the K-IFRS No. 1039 *Financial Instruments: Recognition and Measurement*, is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company currently plans to apply K-IFRS No.1109 in the period beginning on January 1, 2018.

Adoption of K-IFRS No. 1109 will generally be applied retrospectively, except for the following:

- exemption allowing the Company not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes; and
- Prospective application of new hedge accounting except for those specified in K-IFRS No. 1109 for retrospective application such as accounting for the time value of options and the forward element of forward contracts.

Key features of K-IFRS No. 1109 includes new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics, impairment model based on changes in expected credit losses, and new approach to hedge qualification and methods for assessing hedge effectiveness.

4. Significant Accounting Policies, Continued

(26) Standards issued but not yet effective, Continued

1) K-IFRS No. 1109, *Financial Instruments*, Continued

To ensure smooth implementation of K-IFRS No.1109, the Company needs to assess the financial impact of adopting K-IFRS No. 1109, to formulate the accounting policy, and to design, implement and enhance the accounting system and related controls. The expected quantitative impact of adopting K-IFRS No. 1109 on the Company's financial statements cannot be reliably estimated because it will be dependent on the financial instruments that the Company holds and economic conditions at that time as well as accounting elections and judgments that it will make in the future.

Based on the circumstances and information available as of December 31, 2017, the Company preliminary assessed the financial impact on its separate financial statements resulting from the adoption of K-IFRS No. 1109. The results of the preliminary assessment are as follows. The results are subject to change according to the additional information available in subsequent periods.

i) Classification and measurement of financial assets

Classification of financial assets under K-IFRS No. 1109 is driven by the entity's business model for managing financial assets and their contractual cash flows. This contains three principal classification categories: financial assets measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). Derivatives embedded in contracts where the host is a financial asset are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. Details of the classification based on business models and contractual cash flows are as follows;

Business model assessment (*3)	Contractual cash flow characteristics	
	Solely payments of principal and interest	Others
Hold to collect contractual cash flows	Amortized cost(*1)	
Hold to collect contractual cash flows and sell financial assets	FVOCI- measured at fair value (*1)	FVTPL-measured at fair value (*2)
Hold to sell financial assets and others	FVTPL-measured at fair value	

(*1) To eliminate or significantly reduce the accounting mismatch, the Company may irrevocably designate a financial asset as measured at FVTPL using the fair value option at initial recognition.

(*2) Equity instruments that are not held for trading may be irrevocably designated as FVOCI using the fair value option. This election is made on an investment-by-investment basis.

(*3) The business model was assessed at portfolio level.

As new classification requirements for financial assets under K-IFRS No. 1109 are more stringent than requirements under K-IFRS No. 1039, the adoption of the new standard may result in increase in financial assets designated as FVTPL and higher volatility in profit or loss of the Company. As of December 31, 2017, the Company's financial assets consist of ₩4,019,888 million of loans and receivables, ₩771,986 million of available-for-sale financial assets, and ₩9,054 million of financial assets at fair value through profit or loss.

4. Significant Accounting Policies, Continued

(26) Standards issued but not yet effective, Continued

1) K-IFRS No. 1109, *Financial Instruments*, Continued

i) Classification and measurement of financial assets, Continued

A financial asset is measured at amortized cost under K-IFRS No. 1109 if the asset is held by the Company to collect its contractual cash flows and the asset's contractual cash flows represent solely payments of principal and interest. As of December 31, 2017, the Company has ₩4,019,888 million of loans and receivables measured at amortized cost.

Based on preliminary assessment, most of the Company's financial assets are held to collect their contractual cash flows and the asset's contractual cash flows represent solely payments of principal and interest. Though some are held for the purpose of collecting their contractual cash flows or transfer, there would be no material impact on the Company's separate financial statements due to their short holding period.

A financial asset is measured at FVOCI under K-IFRS No. 1109 if the objective of the business model is achieved both by collecting contractual cash flows and selling financial assets; and the asset's contractual cash flows represent solely payments of principal and interest. As of December 31, 2017, the Company has ₩900 million of debt instruments classified as available-for-sale financial assets.

Most of the debt instruments held by the Company classified as available-for-sale financial assets would be classified as financial assets measured at amortized cost, if K-IFRS No. 1109 were applied at December 31, 2017.

Under K-IFRS No. 1109, equity instruments that are not held for trading may be irrevocably designated as FVOCI on initial recognition with no recycling of amounts from OCI to profit and loss. As of December 31, 2017, the Company has ₩771,086 million of available-for-sale equity instruments.

As the Company plans to classify the equity instruments with long-term investment purposes to financial assets measured at FVOCI using the fair value option under K-IFRS No. 1109, the Company's preliminary assessment did not indicate any material impact on the Company's separate financial statements except no recycling of amounts from OCI to profit and loss is allowed.

All other financial assets are measured at FVTPL. As of December 31, 2017, the Company has no debt and equity instruments designated as FVTPL using the fair value option.

ii) Classification and measurement of financial liabilities

Under K-IFRS No. 1109, for the financial liabilities designated as FVTPL using the fair value option, the element of gains or losses attributable to changes in the own credit risk should normally be recognized in OCI, with the remainder recognized in profit or loss. These amounts recognized in OCI are not recycled to profit or loss even when the liability is derecognized. However, if presentation of the fair value change in respect of the liability's credit risk in OCI results in or enlarges an accounting mismatch in profit or loss, gains and losses are entirely presented in profit or loss.

Adoption of K-IFRS No. 1109 may result in decrease in profit or loss, since the amount of fair value changes that is attributable to changes in the credit risk of the liability will be presented in OCI.

4. Significant Accounting Policies, Continued

(26) Standards issued but not yet effective, Continued

1) K-IFRS No. 1109, *Financial Instruments*, Continued

ii) Classification and measurement of financial liabilities, Continued

As of December 31, 2017, the Company's total financial liability amounts to ₩9,663,649 million, among which the financial liabilities designated as FVTPL using fair value option amount to ₩60,278 million.

As of December 31, 2017, most of the financial liabilities designated as FVTPL of the Company have short-term maturities with no significant changes in their credit risks. The Company's preliminary assessment did not indicate any material impact on the Company's separate financial statements if K-IFRS No. 1109 were applied at December 31, 2017.

iii) Impairment: financial assets and contract assets

The current impairment requirements under K-IFRS No. 1039 are based on an 'incurred loss model', where the impairment exists if there is objective evidence as a result of one or more events that occurred after the initial recognition of an asset. However, K-IFRS No. 1109 replaces the incurred loss model in K-IFRS No. 1039 with an 'expected credit loss model' which applies to debt instruments measured at amortized cost or at fair value through other comprehensive income.

Under K-IFRS No. 1109, the Company should recognize a loss allowance or provision at an amount equal to 12-month expected credit losses or lifetime expected credit losses for financial assets determined by the extent of probable credit deterioration since initial recognition as explained below. Therefore, the new impairment requirements are expected to result in earlier recognition of credit losses compared to the incurred loss model of K-IFRS No. 1039.

Stages (*1)		Loss allowances
Stage 1	No significant increase in credit risk since initial recognition (*2)	Loss allowances are determined for the amount of the expected credit losses that result from default events that are possible within 12 months after the reporting date.
Stage 2	Significant increase in credit risk since initial recognition	Loss allowances are determined for the amount of the expected credit losses that result from all possible default events over the expected life of the financial instrument.
Stage 3	Objective evidence of credit risk impairment	

(*1) Under K-IFRS No. 1115, *Revenue from Contracts with Customers* (see note 4 (26) (2)), for trade receivables and contract assets arising with no significant credit risk, loss allowances are recognized at an amount equal to lifetime expected credit losses. However, for trade receivables and contract assets with a significant financing component arising under K-IFRS No. 1115, the Company may choose as its accounting policy to recognize loss allowances at an amount equal to lifetime expected credit losses. In addition, for receivables under lease arrangement, the Company may choose to recognize loss allowances at an amount equal to lifetime expected credit losses.

4. Significant Accounting Policies, Continued

(26) Standards issued but not yet effective, Continued

1) K-IFRS No. 1109, *Financial Instruments*, Continued

iii) Impairment: financial assets and contract assets, Continued

(*2) The Company may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date.

K-IFRS No. 1109 allows the Company to only recognize the cumulative changes in lifetime expected credit losses since initial recognition as a loss allowance for purchased or originated credit-impaired financial assets at the reporting date. As of December 31, 2017, the Company has ₩4,019,888 million of debt instrument financial assets measured at amortized cost and ₩205,374 million as loss allowances for these assets. The Company's preliminary assessment did not indicate any material impact on the Company's separate financial statements upon adoption of K-IFRS No. 1109 on January 1, 2018.

iv) Hedge accounting

K-IFRS No. 1109 maintains the mechanics of hedge accounting from those in K-IFRS No. 1039. However, K-IFRS No. 1109 replaces existing rule-based requirements under K-IFRS No. 1039 that are complex and difficult to apply with principle based requirement focusing more on the Company's risk management purposes and procedures. Under K-IFRS No. 1109, more hedging instruments and hedged items are permitted and 80%-125% effectiveness requirement is removed.

By complying with the hedging rules in K-IFRS No. 1109, the Company may apply hedge accounting for transactions that currently do not meet the hedging criteria under K-IFRS No. 1039 thereby reducing volatility in profit or loss. As of December 31, 2017, the Company recognized the total amount of ₩1,548,247 million as hedged liabilities that applied hedge accounting and changes in fair value of cash flow hedge in the amount of ₩70,572 million was recognized in OCI for the year ended December 31, 2017.

Upon initial application of K-IFRS No. 1109, the Company may choose as its accounting policy to continue to apply hedge accounting requirements under K-IFRS No. 1039 instead of the requirements in K-IFRS No. 1109.

The Company is yet to decide on its accounting policy whether to continuously apply the hedge accounting requirements of K-IFRS No. 1039 instead of the requirements in K-IFRS No. 1109 when initially applying K-IFRS No. 1109. Therefore, the preliminary assessment was done as if the Company chose to apply K-IFRS No. 1109. The Company designates derivatives such as currency swaps as hedging instruments to hedge the risk of variability in cash flows associated with the foreign currency debentures and borrowings. As the Company's hedging instruments as of December 31, 2017 satisfy the hedge requirements of prospective and retrospective testing (80~125%) under K-IFRS No. 1039, the adoption of K-IFRS No. 1109 is not expected to have material impact on the Company's separate financial statements.

4. Significant Accounting Policies, Continued

(26) Standards issued but not yet effective, Continued

2) K-IFRS No. 1115, *Revenue from Contracts with Customers*

K-IFRS No. 1115, *Revenue from Contracts with Customers*, published on November 6, 2015 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. It replaces existing revenue recognition guidance, including K-IFRS No. 1018, *Revenue*, K-IFRS No. 1011, *Construction Contracts*, K-IFRS No. 2031, *Revenue: Barter Transactions Involving Advertising Services*, K-IFRS No. 2113, *Customer Loyalty Programs*, K-IFRS No. 2115, *Agreements for the Construction of Real Estate*, and K-IFRS No. 2118, *Transfers of Assets from Customers*. The Company plans to adopt K-IFRS No. 1115 on January 1, 2018. The Company plans to apply K-IFRS No. 1115 by recognizing the cumulative effect of initially applying K-IFRS No. 1115 as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) of the year beginning January 1, 2018. The Company elected to apply K-IFRS No. 1115 retrospectively only to contracts that are not completed contracts at the date of initial application (January 1, 2018) using the transition method permitted by K-IFRS No. 1115.

K-IFRS No. 1018 provides separate revenue recognition criteria by transaction type which include sale of goods, rendering of services, and use of entity assets by others yielding interest, royalties and dividends. However, K-IFRS No. 1115 introduces a five-step model for revenue recognition that focuses on the ‘transfer of control’ rather than the ‘transfer of risks and rewards’. The steps in five-step model are as follows:

- ✓ identification of the contract with a customer;
- ✓ identification of the performance obligations in the contract;
- ✓ determination of the transaction price;
- ✓ allocation of the transaction price to the performance obligations in the contract; and
- ✓ recognition of revenue when (or as) the entity satisfies a performance obligation.

The Company updated its accounting system and related controls based on the understanding of the revenue stream of the Company with the assistance of external information technology and accounting specialists. The Company is assessing the financial impact of the adoption of K-IFRS No. 1115 on its separate financial statements and plans to complete the assessment by March 31, 2018. The results of the assessment will be disclosed in the Company’s condensed separate interim financial statements for the three-month period ending March 31, 2018.

Based on the circumstances and information available as of December 31, 2017, the Company preliminary assessed the financial impact on its separate financial statements resulting from the adoption of K-IFRS No. 1115. The results of the preliminary assessment are as follows. The results are subject to change according to the additional information available to use in subsequent periods.

- Incremental costs to acquire a contract

The Company has exclusive contracts with its sales agents to sell the Company’s wireless telecommunications services to subscribers. These agents receive commissions depending on the number of subscribers newly added and retained. The commissions paid to the agents constitute a significant portion of the Company’s operating expenses. Currently, the portion of these commissions that would not have been incurred if there have been no binding contracts with the subscribers are expensed.

4. Significant Accounting Policies, Continued

(26) Standards issued but not yet effective, Continued

2) K-IFRS No. 1115, *Revenue from Contracts with Customers*, Continued

Under K-IFRS No. 1115, incremental costs to acquire a contract and certain costs to fulfill a contract are capitalized and amortized over the period the goods and services are delivered. However, as a practical expedient, the Company plans to expense the incremental cost as incurred if the amortization period of the contract acquisition and fulfillment cost is considered to be not longer than one year.

As of December 31, 2017, the Company is assessing the impact of capitalizing the incremental costs associated with obtaining customer contracts. Based on the preliminary assessment, the Company expects commission expenses to decrease, while corresponding assets capitalized (incremental costs of obtaining a contract) and amortization expenses to be recognized and incurred, respectively.

3) K-IFRS No. 1116, *Leases*

K-IFRS No. 1116, published on May 22, 2017, is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. K-IFRS No. 1116 replaces existing leases guidance including K-IFRS No. 1017, *Leases*, K-IFRS No. 2104, *Determining whether an Arrangement contains a Lease*, K-IFRS No. 2015, *Operating Leases – Incentives*, and K-IFRS No. 2027, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

K-IFRS No. 1116, at the inception date of a contract and the first implementation of the standard, requires the Company to determine whether a contract is, or contains, a lease unless the Company applies the practical expedient for the existing lease contract at the date of adoption of the standard.

When accounting for lease, lessee and lessor should account for each lease component within the contract as a lease separately from non-lease components of the contract.

Lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. However, there are optional exemptions for short-term leases and leases of low value items. As a practical expedient, a lessee may elect, by class of underlying asset, not to separate non-lease components from lease components, and, instead, account for each lease component and any associated non-lease components as a single lease component.

Lessor accounting remains similar to the current standard K-IFRS No. 1017. For a sale and leaseback arrangement, K-IFRS No. 1116 requires the Company to apply the requirements for determining when a performance obligation is satisfied in K-IFRS No. 1115 to determine whether the transfer of an asset is accounted for as a sale of that asset. However, sale and leaseback arrangements entered into before the adoption of K-IFRS No. 1116 may not be reassessed.

4. Significant Accounting Policies, Continued

(26) Standards issued but not yet effective, Continued

3) K-IFRS No. 1116, *Leases*, Continued

(1) Lease accounting for lessees

As a lessee, the Company can either apply the K-IFRS No. 1116 using a full retrospective approach; or modified retrospective approach. The full retrospective approach requires the Company to retrospectively apply the new standard to each prior reporting period presented, while modified retrospective approach requires the lessee to recognize the cumulative effect of initial application at the date of initial application of the new leases standard.

(2) Lease accounting for lessors

In case where the Company is an intermediate lessor, the Company should reassess subleases that were classified as operating leases applying K-IFRS No. 1017 and are ongoing at the date of initial application, whether each sublease should be classified as an operating lease or a finance lease applying K-IFRS No. 1116. For subleases that were classified as operating leases applying K-IFRS No. 1017 but finance leases applying K-IFRS No. 1116, the Company should accounts for such sublease as a new finance lease entered into at the date of initial application of K-IFRS No. 1116.

The Company plans to update its accounting system and related controls and complete the assessment of impact on its separate financial statements resulting from the adoption of K-IFRS No. 1116 by December 31, 2018.

Disclaimer:

The consolidated and separate financial statements included above have not yet been audited and remain subject to the audit process of the Company's independent auditors. For the Company's audited consolidated and separate financial statements as of and for the years ended December 31, 2016 and 2017 and the respective accompanying notes, please refer to the Company's future filings with the U.S. Securities and Exchange Commission, including its annual report to be filed on Form 20-F and the Company's annual business report to be furnished on Form 6-K.

2. Stock Option Grant

On February 20, 2018, the Board of Directors of SK Telecom Co., Ltd. (the “Company”) resolved to grant stock options to the individuals listed below as part of their compensation in order to align the interests of the Company’s management and shareholders in increasing the value of the company. This resolution will be submitted for shareholder approval at the annual general meeting of shareholders to be held on March 21, 2018.

1. Recipients : Suh, Sung Won, Lee, Sang Ho and Ryu, Young Sang

Recipients	Title	Number of Shares
Suh, Sung Won	Head of MNO Business	2,755
Lee, Sang Ho	Head of Service Platform Business	1,594
Ryu, Young Sang	Head of Corporate Center	1,358

2. Share Type : Common Share (treasury shares)
3. Grant Date : February 20, 2018
4. Total Number of Shares : 5,707 shares
5. Exercise Period : February 21, 2020 ~ February 20, 2023
6. Exercise Price : Won 254,120. This price is calculated as the arithmetic mean of the volume weighted average closing prices from the following periods prior to the grant date: two months, one month and one week.
7. Other Noteworthy Matters
 - a. The recipient’s right to exercise all or part of the stock options, as the case may be, shall automatically terminate if the recipient is not continuously employed by the Company for a period of two years from the date of the stock option grant or if the recipient is not employed by the Company at the commencement of the exercise period.
 - b. Other terms of this stock option grant shall be governed by applicable laws and regulations, the Company’s articles of incorporation and the stock option grant agreement.
- c. The total number of common shares granted as stock options to date (including this stock option grant) is 72,211 shares.

3. Approval of the Appointment of Directors

(3-1) Candidate for Executive Director(Ryu, Young Sang)

Name	Term	Profile	Remarks
Ryu, Young Sang	3 years	<input type="checkbox"/> Education - Bachelor in Industrial Engineering, Seoul National University('92) - Master in Industrial Engineering, Seoul National University('94) - M.B.A., Washington University('07) <input type="checkbox"/> Career - Head of Corporate Center, SK Telecom('17 ~ Present) - EVP of Business Development Group, SK Holdings Co., Ltd. ('15~ '16) - SVP of Business Development Office, SK Telecom Co., Ltd('12~'14)	New Appointment

(3-2) Candidate for an Independent Non-Executive Director(Yoon, Young Min)

Name	Term	Profile	Remarks
Yoon, Young Min	3 years	<input type="checkbox"/> Education - Bachelor in English Literature, Korea University('86) - Master in Advertising, Syracuse University ('93) - Ph.D. in Mass Communication, Syracuse University ('04) <input type="checkbox"/> Career - Dean of School of Media and Communication and Graduate School of Journalism & Mass Communication, Korea University('17 ~ Present) - Professor, School of Media & Communication, Korea University('06 ~ Present) - Vice-Chairwoman, Korean Academic Society for Public Relations('15~ '16) - Advisor, Ministry of Land, Infrastructure and Transport('15~ '16) - Advisor, Korea Media Rating Board('13~ '14)	New Appointment

4. Approval of the Election of Member of the Audit Committee (Yoon, Young Min)

Name	Term	Profile	Remarks
Yoon, Young Min	3 years	<p><input type="checkbox"/> Education</p> <ul style="list-style-type: none"> - Bachelor in English Literature, Korea University('86) - Master in Advertising, Syracuse University ('93) - Ph.D. in Mass Communication, Syracuse University ('04) <p><input type="checkbox"/> Career</p> <ul style="list-style-type: none"> - Dean of School of Media and Communication and Graduate School of Journalism & Mass Communication, Korea University('17 ~ Present) - Professor, School of Media & Communication, Korea University('06 ~ Present) - Vice-Chairwoman, Korean Academic Society for Public Relations('15~ '16) - Advisor, Ministry of Land, Infrastructure and Transport('15~ '16) - Advisor, Korea Media Rating Board('13~ '14) 	New Appointment

5. Approval of Ceiling Amount of the Remuneration of Directors

The number of directors and total amount and maximum authorized amount of compensation of directors are as follows:

	Fiscal year 2017	Fiscal year 2018
Number of directors (Number of independent non-executive directors)	6 persons (4 persons)	8 persons (5 persons)
Total amount and maximum authorized amount of compensation of directors	Won 12 billion	Won 12 billion

Forward-Looking Statement Disclaimer

The material above contains forward-looking statements. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. These statements are based on current plans, estimates and projections, and therefore you should not place undue reliance on them. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause our actual results or performance to be materially different from any future results or performance expressed or implied by such forward-looking statements. We do not make any representation or warranty, express or implied, as to the accuracy or completeness of the information contained herein, and nothing contained herein is, or shall be relied upon as, a promise or representation, whether as to the past or the future. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update publicly any of them in light of new information or future events. Additional information concerning these and other risk factors are contained in our latest annual report on Form 20-F and in our other filings with the U.S. Securities and Exchange Commission.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SK TELECOM CO., LTD.
(Registrant)

By: /s/ Kim, Jinwon
(Signature)
Name: Kim, Jinwon
Title: Senior Vice President

Date: February 20, 2018