

SK TELECOM CO., LTD.

Condensed Separate Interim Financial Statements

(Unaudited)

June 30, 2018 and 2017

(With Independent Auditors' Review Report Thereon)

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Independent Auditors' Review Report

Based on a report originally issued in Korean

To the Board of Directors and Shareholders
SK Telecom Co., Ltd.:

Reviewed financial statements

We have reviewed the accompanying condensed separate interim financial statements of SK Telecom Co., Ltd. (the "Company"), which comprise the condensed separate statement of financial position as of June 30, 2018, the condensed separate statements of income, and comprehensive income for the three and six-month periods ended June 30, 2018 and 2017, the condensed separate statements of changes in equity and cash flows for the six-month periods ended June 30, 2018 and 2017, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility

Management is responsible for the preparation and fair presentation of these condensed separate interim financial statements in accordance with Korean International Financial Reporting Standards ("K-IFRS") No.1034, *Interim Financial Reporting*, and for such internal controls as management determines necessary to enable the preparation of condensed separate interim financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to issue a report on these condensed separate interim financial statements based on our reviews.

We conducted our reviews in accordance with the Review Standards for Quarterly and Semiannual Financial Statements established by the Securities and Futures Commission of the Republic of Korea. A review of interim financial statements consists principally of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Korean Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our reviews, nothing has come to our attention that causes us to believe that the accompanying condensed separate interim financial statements referred to above are not prepared fairly, in all material respects, in accordance with K-IFRS No.1034, *Interim Financial Reporting*.

Emphasis of matter

As a matter that does not have an impact on our review conclusion, we draw the attention of the users of the above-mentioned financial statements of the Company to the matter described in Note 3 to the condensed separate financial statements. The Company has initially adopted K-IFRS Nos. 1109 and 1115 for the year beginning on January 1, 2018, and the Company has taken an exemption not to restate the condensed separate financial statements as of December 31, 2017 or for the three or six-month period ended June 30, 2017, presented for comparative purposes, in accordance with transition requirements of the standards. The financial impacts of applying K-IFRS Nos. 1109 and 1115 are discussed in Note 3.

Other matters

The separate statement of financial position of the Company as of December 31, 2017, and the related separate statements of income, comprehensive income, changes in equity and cash flows for the year then ended, which are not accompanying this report, were audited by us in accordance with Korean Standards on Auditing and our report thereon, dated February 23, 2018, expressed an unqualified opinion. The accompanying condensed separate statement of financial position of the Company as of December 31, 2017, presented for comparative purposes, is consistent, in all material respects, with the audited separate financial statements from which it has been derived.

The procedures and practices utilized in the Republic of Korea to review such condensed separate interim financial statements may differ from those generally accepted and applied in other countries.

KPMG Samjong Accounting Corp.
Seoul, Korea
August 13, 2018

<p>This report is effective as of August 13, 2018, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying condensed separate interim financial statements and notes thereto. Accordingly, the readers of the review report should understand that the above review report has not been updated to reflect the impact of such subsequent events or circumstances, if any.</p>
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SK TELECOM CO., LTD.
Condensed Separate Statements of Financial Position

As of June 30, 2018 and December 31, 2017

(In millions of won)

	<u>Note</u>	<u>June 30, 2018</u>	<u>December 31, 2017</u>
Assets			
Current Assets:			
Cash and cash equivalents	3,27,28 ₩	1,055,703	880,583
Short-term financial instruments	3,27,28	79,500	94,000
Short-term investment securities	3,6,27,28	47,547	47,383
Accounts receivable - trade, net	3,4,27,28,29	1,385,039	1,520,209
Short-term loans, net	3,4,27,28,29	65,319	54,403
Accounts receivable - other, net	3,4,27,28,29,30	865,634	1,003,509
Accrued income	3,4,27,28	642	659
Contract assets	15	1,280	-
Advanced payments		10,514	13,783
Prepaid expenses	3,5	1,797,751	121,121
Inventories, net		25,197	29,837
Non-current assets held for sale and discontinued operations	7	8,481	-
Others		1,277	2,611
Total Current Assets		<u>5,343,884</u>	<u>3,768,098</u>
Non-Current Assets:			
Long-term financial instruments	3,27,28	382	382
Long-term investment securities	3,6,27,28	664,492	724,603
Investments in subsidiaries, associates and joint ventures	7	9,251,511	9,152,321
Property and equipment, net	8,29	6,416,396	6,923,133
Goodwill		1,306,236	1,306,236
Intangible assets, net	9	2,832,884	3,089,545
Long-term loans, net	3,4,27,28,29	7,334	7,512
Long-term accounts receivable - other	3,4,27,28,30	248,076	285,118
Long-term contract assets	15	5,013	-
Long-term prepaid expenses	3,5	667,539	25,169
Guarantee deposits	3,4,27,28,29	184,922	173,513
Long-term derivative financial assets	3,13,27,28	51,858	30,608
Deferred tax assets	3,25	-	30,953
Defined benefit assets	14	16,676	40,082
Other non-current assets		249	249
Total Non-Current Assets		<u>21,653,568</u>	<u>21,789,424</u>
Total Assets	₩	<u>26,997,452</u>	<u>25,557,522</u>

See accompanying notes to the condensed separate interim financial statements.

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

As of June 30, 2018 and December 31, 2017

(In millions of won)

	<u>Note</u>	<u>June 30, 2018</u>	<u>December 31, 2017</u>
Liabilities and Shareholders' Equity			
Current Liabilities:			
Accounts payable - other	27,28,29	₩ 1,201,887	1,664,054
Receipts in advance	3	-	76,126
Contract liabilities	3,15	50,723	-
Withholdings	3,27,28	616,572	517,991
Accrued expenses	27,28	644,796	790,368
Income tax payable	25	211,608	206,060
Unearned revenue	3	-	3,705
Derivative financial liabilities	13,27,28	-	27,791
Provisions	12	43,528	48,508
Current installments of long-term debt, net	10,27,28	352,408	1,131,047
Current installments of long-term payables - other	11,27,28	299,113	301,751
Total Current Liabilities		<u>3,420,635</u>	<u>4,767,401</u>
Non-Current Liabilities:			
Debentures, excluding current installments, net	10,27,28	5,255,471	4,334,848
Long-term borrowings, excluding current installments, net	10,27,28	38,185	42,486
Long-term payables - other	11,27,28	1,040,761	1,328,630
Long-term contract liabilities	3,15	7,758	-
Long-term unearned revenue	3	-	7,033
Long-term derivative financial liabilities	13,27,28	1,400	10,719
Long-term provisions	12	16,060	16,178
Deferred tax liabilities	3,25	566,360	-
Other non-current liabilities	27,28	43,663	42,836
Total Non-Current Liabilities		<u>6,969,658</u>	<u>5,782,730</u>
Total Liabilities		<u>10,390,293</u>	<u>10,550,131</u>
Shareholders' Equity:			
Share capital	1,16	44,639	44,639
Capital surplus and others	16,17,18	370,943	371,895
Retained earnings	19	16,224,034	14,512,556
Reserves	20	(32,457)	78,301
Total Shareholders' Equity		<u>16,607,159</u>	<u>15,007,391</u>
Total Liabilities and Shareholders' Equity	₩	<u>26,997,452</u>	<u>25,557,522</u>

See accompanying notes to the condensed separate interim financial statements.

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

For the three and six-month periods ended June 30, 2018 and 2017

(In millions of won except for per share data)

	<i>Note</i>	June 30, 2018		June 30, 2017	
		Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended
Operating revenue:					
Revenue	3,21,29	₩ 2,941,835	5,930,373	3,109,630	6,197,586
Operating expenses:					
Labor	29	158,681	333,708	151,931	308,809
Commissions	3	1,085,518	2,218,460	1,196,606	2,394,123
Depreciation and amortization		580,715	1,181,434	586,841	1,172,312
Network interconnection		167,024	329,627	152,225	308,959
Leased line		68,290	138,829	70,846	146,744
Advertising		37,968	63,966	40,715	63,159
Rent		111,176	222,582	109,780	221,301
Cost of products that have been resold		133,527	256,695	130,641	266,076
Others	22	230,657	447,536	207,697	414,359
		<u>2,573,556</u>	<u>5,192,837</u>	<u>2,647,282</u>	<u>5,295,842</u>
Operating profit	3	368,279	737,536	462,348	901,744
Finance income	24	26,715	208,003	21,001	147,187
Finance costs	24	(73,596)	(140,612)	(75,528)	(140,525)
Other non-operating income	23	4,369	16,494	2,664	9,320
Other non-operating expenses	23	(29,826)	(48,004)	(21,850)	(39,458)
Loss on investments in subsidiaries and associates	7	-	-	(15,305)	(15,305)
Profit before income tax	3	295,941	773,417	373,330	862,963
Income tax expense	3,25	76,155	189,204	59,280	160,707
Profit for the period	3	₩ 219,786	584,213	314,050	702,256
Earnings per share:					
Basic and diluted earnings per share (in won)	26	₩ 2,993	8,155	4,328	9,826

See accompanying notes to the condensed separate interim financial statements.

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

For the three and six-month periods ended June 30, 2018 and 2017

(In millions of won)

	<i>Note</i>	June 30, 2018		June 30, 2017	
		Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended
Profit for the period	₩	219,786	584,213	314,050	702,256
Other comprehensive income (loss):					
Items that will never be reclassified to profit or loss, net of taxes:					
Remeasurement of defined benefit liabilities	14	(17,585)	(44,792)	406	(6,372)
Valuation gain (loss) on financial assets at FVOCI	20	3,003	(4,065)	406	(6,372)
		(20,588)	(40,727)	-	-
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	20	(981)	(10,006)	69,543	105,151
Net change in unrealized fair value of derivatives	20	-	-	56,010	99,347
	20	(981)	(10,006)	13,533	5,804
Other comprehensive income (loss) for the period, net of taxes		(18,566)	(54,798)	69,949	98,779
Total comprehensive income	₩	201,220	529,415	383,999	801,035

See accompanying notes to the condensed separate interim financial statements.

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

For the six-month periods ended June 30, 2018 and 2017

(In millions of won)

	Note	Share capital	Capital surplus and others					Sub-total	Retained earnings	Reserves	Total equity
			Paid-in surplus	Treasury share	Hybrid bonds	Share option	Other				
Balance, 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 period		-	-	-	-	-	-	-	702,256	-	702,256
Other comprehensive income (loss)	14,20	-	-	-	-	-	-	-	(6,372)	105,151	98,779
		-	-	-	-	-	-	-	695,884	105,151	801,035
Transactions with owners:											
Cash dividends		-	-	-	-	-	-	-	(635,482)	-	(635,482)
Share option		-	-	-	-	145	-	145	-	-	145
Interest on hybrid bond		-	-	-	-	-	-	-	(8,420)	-	(8,420)
		-	-	-	-	145	-	145	(643,902)	-	(643,757)
Balance, June 30, 2017		₩ 44,639	2,915,887	(2,260,626)	398,518	145	(682,298)	371,626	13,954,609	43,358	14,414,232
Balance, 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
Impact of adopting K-IFRS No. 1115	3	-	-	-	-	-	-	-	1,723,985	-	1,723,985
Impact of adopting K-IFRS No. 1109	3	-	-	-	-	-	-	-	49,611	(58,389)	(8,778)
Balance, January 1, 2018		₩ 44,639	2,915,887	(2,260,626)	398,518	414	(682,298)	371,895	16,286,152	19,912	16,722,598
Total comprehensive income:											
Profit for the period		-	-	-	-	-	-	-	584,213	-	584,213
Other comprehensive income (loss)	14,20	-	-	-	-	-	-	-	(2,429)	(52,369)	(54,798)
		-	-	-	-	-	-	-	581,784	(52,369)	529,415
Transactions with owners:											
Annual dividends		-	-	-	-	-	-	-	(635,482)	-	(635,482)
Share option		-	-	-	-	289	-	289	-	-	289
Repayments of hybrid bond	18	-	-	-	(398,518)	-	(1,482)	(400,000)	-	-	(400,000)
Proceeds from issuance of hybrid bond	18	-	-	-	398,759	-	-	398,759	-	-	398,759
Interest on hybrid bond		-	-	-	-	-	-	-	(8,420)	-	(8,420)
		-	-	-	241	289	(1,482)	(952)	(643,902)	-	(644,854)
Balance, June 30, 2018		₩ 44,639	2,915,887	(2,260,626)	398,759	703	(683,780)	370,943	16,224,034	(32,457)	16,607,159

See accompanying notes to the condensed separate interim financial statements.

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

For the six-month periods ended June 30, 2018 and 2017

(In millions of won)

	<u>Note</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Cash flows from operating activities:			
Cash generated from operating activities:			
Profit for the period		₩ 584,213	702,256
Adjustments for income and expenses	31	1,420,008	1,431,941
Changes in assets and liabilities related to operating activities	31	70,515	(216,566)
Sub-total		<u>2,074,736</u>	<u>1,917,631</u>
Interest received		20,489	25,733
Dividends received		161,213	99,423
Interest paid		(102,487)	(93,362)
Income tax paid		(196,330)	(377,715)
Net cash provided by operating activities		<u>1,957,621</u>	<u>1,571,710</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		14,500	-
Collection of short-term loans		99,953	97,193
Proceeds from disposal of long-term investment securities		4,992	4,781
Proceeds from disposal of investments in subsidiaries and associates		2,414	-
Proceeds from disposal of property and equipment		5,268	9,950
Proceeds from disposal of intangible assets		143	992
		<u>127,270</u>	<u>162,916</u>
Cash outflows for investing activities:			
Increase in short-term financial instruments, net		-	(19,000)
Increase in short-term loans		(110,800)	(107,300)
Acquisition of long-term investment securities		(990)	(5,367)
Acquisition of investments in subsidiaries and associates		(106,121)	(45,139)
Acquisition of property and equipment		(780,766)	(748,089)
Acquisition of intangible assets		(10,869)	(11,698)
		<u>(1,009,546)</u>	<u>(936,593)</u>
Net cash used in investing activities		<u>₩ (882,276)</u>	<u>(773,677)</u>

See accompanying notes to the condensed separate interim financial statements.

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

For the six-month periods ended June 30, 2018 and 2017

<i>(In millions of won)</i>	<u>Note</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Cash flows from financing activities:			
Cash inflows from financing activities:			
Proceeds from issuance of hybrid bond	₩	398,759	-
Proceeds from issuance of debentures		<u>1,027,541</u>	<u>368,456</u>
		1,426,300	368,456
Cash outflows for financing activities:			
Repayments of long-term borrowings		(6,200)	(6,407)
Repayments of hybrid bonds		(400,000)	-
Repayments of long-term account payables -other		(302,867)	(302,867)
Repayments of debentures		(946,550)	(349,119)
Payments of cash dividends		(635,482)	(635,482)
Payments of interest on hybrid bond		(8,420)	(8,420)
Cash outflows from transactions of derivatives		<u>(27,213)</u>	<u>(22,883)</u>
		<u>(2,326,732)</u>	<u>(1,325,178)</u>
Net cash used in financing activities		<u>(900,432)</u>	<u>(956,722)</u>
Net increase (decrease) in cash and cash equivalents		174,913	(158,689)
Cash and cash equivalents at beginning of the period		880,583	874,350
Effects of exchange rate changes on cash and cash equivalents		207	(51)
Cash and cash equivalents at end of the period	₩	<u>1,055,703</u>	<u>715,610</u>

See accompanying notes to the condensed separate interim financial statements.

SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

For the six-month periods ended June 30, 2018 and 2017

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 June 30, 2018, the 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, institutional investors and other shareholders	50,245,708	62.23
Treasury shares	<u>10,136,551</u>	<u>12.55</u>
	<u>80,745,711</u>	<u>100.00</u>

2. Basis of Preparation

(1) Statement of compliance

These condensed separate interim financial statements were prepared in accordance with K-IFRS No. 1034, *Interim Financial Reporting*, as part of the period covered by the Company’s K-IFRS annual financial statements. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since December 31, 2017. These condensed separate interim financial statements do not include all of the disclosures required for full annual financial statements.

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

(2) Use of estimates and judgments

1) Critical judgments, assumptions and estimation uncertainties

The preparation of the condensed separate interim 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.

In preparing these condensed separate interim financial statements, the significant judgments made by management in applying the Company’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements as of and for the year ended December 31, 2017 except significant judgments and key sources of estimation uncertainty related to the K-IFRS No. 1115, *Revenue from contracts with customers*, and K-IFRS No. 1109, *Financial Instruments*, that are described in Note 3.

For the six-month periods ended June 30, 2018 and 2017

2. Basis of Preparation, Continued

(2) Use of estimates and judgments, Continued

2) 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:

- ✓ 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 28.

SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

For the six-month periods ended June 30, 2018 and 2017

3. Significant Accounting Policies

The significant accounting policies applied by the Company in these condensed separate interim financial statements are the same as those applied by the Company in its separate financial statements as of and for the year ended December 31, 2017, except for the following changes in accounting policies described below. The following changes in accounting policies are also expected to be reflected in the Company's separate financial statements as at and for the year ending December 31, 2018.

(1) Changes in accounting policies

The Company has initially adopted K-IFRS No. 1115, *Revenue from Contracts with Customers*, and K-IFRS No. 1109, *Financial Instruments*, from January 1, 2018. A number of other amendments to standards are effective from January 1, 2018, but they do not have a material effect on the Company's condensed separate interim financial statements.

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

K-IFRS No. 1115, *Revenue from Contracts with Customers*, establishes a comprehensive framework for determining whether, how much and when revenue is recognized. K-IFRS No. 1115 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 has initially applied K-IFRS No. 1115, *Revenue from Contracts with Customers*, from January 1, 2018 using the cumulative effect method with the effect of initially applying this standard as an adjustment to the opening balance of retained earnings as at January 1, 2018. The Company applied K-IFRS No. 1115 retrospectively only to contracts that are not completed contracts at the date of initial application, which is January 1, 2018 using the practical expedient permitted by K-IFRS No. 1115.

i) Identification of performance obligations in the contract

A substantial portion of the Company's revenue is generated from providing wireless telecommunications services. K-IFRS No. 1115 requires the Company to evaluate goods or services promised to customers to determine if there are performance obligations other than wireless telecommunications service that should be accounted for separately. In the case that the Company provides a wireless telecommunications service and sells a handset together to one customer, the Company allocates considerations from the customer between handset sale revenue and wireless telecommunications service revenue. The handset sales revenue is recognized when handset is delivered and the wireless telecommunications service revenue is recognized as revenue over the period of the contract term as stated in the subscription contract.

ii) Allocation of the transaction price to performance obligations

Under K-IFRS No. 1115, the Company allocates the transaction price to each performance obligation identified in a contract on a relative stand-alone selling price basis. The Company uses "adjusted market assessment approach" method for estimating the stand-alone selling price of a good or service.

In the case of providing both wireless telecommunication services and mobile devices for sale, the Company allocates the transaction price based on relative stand-alone selling prices.

3. Significant Accounting Policies, Continued

(1) Changes in accounting policies, Continued

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

SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

For the six-month periods ended June 30, 2018 and 2017

iii) Incremental costs to acquire a contract

The Company pays commissions to its direct retail stores and authorized dealers in connection with acquiring service contracts. The commissions paid to these parties historically constituted a significant portion of the Company's operating expenses. These commissions would not have been paid if there have been no binding contracts with subscribers. K-IFRS No. 1115 requires the Company to capitalize certain costs associated with commissions paid to obtain new customer contracts and amortize them over the expected contract periods with customers. As a result of applying K-IFRS No. 1115, the Company recognized ₩2,356,136 million of prepaid expenses as at January 1, 2018.

iv) Contract liability

Upon adoption of K-IFRS No. 1115, the Company reclassified the receipts in advance and unearned revenue amounting to ₩44,045 million that are related to prepaid rate plans and customer loyalty program, respectively, to contract liabilities as at January 1, 2018.

v) Impact of adopting K-IFRS No. 1115 on the condensed separate interim financial statements

If K-IFRS No. 1018 were applied on the Company's condensed separate statement of financial position as of June 30, 2018, prepaid expenses and long-term prepaid expenses would be decreased by ₩1,683,133 million and ₩640,838 million, respectively, and contract assets and long-term contract assets each would be decreased by ₩1,280 million and ₩5,013 million, respectively, while deferred tax assets would be increased by ₩58,819 million. As a result, total assets would be decreased by ₩2,271,445 million. In addition, contract liabilities, long-term contract liabilities and deferred tax liabilities would be decreased by ₩50,723 million, ₩7,758 million and ₩566,360 million, respectively, while other liabilities such as receipts in advance and unearned revenue would be increased by ₩58,481 million. As a result, total liabilities would be decreased by ₩566,360 million. In relation to these changes in assets and liabilities, retained earnings would be decreased by ₩1,705,085 million.

If K-IFRS No. 1018 were applied on the Company's condensed separate statement of income for the six-month period ended June 30, 2018, revenues would be increased by ₩2,486 million, while commissions would be decreased by ₩23,385 million. Operating profit and profit before income tax would be increased by ₩25,871 million. As a result, profit for the period would be increased by ₩18,900 million with increase in income tax expense of ₩6,971 million.

When compared to K-IFRS No. 1018, the adoption of K-IFRS No. 1115 did not have material impact on the Company's condensed separate statement of cash flows for the six-month period ended June 30, 2018.

SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

For the six-month periods ended June 30, 2018 and 2017

3. Significant Accounting Policies, Continued

(1) Changes in accounting policies, Continued

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

K-IFRS No. 1109 set out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces K-IFRS No. 1039, *Financial Instruments: Recognition and Measurement*. The Company adopted K-IFRS No. 1109, *Financial Instruments*, from January 1, 2018, and the Company has taken an exemption not to restate the financial statements for prior years with respects to transition requirements.

The following table explains the impact of transition to K-IFRS No. 1109 on the opening balance of reserves and retained earnings as at January 1, 2018.

(In millions of won)

	<u>Reserves</u>	<u>Retained earnings</u>
Reclassification of available-for-sale financial assets to financial assets at fair value through profit or loss ("FVTPL")	₩ 106	(4,495)
Reclassification of available-for-sale financial assets to financial assets measured at fair value through other comprehensive income ("FVOCI")	(79,908)	85,349
Recognition of loss allowances on accounts receivable - trade and others	-	(13,049)
Related tax	21,413	(18,194)
	<u>₩ (58,389)</u>	<u>49,611</u>

i) Classification of financial assets and financial liabilities

K-IFRS No. 1109 largely retains the existing requirements in K-IFRS No. 1039 for the classification and measurement of financial liabilities. However, it eliminates the previous K-IFRS No. 1039 categories for financial assets of held to maturity, available for sale, loans, and receivables.

Under K-IFRS No. 1109, on initial recognition, a financial asset is classified as measured at: amortized cost; FVOCI-debt investment; FVOCI-equity investment; or FVTPL. The classification of financial assets under K-IFRS No. 1109 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. If a contract contains embedded derivatives and the host is an asset within the scope of K-IFRS No. 1109, then such embedded derivatives are not separated.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flow; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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Notes to the Condensed Separate Interim Financial Statements

For the six-month periods ended June 30, 2018 and 2017

3. Significant Accounting Policies, Continued

(1) Changes in accounting policies, Continued

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

i) Classification of financial assets and financial liabilities, Continued

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income ("OCI"). This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. These include all derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset (unless it is an account receivable - trade without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

The following accounting policies apply to the subsequent measurement of financial assets.

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.
Financial assets at amortized cost	These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

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For the six-month periods ended June 30, 2018 and 2017

3. Significant Accounting Policies, Continued

(1) Changes in accounting policies, Continued

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

i) Classification of financial assets and financial liabilities, Continued

The following table explains the original measurement categories under K-IFRS No. 1039 and the changes in measurement categories under K-IFRS No. 1109 for each class of the Company's financial assets as at January 1, 2018.

(In millions of won)

	Original classification under K-IFRS No. 1039	New classification under K-IFRS No. 1109	Original carrying amount under K-IFRS No. 1039	New carrying amount under K-IFRS No. 1109	Difference
Short-term financial assets:					
Cash and cash equivalents	Amortized cost	Amortized cost	₩ 880,583	880,583	-
Short-term financial instruments	Amortized cost	Amortized cost	94,000	94,000	-
Short-term investment securities(*1)	Available-for-sale	FVTPL	47,383	47,383	-
Accounts receivable - trade	Amortized cost	Amortized cost	1,520,209	1,507,259	(12,950)
Short-term loans	Amortized cost	Amortized cost	54,403	54,403	-
Accounts receivable - other(*3)	Amortized cost	FVTPL	759,720	759,720	-
Accounts receivable - other	Amortized cost	Amortized cost	243,789	243,690	(99)
Accrued revenue	Amortized cost	Amortized cost	659	659	-
			<u>3,600,746</u>	<u>3,587,697</u>	<u>(13,049)</u>
Long-term financial assets:					
Long-term financial instruments	Amortized cost	Amortized cost	382	382	-
Long-term investment securities(*1)	Available-for-sale	FVTPL	75,527	71,138	(4,389)
Long-term investment securities(*2)	Available-for-sale	FVOCI	649,076	654,517	5,441
Long-term loans	Amortized cost	Amortized cost	7,512	7,512	-
Long-term accounts receivable - other(*3)	Amortized cost	FVTPL	243,742	243,742	-
Long-term accounts receivable - other	Amortized cost	Amortized cost	41,376	41,376	-
Guarantee deposits	Amortized cost	Amortized cost	173,513	173,513	-
Derivative financial assets	Derivatives hedging instrument	Derivatives hedging instrument	21,554	21,554	-
Derivative financial assets	Designated as at FVTPL	FVTPL	9,054	9,054	-
			<u>1,221,736</u>	<u>1,222,788</u>	<u>1,052</u>
			<u>₩ 4,822,482</u>	<u>4,810,485</u>	<u>(11,997)</u>

For the six-month periods ended June 30, 2018 and 2017

3. Significant Accounting Policies, Continued

(1) Changes in accounting policies, Continued

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

i) Classification of financial assets and financial liabilities, Continued

The following table explains the original measurement categories under K-IFRS No. 1039 and the changes in measurement categories under K-IFRS No. 1109 for each class of the Company's financial assets as at January 1, 2018, Continued.

(*1) As of January 1, 2018, available-for-sale financial assets such as beneficiary certificates and equity investments amounting to ₩122,910 million were reclassified to financial assets measured at FVTPL. As the contractual terms of these assets do not give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, these assets were not qualified to be designated as financial assets measured at amortized cost. As a result of this reclassification, as at January 1, 2018, accumulated OCI of ₩ (-)106 million was reclassified to retained earnings and, due to its new classification to financial assets measured at FVTPL, retained earnings was decreased by ₩4,389 million. In addition, change in the fair value of these financial assets of ₩85 million was recognized in profit before income tax.

(*2) As of January 1, 2018, available-for-sale financial assets such as marketable equity instruments amounting to ₩649,076 million were reclassified to equity investments at FVOCI. As a result of this reclassification, as at January 1, 2018, OCI of ₩85,349 million was reclassified to retained earnings and OCI was increased by ₩5,441 million due to the changes in the fair value of these financial assets. The Company designated equity instruments that are not held for trading as FVOCI on initial application of K-IFRS No. 1109 with no recycling of amounts from OCI to profit and loss.

(*3) As of January 1, 2018, accounts receivable - other of ₩1,003,462 million were reclassified to financial assets at FVTPL. Upon the initial application of K-IFRS No. 1109, the Company reclassified the debt instruments to financial assets at FVTPL whose objectives of the business model are not achieved both by collecting contractual cash flows and selling financial assets. There was no material impact on retained earnings as at January 1, 2018 as the fair values of these debt instruments were not significantly different from the carrying amounts as of December 31, 2017.

ii) Impairment of financial assets

K-IFRS No. 1109 sets out a new 'expected credit loss' (ECL) impairment model which replaces the 'incurred loss' model under K-IFRS No. 1039 for recognizing and measuring impairment. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under K-IFRS No. 1109, credit losses are recognized earlier than under K-IFRS No. 1039.

ECL is a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).

For the six-month periods ended June 30, 2018 and 2017

3. Significant Accounting Policies, Continued

(1) Changes in accounting policies, Continued

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

ii) Impairment of financial assets, Continued

At each reporting date, the Company assesses whether financial assets carried at amortized cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. As a result of applying K-IFRS No. 1109, as of January 1, 2018, the Company recognized the impairment loss on debt instruments at an amount equal to the lifetime expected credit losses.

Loss allowance on financial assets measured at amortized cost is deducted from the carrying amount of the respective assets, while loss allowance on debt instruments at FVOCI is recognized in OCI, instead of reducing the carrying amount of the assets.

iii) Hedge accounting

When initially applying K-IFRS No. 1109, the Company elected as its accounting policy to apply hedge accounting requirements under 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 January 1, 2018 satisfy the hedge requirements of retrospective testing (80~125%) under K-IFRS No. 1039, there is no material effect of applying K-IFRS No. 1109.

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Notes to the Condensed Separate Interim Financial Statements

For the six-month periods ended June 30, 2018 and 2017

3. Significant Accounting Policies, Continued

(1) Changes in accounting policies, Continued

3) The following table explains the impacts of adopting K-IFRS Nos. 1115 and 1109 on the Company's statement of financial position as of January 1, 2018.

(In millions of won)

	December 31, 2017	Adjustments		January 1, 2018
	As reported	K-IFRS 1115	K-IFRS 1109	Restated
Current Assets	3,768,098	1,711,387	(13,049)	5,466,436
Accounts receivable - trade, net	1,520,209	-	(12,950)	1,507,259
Accounts receivable - other, net	1,003,509	-	(99)	1,003,410
Prepaid expenses	121,121	1,711,387	-	1,832,508
Others	1,123,259	-	-	1,123,259
Non-Current Assets	21,789,424	613,796	1,052	22,404,272
Long-term investment securities	724,603	-	1,052	725,655
Long-term prepaid expenses	25,169	644,749	-	669,918
Deferred tax assets	30,953	(30,953)	-	-
Others	21,008,699	-	-	21,008,699
Total Assets	25,557,522	2,325,183	(11,997)	27,870,708
Current Liabilities	4,767,401	-	-	4,767,401
Contract liabilities	-	37,012	-	37,012
Receipts in advance	76,126	(76,126)	-	-
Unearned revenue	3,705	(3,705)	-	-
Withholdings	517,991	42,819	-	560,810
Others	4,169,579	-	-	4,169,579
Non-Current Liabilities	5,782,730	601,198	(3,219)	6,380,709
Long-term contract liabilities	-	7,033	-	7,033
Long-term unearned revenue	7,033	(7,033)	-	-
Deferred tax liabilities	-	601,198	(3,219)	597,979
Others	5,775,697	-	-	5,775,697
Total Liabilities	10,550,131	601,198	(3,219)	11,148,110
Share capital	44,639	-	-	44,639
Capital surplus and others	371,895	-	-	371,895
Retained earnings	14,512,556	1,723,985	49,611	16,286,152
Reserves	78,301	-	(58,389)	19,912
Total Shareholders' Equity	15,007,391	1,723,985	(8,778)	16,722,598
Total Liabilities and Shareholders' Equity	25,557,522	2,325,183	(11,997)	27,870,708

SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

For the six-month periods ended June 30, 2018 and 2017

3. Significant Accounting Policies, Continued

(2) Standards issued but not yet effective

The following new standard is effective for annual periods beginning after January 1, 2018 and earlier application is permitted; however, the Company has not early adopted the following new standard in preparing the accompanying condensed separate interim financial statements as of and for the six-month period ended June 30, 2018.

K-IFRS No. 1116, *Leases*

The Company currently plans to apply K-IFRS No.1116 in the period beginning on January 1, 2019 and to assess the financial impact on its separate financial statements resulting from the adoption of K-IFRS No. 1116 by December 31, 2018. The assessment results will be disclosed in its annual financial statements for the year ending December 31, 2018. As of June 30, 2018, there have been no significant changes related to the Company's plan for the adoption of K-IFRS No. 1116 which was disclosed in the Company's separate financial statements as of December 31, 2017.

4. Trade and Other Receivables

(1) Details of trade and other receivables as of June 30, 2018 and December 31, 2017 are as follows:

(In millions of won)

	June 30, 2018		
	Gross amount	Loss allowance	Carrying amount
Current assets:			
Accounts receivable - trade	₩ 1,505,400	(120,361)	1,385,039
Short-term loans	65,979	(660)	65,319
Accounts receivable - other(*)	919,520	(53,886)	865,634
Accrued income	642	-	642
	<u>2,491,541</u>	<u>(174,907)</u>	<u>2,316,634</u>
Non-current assets:			
Long-term loans	48,443	(41,109)	7,334
Long-term accounts receivable - other(*)	248,076	-	248,076
Guarantee deposits	184,922	-	184,922
	<u>481,441</u>	<u>(41,109)</u>	<u>440,332</u>
	<u>₩ 2,972,982</u>	<u>(216,016)</u>	<u>2,756,966</u>

(*) Gross and carrying amounts of accounts receivable - other as of June 30, 2018 include ₩843,622 million of financial instruments at FVTPL.

SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

For the six-month periods ended June 30, 2018 and 2017

4. Trade and Other Receivables, Continued

(1) Details of trade and other receivables as of June 30, 2018 and December 31, 2017 are as follows, Continued

(In millions of won)

		December 31, 2017		
		Gross amount	Allowances for doubtful accounts	Carrying amount
Current assets:				
Accounts receivable - trade	₩	1,628,036	(107,827)	1,520,209
Short-term loans		54,953	(550)	54,403
Accounts receivable - other		1,059,395	(55,886)	1,003,509
Accrued income		659	-	659
		<u>2,743,043</u>	<u>(164,263)</u>	<u>2,578,780</u>
Non-current assets:				
Long-term loans		48,623	(41,111)	7,512
Accounts receivable - other		285,118	-	285,118
Guarantee deposits		173,513	-	173,513
		<u>507,254</u>	<u>(41,111)</u>	<u>466,143</u>
	₩	<u>3,250,297</u>	<u>(205,374)</u>	<u>3,044,923</u>

(2) Changes in the loss allowance on trade and other receivables measured at amortized costs during the six-month periods ended June 30, 2018 and 2017 are as follows:

(In millions of won)

	January 1, 2018	Impact of adopting K-IFRS No. 1109	Impairment	Write-offs(*)	Collection of receivables previously written-off	June 30, 2018
Accounts receivable - trade	₩ 107,827	12,950	8,593	(14,532)	5,523	120,361
Accounts receivable - other	97,547	99	1,498	(6,335)	2,846	95,655
	<u>₩ 205,374</u>	<u>13,049</u>	<u>10,091</u>	<u>(20,867)</u>	<u>8,369</u>	<u>216,016</u>

(In millions of won)

	January 1, 2017	Impairment	Write-offs(*)	Collection of receivables previously written-off	June 30, 2017
Accounts receivable - trade	₩ 119,027	8,352	(18,552)	6,668	115,495
Accounts receivable - other	99,800	2,177	(11,042)	6,793	97,728
	<u>₩ 218,827</u>	<u>10,529</u>	<u>(29,594)</u>	<u>13,461</u>	<u>213,223</u>

(*) The Company writes off the trade and other receivables when contractual payments are more than 5 years past due, or for reasons such as shut-down or liquidation.

SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

For the six-month periods ended June 30, 2018 and 2017

4. Trade and Other Receivables, Continued

- (3) The Company applies the simplified approach that allows the Company to estimate the loss allowance for accounts receivables - trade at an amount equal to the lifetime expected credit losses. The expected credit losses include the forward-looking information. To make that assessment, the Company used its historical credit loss experience and classified the accounts receivable - trade by their credit risk characteristics and days overdue.

As the Company is a wireless telecommunications service provider, the Company's financial assets measured at amortized cost consist primarily of receivables from individual customers, and, therefore, no significant credit concentration risk arises.

5. Prepaid expenses

As discussed in Note 3, the Company adopted K-IFRS No. 1115, *Revenue from Contracts with Customers*, during the year beginning on January 1, 2018.

- (1) Details of prepaid expenses as of June 30, 2018 and December 31, 2017 are as follows:

(In millions of won)

	<u>June 30, 2018</u>	<u>December 31, 2017</u>
Current assets:		
Incremental costs of obtaining contracts	₩ 1,683,133	-
Others	<u>114,618</u>	<u>121,121</u>
	<u>1,797,751</u>	<u>121,121</u>
Non-current assets:		
Incremental costs of obtaining contracts	₩ 640,838	-
Others	<u>26,701</u>	<u>25,169</u>
	<u>667,539</u>	<u>25,169</u>

- (2) Incremental costs of obtaining contracts

Incremental costs of obtaining a contract that are capitalized as assets as of June 30, 2018 and the related depreciation recognized as commissions during the three and six-month periods ended June 30, 2018 are as follows:

(In millions of won)

	<u>2018</u>	
	<u>Three-month period ended June 30</u>	<u>Six-month period ended June 30</u>
Depreciation recognized as commission	₩ 497,237	1,035,206

The Company pays commissions to its direct retail stores and authorized dealers for wireless telecommunications services for each service contract and installation contract secured. The Company capitalized certain costs associated with commissions paid to sales agents to obtain new customer contracts as prepaid expenses, which the Company previously expensed. These prepaid expenses are amortized over the periods that the Company expects to maintain its customers.

SK TELECOM CO., LTD.
Notes to the Condensed Separate Interim Financial Statements

For the six-month periods ended June 30, 2018 and 2017

6. Investment Securities

(1) Details of short-term investment securities as of June 30, 2018 and December 31, 2017 are as follows:

(In millions of won)

	<u>Category</u>		<u>June 30, 2018</u>	<u>December 31, 2017</u>
Beneficiary certificates	Available-for-sale financial assets	₩	-	47,383
	FVTPL		47,547	-
		₩	<u>47,547</u>	<u>47,383</u>

(2) Details of long-term investment securities as of June 30, 2018 and December 31, 2017 are as follows:

(In millions of won)

	<u>Category</u>		<u>June 30, 2018</u>	<u>December 31, 2017</u>
Equity instruments	Available-for-sale financial assets	₩	-	723,703
	FVOCI(*)		597,225	-
			<u>597,225</u>	<u>723,703</u>
Debt instruments	Available-for-sale financial assets		-	900
	FVTPL		67,267	-
			<u>67,267</u>	<u>900</u>
		₩	<u>664,492</u>	<u>724,603</u>

(*) The Company designated ₩597,225 million of equity instrument that is not held for trading as financial assets at FVOCI.

7. Investments in Subsidiaries, Associates and Joint ventures

(1) Investments in subsidiaries, associates and joint ventures as of June 30, 2018 and December 31, 2017 are as follows:

(In millions of won)

		<u>June 30, 2018</u>	<u>December 31, 2017</u>
Investments in subsidiaries	₩	4,493,753	4,391,693
Investments in associates and joint ventures		4,757,758	4,760,628
	₩	<u>9,251,511</u>	<u>9,152,321</u>

SK TELECOM CO., LTD.

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For the six-month periods ended June 30, 2018 and 2017

7. Investments in Subsidiaries, Associates and Joint ventures, Continued

(2) Details of investments in subsidiaries as of June 30, 2018 and December 31, 2017 are as follows:

(In millions of won, except for share data)

	June 30, 2018		December 31, 2017
	Number of shares	Ownership (%)	Carrying amount
SK Telink Co., Ltd.	1,432,627	100.0	₩ 243,988
SK Broadband Co., Ltd.	298,460,212	100.0	1,870,582
SK Communications Co., Ltd.	43,427,530	100.0	69,668
PS&Marketing Corporation	66,000,000	100.0	313,934
SERVICEACE Co., Ltd.	4,385,400	100.0	21,927
SK Planet Co., Ltd.	57,338,266	98.1	1,298,237
IRIVER LIMITED(*1)	21,826,296	45.9	91,642
SK Telecom China Holdings Co., Ltd.	-	100.0	48,096
SKT Americas, Inc.	122	100.0	45,701
Atlas Investment(*2)	-	100.0	89,824
SK Global Healthcare Business Group, Ltd.	-	100.0	39,649
SK techx Co., Ltd.	6,713,838	100.0	155,999
One Store Co., Ltd.	10,409,600	65.5	82,186
id Quantique SA(*3)	44,157,506	58.1	59,214
Network O&S Co., Ltd., etc			63,106
			₩ 4,493,753
			4,391,693

(*1) Although the Company has less than 50% of the voting rights of IRIVER LIMITED, the Company is considered to have control over IRIVER LIMITED since the Company holds significantly more voting rights than any other shareholder or organized group of shareholders, and the other shareholdings are widely dispersed.

(*2) The Company contributed ₩5,329 million in cash during the six-month period ended June 30, 2018.

(*3) The Company acquired additional 41,157,506 shares of both common and preferred stocks, in aggregate, for ₩55,249 million in cash during the six-month period ended June 30, 2018, and reclassified the existing equity instruments at FVOCI to subsidiaries. Due to the reclassification, ₩1,636 million valuation gain on the equity instruments at FVOCI is reclassified to retained earnings.

SK TELECOM CO., LTD.
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For the six-month periods ended June 30, 2018 and 2017

7. Investments in Subsidiaries, Associates and Joint ventures, Continued

(3) Details of investments in associates and joint ventures accounted for using the equity method as of June 30, 2018 and December, 2017 are as follows:

(In millions of won, except for share data)

		June 30, 2018		December 31, 2017
	Number of shares	Ownership (%)	Carrying amount	Carrying amount
Investments in associates:				
SK China Company Ltd.	10,928,921	27.3	₩ 601,192	601,192
HappyNarae Co., Ltd.	720,000	45.0	12,939	12,939
Korea IT Fund(*1)	190	63.3	220,957	220,957
Wave City Development Co., Ltd.(*2)	393,460	19.1	1,532	1,532
KEB HanaCard Co., Ltd.(*2)	39,902,323	15.0	253,739	253,739
Daehan Kanggun BeN Co., Ltd.	1,675,124	29.0	353	353
NanoEnTek, Inc.	6,960,445	27.1	47,958	47,958
SK Technology Innovation Company	14,700	49.0	45,864	45,864
SK hynix Inc.	146,100,000	20.1	3,374,725	3,374,725
SK MENA Investment B.V.	9,772,686	32.1	14,485	14,485
SK Latin America Investment S.A.	9,448,937	32.1	14,243	14,243
S.M.Culture & Contents Co.,Ltd.	22,033,898	23.4	65,341	65,341
12CM Japan, Inc.(*3)	3,925	29.2	7,697	-
MAKEUS Corp. (*2,3)	2,153	8.9	9,773	-
SK USA, Inc. and others	-	-	62,380	71,824
			₩ 4,733,178	4,725,152
Investment in joint ventures:				
Finnq Co., Ltd.(*4)	4,900,000	49.0	₩ 24,580	24,580
12CM GLOBAL PTE. LTD.(*5)	766,088	47.7	-	10,896
			24,580	35,476
			₩ 4,757,758	4,760,628

(*1) Investment in Korea IT Fund was classified as investment in associates as the Company does not have control over Korea IT Fund under the contractual agreement.

(*2) These investments were classified as investments in associates as the Company can exercise significant influence through its right to appoint the members of board of directors even though the Company has less than 20% of equity interests.

(*3) The Company acquired the shares at the carrying amount of the Ultimate Controlling Entity during the six-month period ended June 30, 2018.

(*4) These investments were classified as investment in joint ventures as the Company has joint control pursuant to the agreement with the other shareholders.

(*5) The Company sold 241,055 shares during the six-month period ended June 30, 2018, and reclassified the remaining 766,088 shares to non-current assets held for sale upon the contract to sell the remaining shares.

SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

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7. Investments in Subsidiaries, Associates and Joint ventures, Continued

(4) The market price of investments in listed subsidiaries as of June 30, 2018 and December 31, 2017 are as follows:

(In millions of won, except for share data)

		June 30, 2018			December 31, 2017		
		Market value per share (in won)	Number of shares	Fair value	Market value per share (in won)	Number of shares	Fair value
IRIVER LIMITED	₩	8,250	21,826,296	180,067	5,580	21,826,296	121,790

(5) The market price of investments in listed associates as of June 30, 2018 and December 31, 2017 are as follows:

(In millions of won, except for share data)

		June 30, 2018			December 31, 2017		
		Market value per share (in won)	Number of shares	Fair value	Market value per share (in won)	Number of shares	Fair value
NanoEnTek, Inc.	₩	5,670	6,960,445	39,466	5,950	6,960,445	41,415
SK hynix Inc.		85,700	146,100,000	12,520,770	76,500	146,100,000	11,176,650
S.M.Culture & Contents Co.,Ltd.		2,665	22,033,898	58,720	2,700	22,033,898	59,492

8. Property and Equipment

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

(In millions of won)

		For the six-month period ended June 30, 2018					Ending balance
		Beginning balance	Acquisition	Disposal	Transfer	Depreciation	
Land	₩	525,572	1,069	(29)	4,228	-	530,840
Buildings		546,872	90	(1,330)	24,662	(18,606)	551,688
Structures		376,755	279	-	2,327	(17,974)	361,387
Machinery		4,648,331	37,953	(13,158)	445,784	(818,413)	4,300,497
Other		448,203	248,394	(1,065)	(235,041)	(51,356)	409,135
Construction in progress		377,400	200,846	(3,312)	(312,085)	-	262,849
	₩	<u>6,923,133</u>	<u>488,631</u>	<u>(18,894)</u>	<u>(70,125)</u>	<u>(906,349)</u>	<u>6,416,396</u>

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8. Property and Equipment, Continued

Details of the changes in property and equipment for the six-month periods ended June 30, 2018 and 2017 are as follows, Continued:

(In millions of won)

		For the six-month period ended June 30, 2017					
		Beginning balance	Acquisition	Disposal	Transfer	Depreciation	Ending balance
Land	₩	506,786	2,293	(3,625)	8,765	-	514,219
Buildings		557,021	129	(302)	18,540	(18,347)	557,041
Structures		357,065	2,115	(70)	414	(17,367)	342,157
Machinery		4,781,985	22,100	(985)	416,388	(822,774)	4,396,714
Other		492,410	207,928	(2,421)	(204,150)	(55,284)	438,483
Construction in progress		603,272	195,537	(1,811)	(537,509)	-	259,489
	₩	<u>7,298,539</u>	<u>430,102</u>	<u>(9,214)</u>	<u>(297,552)</u>	<u>(913,772)</u>	<u>6,508,103</u>

9. Intangible Assets

(1) Details of the changes in intangible assets for the six-month periods ended June 30, 2018 and 2017 are as follows:

(In millions of won)

		For the six-month period ended June 30, 2018					
		Beginning balance	Acquisition	Disposal	Transfer	Amortization	Ending balance
Frequency usage rights	₩	2,176,940	-	-	-	(201,944)	1,974,996
Land usage rights		7,858	1,622	(49)	-	(1,981)	7,450
Industrial rights		12,899	3,183	-	-	(1,760)	14,322
Facility usage rights		16,456	844	(22)	90	(1,368)	16,000
Club memberships		44,843	1,215	(25)	-	-	46,033
Other		830,549	4,005	(1,400)	80,917	(139,988)	774,083
	₩	<u>3,089,545</u>	<u>10,869</u>	<u>(1,496)</u>	<u>81,007</u>	<u>(347,041)</u>	<u>2,832,884</u>

(In millions of won)

		For the six-month period ended June 30, 2017					
		Beginning balance	Acquisition	Disposal	Transfer	Amortization	Ending balance
Frequency usage rights	₩	2,580,828	-	-	-	(201,944)	2,378,884
Land usage rights		8,359	1,243	(81)	200	(1,831)	7,890
Industrial rights		13,692	2,196	-	-	(1,815)	14,073
Facility usage rights		16,259	651	(30)	118	(1,347)	15,651
Club memberships		43,984	1,125	(145)	-	-	44,964
Other		612,541	6,483	(563)	307,619	(113,677)	812,403
	₩	<u>3,275,663</u>	<u>11,698</u>	<u>(819)</u>	<u>307,937</u>	<u>(320,614)</u>	<u>3,273,865</u>

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For the six-month periods ended June 30, 2018 and 2017

9. Intangible Assets, Continued

(2) Details of frequency usage rights as of June 30, 2018 are as follows:

(In millions of won)

	Amount	Description	Commencement of amortization	Completion of amortization
800MHz license	₩ 121,632	CDMA and LTE service	Jul. 2011	Jun. 2021
1.8GHz license	439,670	LTE service	Sept. 2013	Dec. 2021
WiBro license	1,783	WiBro service	Mar. 2012	Mar. 2019
2.6GHz license	1,032,060	LTE service	Sept. 2016	Dec. 2026
2.1GHz license	379,851	W-CDMA and LTE service	Dec. 2016	Dec. 2021
	₩ <u>1,974,996</u>			

The Company participated in the frequency license allocation auction hosted by Ministry of Science and Information and Communication Technology (ICT) and was selected for the 3.5GHz and 28GHz license allocation during the six-month period ended June 30, 2018. The considerations payable for the bands of frequency are ₩1,218,500 million and ₩207,300 million, respectively. These bands of frequency are to be allocated in December 2018 as the Company pays the initial lump sum during November 2018, and then the annual payments in installment of the remaining balance will be made for the next ten and five years, respectively. The Company will recognize these frequency licenses at the initial lump sum as intangible assets and will amortize when the bands of frequency are in the condition necessary for them to be capable of operating in the manner intended by management.

10. Borrowings and Debentures

(1) Changes in borrowings for the six-month period ended June 30, 2018 are as follows:

(In millions of won)

	Lender	Annual interest rate(%)	Maturity	₩	Book value
Current					12,031
Non-current					42,486
As of January 1, 2018					54,517
Borrowings repaid	Export Kreditnamnden	1.70	2022. 4. 29		(6,200)
Other changes(*):					2,499
Current					12,631
Non-current					38,185
As of June 30, 2018					<u>50,816</u>

(*) Other changes include the effects on foreign currency translation of foreign currency-denominated debentures and changes in present value discount during the six-month period ended June 30, 2018.

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For the six-month periods ended June 30, 2018 and 2017

10. Borrowings and Debentures, Continued

(2) Changes in debentures for the six-month period ended June 30, 2018 are as follows:

(In thousands of other currencies, In millions of won)

	<u>Purpose</u>	<u>Annual interest rate(%)</u>	<u>Maturity</u>		<u>Face value</u>	<u>Book value</u>
Current				₩	1,119,980	1,119,016
Non-current					4,350,258	4,334,848
As of January 1, 2018					<u>5,470,238</u>	<u>5,453,864</u>
Debentures newly issued:						
Unsecured corporate bonds	Refinancing fund	2.57	Feb. 20, 2021		110,000	109,507
		2.81	Feb. 20, 2023		100,000	99,576
		3.00	Feb. 20, 2028		200,000	199,228
		3.02	Feb. 20, 2038		90,000	89,664
Global unsecured corporate bonds	Operating fund	3.75	Apr. 16, 2023		535,000	529,566
					USD 500,000	USD 500,000
				₩	<u>1,035,000</u>	<u>1,027,541</u>
Debentures repaid:						
Unsecured corporate bonds	Other fund	5.00	Mar. 3, 2018		(200,000)	(200,000)
					(746,550)	(746,550)
Global unsecured corporate bonds	Operating fund	2.13	May. 1, 2018		USD 700,000	USD 700,000
					(946,550)	(946,550)
				₩	<u>(946,550)</u>	<u>(946,550)</u>
Other changes(*):						
					58,411	60,393
Current					340,000	339,777
Non-current					5,277,099	5,255,471
As of June 30, 2018				₩	<u>5,617,099</u>	<u>5,595,248</u>

(*) Other changes include the effects on foreign currency translation of foreign currency-denominated debentures and changes in present value discount during the six-month period ended June 30, 2018.

11. Long-term Payables - other

(1) As of June 30, 2018 and December 31, 2017, details of long-term payables – other which consist of payables related to the acquisition of frequency usage rights are as follows (See Note 9):

(In millions of won)

	<u>June 30, 2018</u>	<u>December 31, 2017</u>
Long-term payables - other	₩ 1,407,388	1,710,255
Present value discount on long-term payables - other	(67,514)	(79,874)
Current installments of long-term payables - other	(299,113)	(301,751)
Carrying amount at period end	₩ <u>1,040,761</u>	<u>1,328,630</u>

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For the six-month periods ended June 30, 2018 and 2017

11. Long-term Payables – other, Continued

(2) The Company repaid ₩302,867 million of the principal amount of long-term payables - other related to the acquisition of frequency usage rights during the six-month period ended June 30, 2018. The repayment schedule of the principal amount of long-term payables - other as of June 30, 2018 is as follows:

<i>(In millions of won)</i>	Amount
Less than 1 year	₩ 302,867
1~3 years	605,734
3~5 years	199,515
More than 5 years	299,272
	₩ 1,407,388

12. Provisions

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

<i>(In millions of won)</i>	For the six-month period ended June 30, 2018					As of June 30, 2018	
	Beginning balance	Increase	Utilization	Reversal	Ending balance	Current	Non-current
Provision for installment of handset subsidy	₩ 3,874	-	(1,059)	(2,702)	113	113	-
Provision for restoration	56,162	2,296	(369)	(350)	57,739	41,679	16,060
Emission allowance	4,650	1,726	(1,334)	(3,306)	1,736	1,736	-
	₩ 64,686	4,022	(2,762)	(6,358)	59,588	43,528	16,060

<i>(In millions of won)</i>	For the six-month period ended June 30, 2017					As of June 30, 2017	
	Beginning balance	Increase	Utilization	Reversal	Ending balance	Current	Non-current
Provision for installment of handset subsidy	₩ 24,710	2	(4,902)	-	19,810	19,810	-
Provision for restoration	53,022	1,588	(400)	(232)	53,978	37,745	16,233
Emission allowance	2,788	2,401	(518)	(2,283)	2,388	2,388	-
	₩ 80,520	3,991	(5,820)	(2,515)	76,176	59,943	16,233

13. Derivatives

Changes in derivative contracts for the six-month period ended June 30, 2018 are as follows:

(In thousands of other currencies)

	Hedged items			Hedging instruments		
	Date	Item	Risk type	Contract type	Counterparty	Contract term
Expired	Nov. 1, 2012	Fixed rate foreign currency bond (par value USD 700,000)	Currency risk	Currency swap contract	Standard Chartered and 8 others	Nov. 1, 2012 ~ May 1, 2018
New	Apr. 16, 2018	Fixed rate foreign currency bond (par value USD 500,000)	Currency risk	Currency swap contract	The Export-Import Bank of Korea and 3 others	Apr. 16, 2018 ~ Apr. 16, 2023

14. Defined Benefit Liabilities (Assets)

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For the six-month periods ended June 30, 2018 and 2017

- (1) Details of defined benefit liabilities (assets) as of June 30, 2018 and December 31, 2017 are as follows:

(In millions of won)

	<u>June 30, 2018</u>	<u>December 31, 2017</u>
Present value of defined benefit obligations	₩ 305,092	278,778
Fair value of plan assets	(321,768)	(318,860)
Defined benefit assets	₩ <u>(16,676)</u>	<u>(40,082)</u>

- (2) Changes in defined benefit obligations for the six-month periods ended June 30, 2018 and 2017 are as follows:

(In millions of won)

	<u>For the six-month period ended</u>	
	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Beginning balance	₩ 278,778	240,289
Current service cost	20,188	19,398
Interest cost	4,268	3,212
Remeasurement:		
- Adjustment based on experience	4,289	8,045
Benefit paid	(5,886)	(5,599)
Others	3,455	8,720
Ending balance	₩ <u>305,092</u>	<u>274,065</u>

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

(In millions of won)

	<u>For the six-month period ended</u>	
	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Beginning balance	₩ 318,860	265,076
Interest income	4,757	3,328
Remeasurement	(1,372)	(361)
Contribution	9,000	20,000
Benefit paid	(15,642)	(24,034)
Others	6,165	6,375
Ending balance	₩ <u>321,768</u>	<u>270,384</u>

- (4) Total cost of benefit plan, which is recognized in profit and loss (included in labor in the statement of income) and capitalized into construction-in-progress, for the six-month periods ended June 30, 2018 and 2017 are as follows:

(In millions of won)

	<u>For the six-month period ended</u>	
	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Current service cost	₩ 20,188	19,398
Net interest income	(489)	(116)
	₩ <u>19,699</u>	<u>19,282</u>

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For the six-month periods ended June 30, 2018 and 2017

15. Contract assets and liabilities

As discussed in Note 3, the Company adopted K-IFRS No. 1115, *Revenue from Contracts with Customers* on January 1, 2018.

Details of contract assets and liabilities as of June 30, 2018 and January 1, 2018 are as follows:

(In millions of won)

	<u>June 30, 2018</u>	<u>January 1, 2018</u>
Contract assets:		
allocation of performance obligations	6,293	-
	₩ <u>6,293</u>	<u>-</u>
Contract liabilities:		
wireless service contracts	17,094	16,577
customer loyalty programs	13,681	10,739
others	27,706	16,729
	₩ <u>58,481</u>	<u>44,045</u>

16. Share Capital and Capital Surplus and Others

The Company's outstanding share capital consists entirely of common stocks with a par value of ₩500. The number of authorized, issued and outstanding common stocks and the details of capital surplus and others as of June 30, 2018 and December 31, 2017 are as follows:

(In millions of won, except for share data)

	<u>June 30, 2018</u>	<u>December 31, 2017</u>
Number of authorized shares	220,000,000	220,000,000
Number of issued shares	80,745,711	80,745,711
Share capital:		
Common stock	₩ 44,639	44,639
Capital surplus and others:		
Paid-in capital surplus	2,915,887	2,915,887
Treasury shares	(2,260,626)	(2,260,626)
Hybrid bonds (Note 18)	398,759	398,518
Share option (Note 17)	703	414
Others	(683,780)	(682,298)
	₩ <u>370,943</u>	<u>371,895</u>

There were no changes in share capital for the six-month periods ended June 30, 2018 and 2017 and details of shares outstanding as of June 30, 2018 and 2017 are as follows:

(In shares)

	<u>June 30, 2018</u>			<u>June 30, 2017</u>		
	<u>Issued shares</u>	<u>Treasury stock</u>	<u>Outstanding shares</u>	<u>Issued shares</u>	<u>Treasury stock</u>	<u>Outstanding shares</u>
Issued shares	80,745,711	10,136,551	70,609,160	80,745,711	10,136,551	70,609,160

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17. Share option

(1) The terms and conditions related to the grants of the share options under the share option program are as follows:

	Series			
	1-1	1-2	1-3	2
Grant date		March 24, 2017		February 20, 2018
Types of shares to be issued		Registered common shares		
Grant method		Reissue of treasury shares		
Number of shares (in shares)	22,168	22,168	22,168	5,707
Exercise price (in won)	246,750	266,490	287,810	254,120
Exercise period	Mar. 25, 2019 ~ Mar. 24, 2022	Mar. 25, 2020 ~ Mar. 24, 2023	Mar. 25, 2021 ~ Mar. 24, 2024	Feb. 21, 2020 ~ Feb. 20, 2023
Vesting conditions	2 years' service from the grant date	3 years' service from the grant date	4 years' service from the grant date	2 years' service from the grant date

(2) The recognized share compensation expense and the remaining share compensation expense to be recognized in subsequent periods are as follows:

(In millions of won)

	Share compensation expense
During the year ended December 31, 2017	₩ 414
During the six-month period ended June 30, 2018	289
In subsequent periods	825
	₩ 1,528

(3) The Company used binomial option pricing model and the inputs used in the measurement of the value of the share options at grant dates of the share-based payment plans are as follows:

	1-1	1-2	1-3	2
Risk-free interest rate	1.86%	1.95%	2.07%	2.63%
Estimated option's life	5 years	6 years	7 years	5 years
Share price (Closing price on the preceding day in won)	262,500	262,500	262,500	243,500
Expected volatility	13.38%	13.38%	13.38%	16.45%
Expected dividends	3.80%	3.80%	3.80%	3.70%
Exercise price (in won)	246,750	266,490	287,810	254,120
Per share fair value of the option (in won)	27,015	20,240	15,480	23,988

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18. Hybrid Bonds

The Company repaid the hybrid bonds during the six-month period ended June 30, 2018 and issued new hybrid bonds at par, and the details are as follows:

(In millions of won)

	Type	Issue date	Maturity date(*1)	Interest rate (%)(*2)	Amount
2-1 Private equity bond securities	Unsecured subordinated coupon bond	2018. 6. 7	2078. 6. 7	3.70	300,000
2-2 Private equity bond securities	Unsecured subordinated coupon bond	2018. 6. 7	2078. 6. 7	3.65	100,000
Issuing cost					(1,241)
					<u>398,759</u>

As there is no contractual obligation to deliver financial assets to the holders of hybrid bonds, the Company classified the hybrid bonds as equity. When in liquidation or bankruptcy, these hybrid bonds are senior only to common stocks.

(*1) The Company may extend the maturity without any notice or announcement.

(*2) The interest rate of the hybrid bonds is determined by applying additional interest on a five-year Korea national bond interest rate. In addition, according to 'Step-up' clause, 0.25%p adds on the rate of return after 10 years from the issuance and another 0.75%p after 25 years from the issue date

19. Retained Earnings

Retained earnings as of June 30, 2018 and December 31, 2017 are as follows:

(In millions of won)

	June 30, 2018	December 31, 2017
Appropriated:		
Legal reserve	₩ 22,320	22,320
Reserve for business expansion	10,531,138	10,171,138
Reserve for technology development	3,321,300	3,071,300
	<u>13,852,438</u>	<u>13,242,438</u>
Unappropriated	2,349,276	1,247,798
	<u>₩ 16,224,034</u>	<u>14,512,556</u>

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20. Reserves

(1) Details of reserves, net of taxes, as of June 30, 2018 and December 31, 2017 are as follows:

(In millions of won)

	<u>June 30, 2018</u>	<u>December 31, 2017</u>
Valuation gain on financial assets at FVOCI	₩ 48,121	-
Valuation gain on available-for-sale financial assets	-	148,873
Valuation loss on derivatives	(80,578)	(70,572)
	<u>₩ (32,457)</u>	<u>78,301</u>

(2) Changes in reserves for the six-month periods ended June 30, 2018 and 2017 are as follows:

(In millions of won)

	<u>Valuation gain (loss) on financial assets at FVOCI</u>	<u>Valuation gain (loss) on available-for-sale financial assets</u>	<u>Valuation gain (loss) on derivatives</u>	<u>Total</u>
Balance at January 1, 2017	₩ -	28,963	(90,756)	(61,793)
Changes, net of taxes	-	99,347	5,804	105,151
Balance at June 30, 2017	-	128,310	(84,952)	43,358
Balance at December 31, 2017	-	148,873	(70,572)	78,301
Impact of adopting K-IFRS No.1109	90,484	(148,873)	-	(58,389)
Balance at January 1, 2018	90,484	-	(70,572)	19,912
Changes, net of taxes	(42,363)	-	(10,006)	(52,369)
Balance at June 30, 2018	<u>₩ 48,121</u>	<u>-</u>	<u>(80,578)</u>	<u>(32,457)</u>

21. Operating revenue

Disaggregation of operating revenues considering the economic factors that affect the amounts, timing and uncertainty of the Company's revenue and future cash flows is as follows:

(In millions of won)

	<u>2018</u>		<u>2017</u>	
	<u>Three-month period ended June 30</u>	<u>Six-month period ended June 30</u>	<u>Three-month period ended June 30</u>	<u>Six-month period ended June 30</u>
Products transferred at a point in time:				
Product sales	₩ 36,694	69,967	42,950	89,543
Services transferred over time:				
Wireless service revenue(*1)	2,497,727	5,066,607	2,697,722	5,359,993
Cellular interconnection revenue	156,064	306,936	144,683	317,352
Other(*2)	251,350	486,863	224,275	430,698
	<u>2,905,141</u>	<u>5,860,406</u>	<u>3,066,680</u>	<u>6,108,043</u>
	<u>₩ 2,941,835</u>	<u>5,930,373</u>	<u>3,109,630</u>	<u>6,197,586</u>

(*1) Wireless service revenue includes revenue from wireless voice and data transmission services principally derived through usage charges paid by the wireless subscribers.

(*2) Other revenue includes revenue from IoT solutions as well as other miscellaneous wireless services.

Most of the Company's transactions are occurring in Korea as it principally operates its businesses in Korea.

22. Other Operating Expenses

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For the six-month periods ended June 30, 2018 and 2017

Details of other operating expenses for the three and six-month periods ended June 30, 2018 and 2017 are as follows:

(In millions of won)

	2018		2017	
	Three-month period ended June 30	Six-month period ended June 30	Three-month period ended June 30	Six-month period ended June 30
Communication	₩ 7,131	14,164	6,121	12,488
Utilities	49,737	107,553	49,921	106,516
Taxes and dues	11,747	15,851	2,802	7,274
Repair	63,298	116,674	56,215	106,772
Research and development	79,973	151,184	73,490	144,739
Training	4,798	11,693	4,447	9,330
Bad debt for accounts receivable - trade	4,107	8,593	7,107	8,352
Other	9,866	21,824	7,594	18,888
	₩ <u>230,657</u>	<u>447,536</u>	<u>207,697</u>	<u>414,359</u>

23. Other Non-operating Income and Expenses

Details of other non-operating income and expenses for the three and six-month periods ended June 30, 2018 and 2017 are as follows:

(In millions of won)

	2018		2017	
	Three-month period ended June 30	Six-month period ended June 30	Three-month period ended June 30	Six-month period ended June 30
Other Non-operating Income:				
Gain on disposal of property and equipment and intangible assets	₩ 886	1,000	552	4,564
Others	3,483	15,494	2,112	4,756
	₩ <u>4,369</u>	<u>16,494</u>	<u>2,664</u>	<u>9,320</u>
Other Non-operating Expenses:				
Loss on disposal of property and equipment and intangible assets	₩ 15,589	15,979	1,895	3,655
Donations	12,211	28,150	18,568	30,694
Bad debt for accounts receivable - other	775	1,498	-	2,177
Others	1,251	2,377	1,387	2,932
	₩ <u>29,826</u>	<u>48,004</u>	<u>21,850</u>	<u>39,458</u>

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24. Finance Income and Costs

- (1) Details of finance income and costs for the three and six-month periods ended June 30, 2018 and 2017 are as follows:

(In millions of won)

	2018		2017	
	Three-month period ended June 30	Six-month period ended June 30	Three-month period ended June 30	Six-month period ended June 30
Finance Income:				
Interest income	₩ 12,690	24,284	9,089	29,397
Gain on sale of accounts receivable - trade	4,390	8,139	4,065	9,090
Dividends	1,676	162,918	1,612	99,423
Gain on foreign currency transactions	5,093	8,469	4,236	5,439
Gain on foreign currency translations	1,588	1,604	1,432	184
Gain relating to financial assets at fair value through profit or loss	700	1,692	-	465
Gain on disposal of long-term investment securities	-	-	91	2,358
Gain on valuation of derivatives	578	897	476	831
	<u>₩ 26,715</u>	<u>208,003</u>	<u>21,001</u>	<u>147,187</u>

(In millions of won)

	2018		2017	
	Three-month period ended June 30	Six-month period ended June 30	Three-month period ended June 30	Six-month period ended June 30
Finance Costs:				
Interest expenses	₩ 57,450	118,383	61,946	123,597
Loss on foreign currency transactions	3,119	8,650	3,362	6,443
Loss on foreign currency translations	1	65	-	490
Loss on disposal of long-term investment securities	-	-	507	556
Loss on settlement of derivatives	12,156	12,156	8,910	8,910
Loss relating to financial assets at fair value through profit or loss	378	578	605	-
Loss relating to financial liabilities at fair value through profit or loss	492	780	198	529
	<u>₩ 73,596</u>	<u>140,612</u>	<u>75,528</u>	<u>140,525</u>

- (2) Details of interest income included in finance income for the three and six-month periods ended June 30, 2018 and 2017 are as follows:

(In millions of won)

	2018		2017	
	Three-month period ended June 30	Six-month period ended June 30	Three-month period ended June 30	Six-month period ended June 30
Interest income on cash equivalents and short-term financial instruments	₩ 4,245	7,639	4,457	7,465
Interest income on installment receivables and others	8,445	16,645	4,632	21,932
	<u>₩ 12,690</u>	<u>24,284</u>	<u>9,089</u>	<u>29,397</u>

24. Finance Income and Costs, Continued

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For the six-month periods ended June 30, 2018 and 2017

- (3) Details of interest expenses included in finance costs for the three and six-month periods ended June 30, 2018 and 2017 are as follows:

(In millions of won)

	2018		2017	
	Three-month period ended June 30	Six-month period ended June 30	Three-month period ended June 30	Six-month period ended June 30
Interest expenses on borrowings	₩ 1,102	2,822	2,578	3,982
Interest expenses on debentures	45,150	90,978	45,654	90,033
Others	11,198	24,583	13,714	29,582
	₩ 57,450	118,383	61,946	123,597

- (4) Details of impairment losses on financial assets for the three and six-month periods ended June 30, 2018 and 2017 are as follows:

(In millions of won)

	2018		2017	
	Three-month period ended June 30	Six-month period ended June 30	Three-month period ended June 30	Six-month period ended June 30
Accounts receivable - trade	₩ 4,107	8,593	7,107	8,352
Other receivables	775	1,498	-	2,177
	₩ 4,882	10,091	7,107	10,529

25. Income Tax Expense

Income tax expense was calculated by considering current tax expense adjusted to changes in estimates related to prior periods, deferred tax expenses by origination and reversal of temporary differences.

26. Earnings per Share

- (1) Basic earnings per share

- 1) Basic earnings per share for the three and six-month periods ended June 30, 2018 and 2017 are calculated as follows:

(In millions of won, shares)

	2018		2017	
	Three-month period ended June 30	Six-month period ended June 30	Three-month period ended June 30	Six-month period ended June 30
Profit for the period	₩ 219,786	584,213	314,050	702,256
Interest on hybrid bond	(8,420)	(8,420)	(8,420)	(8,420)
Profit for the period available for common shares	211,366	575,793	305,630	693,836
Weighted average number of common shares outstanding	70,609,160	70,609,160	70,609,160	70,609,160
Basic earnings per share (in won)	₩ 2,993	8,155	4,328	9,826

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For the six-month periods ended June 30, 2018 and 2017

26. Earnings per Share, Continued

(1) Basic earnings per share, Continued

2) The weighted average number of common shares outstanding for the six-month periods ended June 30, 2018 and 2017 are calculated as follows:

(In shares)

	Number of shares	Weighted number of shares	
		Three-month period ended June 30	Six-month period ended June 30
Issued common shares at January 1, 2018	80,745,711	80,745,711	80,745,711
Effect of treasury shares	(10,136,551)	(10,136,551)	(10,136,551)
Weighted average number of common shares outstanding at June 30, 2018	<u>70,609,160</u>	<u>70,609,160</u>	<u>70,609,160</u>

(In shares)

	Number of shares	Weighted number of shares	
		Three-month period ended June 30	Six-month period ended June 30
Issued common shares at January 1, 2017	80,745,711	80,745,711	80,745,711
Effect of treasury shares	(10,136,551)	(10,136,551)	(10,136,551)
Weighted average number of common shares outstanding at June 30, 2017	<u>70,609,160</u>	<u>70,609,160</u>	<u>70,609,160</u>

(2) Diluted earnings per share

For the six-month periods ended June 30, 2018 and 2017, diluted earnings per share are the same as basic earnings per share as there are no dilutive potential common shares.

27. Categories of Financial Instruments

(1) Financial assets by category as of June 30, 2018 and December 31, 2017 are as follows:

(In millions of won)

	June 30, 2018				
	Financial assets at FVTPL	Equity instruments at FVOCI	Financial assets at amortized cost	Derivatives-hedging instrument	Total
Cash and cash equivalents	₩ -	-	1,055,703	-	1,055,703
Financial instruments	-	-	79,882	-	79,882
Short-term investment securities	47,547	-	-	-	47,547
Long-term investment securities(*)	67,267	597,225	-	-	664,492
Accounts receivable - trade	-	-	1,385,039	-	1,385,039
Loans and other receivables	843,622	-	528,305	-	1,371,927
Derivative financial assets	9,950	-	-	41,908	51,858
	<u>₩ 968,386</u>	<u>597,225</u>	<u>3,048,929</u>	<u>41,908</u>	<u>4,656,448</u>

(*) The Company designated ₩597,225 million of equity instruments that are not held for trading as financial assets measured at FVOCI.

27. Categories of Financial Instruments, Continued

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Notes to the Condensed Separate Interim Financial Statements

For the six-month periods ended June 30, 2018 and 2017

(1) Financial assets by category as of June 30, 2018 and December 31, 2017 are as follows, Continued

(In millions of won)

	December 31, 2017				
	Financial assets at FVTPL	Available-for-sale financial assets	Loans and receivables	Derivatives-hedging instrument	Total
Cash and cash equivalents	₩ -	-	880,583	-	880,583
Financial instruments	-	-	94,382	-	94,382
Short-term investment securities	-	47,383	-	-	47,383
Long-term investment securities	-	724,603	-	-	724,603
Accounts receivable - trade	-	-	1,520,209	-	1,520,209
Loans and other receivables	-	-	1,524,714	-	1,524,714
Derivative financial assets	9,054	-	-	21,554	30,608
	₩ 9,054	771,986	4,019,888	21,554	4,822,482

(2) Financial liabilities by category as of June 30, 2018 and December 31, 2017 are as follows:

(In millions of won)

	June 30, 2018			
	Financial liabilities at FVTPL	Financial liabilities at amortized cost	Derivatives-hedging instrument	Total
Derivative financial liabilities	₩ -	-	1,400	1,400
Borrowings	-	50,816	-	50,816
Debentures(*)	61,058	5,534,189	-	5,595,248
Accounts payable - other and others	-	3,678,706	-	3,678,706
	₩ 61,058	9,263,711	1,400	9,326,170

(*) Debentures classified as financial liabilities at FVTPL as of June 30, 2018 are structured bonds, and they were designated as financial liabilities at FVTPL in order to eliminate a measurement inconsistency with the related derivatives.

(In millions of won)

	December 31, 2017			
	Financial liabilities measured at FVTPL	Financial liabilities measured at amortized cost	Derivatives-hedging instrument	Total
Derivative financial liabilities	₩ -	-	38,510	38,510
Borrowings	-	54,517	-	54,517
Debentures(*)	60,278	5,393,586	-	5,453,864
Accounts payable - other and others	-	4,116,758	-	4,116,758
	₩ 60,278	9,564,861	38,510	9,663,649

(*) Debentures classified as financial liabilities at FVTPL as of December 31, 2017 are structured bonds, and they were designated as financial liabilities at FVTPL in order to eliminate a measurement inconsistency with the related derivatives.

28. Financial Risk Management

(1) Financial risk management

The Company is exposed to credit risk, liquidity risk and market risk. Market risk is the risk related to the changes in market prices, such as foreign exchange rates and interest rates. The Company implements a risk management system to monitor and manage these specific risks.

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Notes to the Condensed Separate Interim Financial Statements

For the six-month periods ended June 30, 2018 and 2017

The Company's financial assets consist of cash and cash equivalents, financial instruments, investment securities, and accounts receivable - trade and other. Financial liabilities consist of accounts payable – other, borrowings, and debentures.

1) Market risk

(i) Currency risk

The Company is exposed to currency risk mainly on exchange fluctuations on forecasted transactions and recognized assets and liabilities which are denominated in a currency other than the functional currency of the Company.

Monetary assets and liabilities denominated in foreign currencies as of June 30, 2018 are as follows:

(In millions of won, thousands of foreign currencies)

	Assets		Liabilities	
	Foreign currencies	Won translation	Foreign currencies	Won translation
USD	107,835	120,958	1,239,448	1,390,289
EUR	9,930	12,879	26	34
JPY	25,428	258	1,100	11
Others	-	724	-	-
		<u>₩ 134,819</u>		<u>₩ 1,390,334</u>

In addition, the Company has entered into cross currency swaps to hedge against currency risk related to foreign currency borrowings and debentures.

As of June 30, 2018, a hypothetical change in exchange rates by 10% would have increased (reduced) the Company's income before income taxes as follows:

(In millions of won)

	<u>If increased by 10%</u>	<u>If decreased by 10%</u>
USD	₩ 11,648	(11,648)
EUR	1,285	(1,285)
JPY	25	(25)
Others	72	(72)
	<u>₩ 13,030</u>	<u>(13,030)</u>

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Notes to the Condensed Separate Interim Financial Statements

For the six-month periods ended June 30, 2018 and 2017

28. Financial Risk Management, Continued

(1) Financial risk management, Continued

1) Market risk, Continued

(ii) Interest rate risk

The interest rate risk of the Company arises from borrowings and debentures. Since the Company's interest bearing assets are mostly fixed-interest bearing assets, the Company's revenue and operating cash flows are not influenced by the changes in market interest rates.

The Company performs various analysis of interest rate risk to reduce interest rate risk and to optimize its financing. To minimize risks arising from changes in interest rates, the Company takes various measures such as refinancing, renewal, alternative financing and hedging.

As of June 30, 2018, floating-rate debentures amount to ₩336,510 million, and the Company has entered into interest rate swaps to hedge interest rate risk related to floating-rate debentures. Therefore, income before income taxes for the six-month period ended June 30, 2018 would not have been affected by the changes in interest rates of floating-rate borrowings and debentures.

2) Credit risk

The maximum credit exposure as of June 30, 2018 and December 31, 2017 are as follows:

(In millions of won)

	<u>June 30, 2018</u>	<u>December 31, 2017</u>
Cash and cash equivalents	₩ 1,055,457	880,541
Financial instruments	79,882	94,382
Investment securities	900	900
Accounts receivable – trade	1,385,039	1,520,209
Loans and other receivables	1,371,927	1,524,714
Derivative financial assets	51,858	30,608
	<u>₩ 3,945,063</u>	<u>4,051,354</u>

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. To manage credit risk, the Company evaluates the credit worthiness of each customer or counterparty considering the party's financial information, its own trading records and other factors. Based on such information, the Company establishes credit limits for each customer or counterparty.

The Company establishes an allowance for doubtful accounts on its estimated losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures and a collective loss component established for groups of similar assets in respect of losses that have been expected to occur. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets. Also, the Company's credit risk can arise from transactions with financial institutions related to its cash and cash equivalents, financial instruments and derivatives. To minimize such risk, the Company has a policy to deal only with financial institutions with high credit ratings. The amount of maximum exposure to credit risk of the Company is the carrying amount of financial assets as of June 30, 2018.

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For the six-month periods ended June 30, 2018 and 2017

28. Financial Risk Management, Continued

(1) Financial risk management, Continued

3) Liquidity risk

The Company's approach to managing liquidity is to ensure that it will always maintain sufficient cash and cash equivalents balances and have enough liquidity through various committed credit lines. The Company maintains enough liquidity within credit lines through active operating activities.

Contractual maturities of financial liabilities as of June 30, 2018 are as follows:

(In millions of won)

	Carrying amount	Contractual cash flows	Less than 1 year	1 - 5 years	More than 5 years
Borrowings(*)	₩ 50,816	54,066	13,870	40,196	-
Debentures(*)	5,595,248	6,936,723	518,236	3,312,462	3,106,025
Accounts payable - other and others	3,678,706	3,811,795	2,630,736	875,098	305,961
	<u>₩ 9,324,770</u>	<u>10,802,584</u>	<u>3,162,842</u>	<u>4,227,756</u>	<u>3,411,986</u>

The Company does not expect that the cash flows included in the maturity analysis could occur significantly earlier or at different amounts.

(*) Includes interest payables.

As of June 30, 2018, periods in which cash flows from cash flow hedge derivatives are expected to occur are as follows:

(In millions of won)

	Carrying amount	Contractual cash flows	Less than 1 year	1 - 5 years	More than 5 years
Assets	₩ 41,908	37,108	19,539	49,125	(31,556)
Liabilities	(1,400)	(1,473)	(94)	(1,379)	-
	<u>₩ 40,508</u>	<u>35,635</u>	<u>19,445</u>	<u>47,746</u>	<u>(31,556)</u>

(2) Capital management

The Company manages its capital to ensure that it will be able to continue as a business while maximizing the return to shareholders through the optimization of its debt and equity structure. The overall capital management strategy of the Company is the same as that of the Company as of and for the year ended December 31, 2017.

The Company monitors its debt-equity ratio as a capital management indicator. This ratio is calculated as total liabilities divided by total equity both from the financial statements.

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For the six-month periods ended June 30, 2018 and 2017

28. Financial Risk Management, Continued

(2) Capital management, Continued

Debt-equity ratio as of June 30, 2018 and December 31, 2017 are as follows:

(In millions of won)

		<u>June 30, 2018</u>	<u>December 31, 2017</u>
Total liabilities	₩	10,390,293	10,550,131
Total equity		16,607,159	15,007,391
Debt-equity ratios		62.57%	70.30%

(3) Fair value

1) Fair value and carrying amount of financial assets and liabilities including fair value hierarchy as of June 30, 2018 are as follows:

(In millions of won)

	<u>Carrying amount</u>	<u>June 30, 2018</u>			<u>Total</u>
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Financial assets that are measured at fair value:					
FVTPL	₩ 968,386	-	901,119	67,267	968,386
Derivative financial assets	41,908	-	41,908	-	41,908
FVOCI	597,225	530,850	-	66,375	597,225
	<u>₩ 1,607,519</u>	<u>530,850</u>	<u>943,027</u>	<u>133,642</u>	<u>1,607,519</u>
Financial liabilities that are measured at fair value:					
FVTPL	₩ 61,058	-	61,058	-	61,058
Derivative financial liabilities	1,400	-	1,400	-	1,400
	<u>₩ 62,458</u>	<u>-</u>	<u>62,458</u>	<u>-</u>	<u>62,458</u>
Financial liabilities that are not measured at fair value:					
Borrowings	₩ 50,816	-	51,426	-	51,426
Debentures	5,534,190	-	5,835,986	-	5,835,986
Long-term payables - other	1,339,874	-	1,423,929	-	1,423,929
	<u>₩ 6,924,880</u>	<u>-</u>	<u>7,311,341</u>	<u>-</u>	<u>7,311,341</u>

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28. Financial Risk Management, Continued

(3) Fair value, Continued

2) Fair value and carrying amount of financial assets and liabilities including fair value hierarchy as of December 31, 2017 are as follows:

(In millions of won)

	Carrying amount	December 31, 2017			Total
		Level 1	Level 2	Level 3	
Financial assets that are measured at fair value:					
Financial assets at fair value through profit or loss	₩ 9,054	-	9,054	-	9,054
Derivative financial assets	21,554	-	21,554	-	21,554
Available-for-sale financial assets	636,642	586,713	47,383	2,546	636,642
	<u>₩ 667,250</u>	<u>586,713</u>	<u>77,991</u>	<u>2,546</u>	<u>667,250</u>
Financial liabilities that are measured at fair value:					
Financial liabilities at fair value through profit or loss	₩ 60,278	-	60,278	-	60,278
Derivative financial liabilities	38,510	-	38,510	-	38,510
	<u>₩ 98,788</u>	<u>-</u>	<u>98,788</u>	<u>-</u>	<u>98,788</u>
Financial liabilities that are not measured at fair value:					
Borrowings	₩ 54,517	-	55,131	-	55,131
Debentures	5,393,586	-	5,647,638	-	5,647,638
Long-term payables - other	1,630,381	-	1,749,132	-	1,749,132
	<u>₩ 7,078,484</u>	<u>-</u>	<u>7,451,901</u>	<u>-</u>	<u>7,451,901</u>

The above information does not include fair values of financial liabilities of which fair values have not been measured as carrying amounts are reasonable approximation of fair values.

Available-for-sale financial assets amounting to ₩135,344 million as of December 31, 2017 are measured at cost in accordance with K-IFRS 1039 since they are equity instruments which do not have quoted price in an active market for the identical instruments and for which fair value cannot be reliably measured using other valuation methods.

Fair value of the financial instruments classified as financial assets at FVOCI that are traded in an active market is measured based on the bid price at the end of the reporting date.

The Company uses various valuation methods for determination of fair value of financial instruments that are not traded in an active market. Derivative financial contracts and long-term liabilities are measured using the discounted present value methods. Other financial assets are determined using the methods such as discounted cash flow and market approach. Inputs used to such valuation methods include swap rate, interest rate, and risk premium, and the Company performs valuation using the inputs which are consistent with natures of assets and liabilities measured.

SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

For the six-month periods ended June 30, 2018 and 2017

28. Financial Risk Management, Continued

(3) Fair value, Continued

Interest rates used by the Company for the fair value measurement as of June 30, 2018 are as follows:

	<u>Interest rate</u>
Derivative instruments	1.47% ~ 2.83%
Borrowings and debentures	2.51% ~ 2.53%
Long-term payables - other	2.23% ~ 2.58%

3) There have been no transfers between Level 2 to Level 1 for the six-month period ended June 30, 2018. Changes of financial assets classified as Level 3 for the six-month period ended June 30, 2018 are as follows:

(In millions of won)

	<u>Balance at January 1, 2018</u>	<u>Impact of adopting K-IFRS No. 1109</u>	<u>Gain or loss for the period</u>	<u>OCI</u>	<u>Acquisition</u>	<u>Disposal</u>	<u>Balance at June 30, 2018</u>
Available-for-sale financial assets	₩ 2,546	(2,546)	-	-	-	-	-
FVTPL	-	71,139	1	-	90	(3,963)	67,267
FVOCI	-	67,804	-	-	900	(2,329)	66,375
	₩ <u>2,546</u>	<u>136,397</u>	<u>1</u>	<u>-</u>	<u>990</u>	<u>(6,292)</u>	<u>133,642</u>

(4) Enforceable master netting agreement or similar agreement

Carrying amount of financial instruments recognized of which offset agreements are applicable as of June 30, 2018 and December 31, 2017 are as follows:

(In millions of won)

	<u>June 30, 2018</u>				
	<u>Gross financial instruments recognized</u>	<u>Amount offset</u>	<u>Net financial instruments presented on the statement of financial position</u>	<u>Relevant financial instruments not offset</u>	<u>Net amount</u>
Financial assets:					
Derivatives(*)	₩ 51,858	-	51,858	(1,400)	50,458
Accounts receivable – trade and others	90,758	(90,688)	70	-	70
	₩ <u>142,616</u>	<u>(90,688)</u>	<u>51,928</u>	<u>(1,400)</u>	<u>50,528</u>
Financial liabilities:					
Derivatives(*)	₩ 1,400	-	1,400	(1,400)	-
Accounts payable – other and others	90,688	(90,688)	-	-	-
	₩ <u>92,088</u>	<u>(90,688)</u>	<u>1,400</u>	<u>(1,400)</u>	<u>-</u>

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For the six-month periods ended June 30, 2018 and 2017

28. Financial Risk Management, Continued

(4) Enforceable master netting agreement or similar agreement, Continued

Carrying amount of financial instruments recognized of which offset agreements are applicable as of June 30, 2018 and December 31, 2017 are as follows, Continued:

(In millions of won)

	December 31, 2017				
	Gross financial instruments recognized	Amount offset	Net financial instruments presented on the statement of financial position	Relevant financial instruments not offset	Net amount
Financial assets:					
Derivatives(*)	₩ 26,297	-	26,297	(19,781)	6,516
Accounts receivable – trade and others	88,901	(88,301)	600	-	600
	<u>₩ 115,198</u>	<u>(88,301)</u>	<u>26,897</u>	<u>(19,781)</u>	<u>7,116</u>
Financial liabilities:					
Derivatives(*)	₩ 19,781	-	19,781	(19,781)	-
Accounts payable – other and others	88,301	(88,301)	-	-	-
	<u>₩ 108,082</u>	<u>(88,301)</u>	<u>19,781</u>	<u>(19,781)</u>	<u>-</u>

(*) The balance represents the net amount under the standard terms and conditions of International Swap and Derivatives Association.

SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

For the six-month periods ended June 30, 2018 and 2017

29. Related Parties and Others

(1) List of related parties

Relationship	Company
Ultimate Controlling Entity	SK Holdings Co., Ltd.
Subsidiaries	SK Planet Co., Ltd. and 41 others(*)
Joint ventures	Dogus Planet, Inc. and 2 others
Associates	SK Hynix Inc. and 38 others
Others	The Ultimate Controlling Entity's other subsidiaries and associates, etc.

(*) As of June 30, 2018, subsidiaries of the Company are as follows:

Company	Ownership percentage(%)(*1)	Types of business
Subsidiaries owned by the Company	SK Telink Co., Ltd.	100.0 Telecommunication and MVNO(Mobile Virtual Network Operator) service
	SK Communications Co., Ltd.	100.0 Internet website services
	SK Broadband Co., Ltd.	100.0 Telecommunication services
	PS&Marketing Corporation	100.0 Communications device retail business
	SERVICEACE Co., Ltd.	100.0 Customer center management service
	SERVICE TOP Co., Ltd.	100.0 Customer center management service
	Network O&S Co., Ltd.	100.0 Base station maintenance service
	SK Telecom China Holdings Co., Ltd.	100.0 Investment
	SK Global Healthcare Business Group Ltd.	100.0 Investment
	SKT Vietnam PTE. Ltd.	73.3 Telecommunication services
	YTK Investment Ltd.	100.0 Investment
	Atlas Investment	100.0 Investment
	SKT Americas, Inc.	100.0 Information gathering and consulting
	SK techx Co., Ltd.	100.0 System software development and supply
	One Store Co., Ltd.	65.5 Telecommunication services
	SK Planet Co., Ltd.	98.1 Telecommunication services
	IRIVER LIMITED	45.9 Manufacturing of media and audio equipment
	FSK L&S Co., Ltd.(*2)	60.0 Freight forwarding and logistics consulting
	SK Telecom Japan Inc.(*3)	100.0 Information gathering and consulting
	id Quantique SA(*4)	58.1 Quantum information and communications service
Subsidiaries owned by SK Planet Co., Ltd.	SK m&service Co.,Ltd.	100.0 Database and internet website service
	SK Planet Japan, K. K.	79.5 Digital contents sourcing service
	SK Planet Global PTE. Ltd.	100.0 Digital contents sourcing service
	SKP GLOBAL HOLDINGS PTE. LTD.	100.0 Investment
	SKP America LLC.	100.0 Digital contents sourcing service
	shopkick Management Company, Inc.	100.0 Investment
	shopkick, Inc.	100.0 Reward points-based in-store shopping app development
Subsidiaries owned by IRIVER LIMITED	iriver Enterprise Ltd.	100.0 Management of Chinese subsidiaries
	iriver Inc.	100.0 Sales and marketing in North America
	iriver China Co., Ltd.	100.0 Sales and manufacturing of MP3 and 4 in China
	Dongguan iriver Electronics Co., Ltd.	100.0 Sales and Manufacturing of e-book in China
	groovers Japan Co., Ltd.	100.0 Digital music contents sourcing and distribution service
	S.M. LIFE DESIGN COMPANY JAPAN INC.	100.0 Selling of goods in Japan
	S.M. Mobile Communications JAPAN Inc.	100.0 Digital contents service
	groovers Inc.(*5)	100.0 Selling of contents and MQS album
Subsidiaries owned by SK Telink Co., Ltd.	NSOK Co., Ltd.	100.0 Security systems service
Subsidiaries owned by SK techx Co., Ltd.	K-net Culture and Contents Venture Fund	59.0 Capital investing in startups

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Notes to the Condensed Separate Interim Financial Statements

For the six-month periods ended June 30, 2018 and 2017

29. Related Parties and Others, Continued

(1) List of related parties, Continued

Subsidiaries owned by SK Broadband Co., Ltd.	Home & Service Co., Ltd.	100.0	Operation of information and communication facility
	SK stoa Co., Ltd.	100.0	Other telecommunication retail business
Subsidiary owned by FSK L&S Co., Ltd.	FSK L&S(Shanghai) Co.,Ltd.(*3)	66.0	Transportation services
Others(*6)	SK Telecom Innovation Fund, L.P.	100.0	Investment
	SK Telecom China Fund I L.P.	100.0	Investment

(*1) The ownership interest represents direct ownership interest in subsidiaries either by the Parent Company or subsidiaries of the Parent Company.

(*2) FSK L&S Co., Ltd. was acquired from SK Holdings Co., Ltd., the Ultimate Controlling Entity, during the six-month period ended June 30, 2018.

(*3) SK Telecom Japan Inc. was established during the six-month period ended June 30, 2018.

(*4) The Company additionally acquired shares of id Quantique SA during the six-month ended June 30, 2018 and reclassified the investee as the investment in subsidiaries.

(*5) groovers Inc. became one of the subsidiaries of IRIVER LIMITED as a result of the acquisition of additional ownership interests during the six-month period ended June 30, 2018.

(*6) Others are owned together by Atlas Investment and one other subsidiary of the Parent Company.

For the periods presented, the Company belongs to SK Group, a conglomerate as defined in the *Monopoly Regulation and Fair Trade Act of the Republic of Korea*. All of the other entities included in SK Group are considered related parties of the Company.

(2) Compensation to the key management personnel

The Company considers registered directors (3 inside and 5 outside directors) who have substantial role and responsibility in planning, operations, and relevant controls of the business as key management personnel. The compensation given to such key management personnel for the three and six-month periods ended June 30, 2018 and 2017 are as follows:

(In millions of won)

	2018		2017	
	For the period ended June 30			
	Three-month	Six-month	Three-month	Six-month
Salaries	₩ 479	3,216	331	1,499
Defined benefits plan expenses	121	678	85	92
Share option	137	271	133	145
	₩ 737	4,165	549	1,736

Compensation for the key management personnel includes salaries, non-monetary salaries, and retirement benefits made in relation to the pension plan and compensation expenses related to share options granted.

SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

For the six-month periods ended June 30, 2018 and 2017

29. Related Parties and Others, Continued

(3) Transactions with related parties for the six-month periods ended June 30, 2018 and 2017 are as follows:

(In millions of won)

Scope	Company		2018					
			For the period ended June 30					
			Operating revenue and others		Operating expense and others		Acquisition of property and equipment	
			Three-month	Six-month	Three-month	Six-month	Three-month	Six-month
Ultimate Controlling Entity Subsidiaries	SK Holdings Co., Ltd.(*1)	₩	2,913	5,811	72,688	331,970	5,242	6,768
	SK Broadband Co., Ltd.		27,789	57,718	133,266	263,650	4,347	4,347
	PS&Marketing Corporation(*2)		2,804	6,054	370,845	737,902	-	62
	Network O&S Co., Ltd.		1,062	2,054	58,825	105,867	10,050	10,050
	SK Planet Co., Ltd.		8,043	14,391	6,631	14,023	167	167
	SK Telink Co., Ltd.		14,443	29,133	5,771	11,226	-	-
	Service Ace Co., Ltd.		1,935	3,868	32,083	65,292	-	-
	Service Top Co., Ltd.		2,148	4,292	39,511	79,317	-	-
	SK techx Co., Ltd		1,177	2,561	38,075	84,297	810	1,282
	Others		6,306	12,571	9,700	21,479	809	2,653
			<u>65,707</u>	<u>132,642</u>	<u>694,707</u>	<u>1,383,053</u>	<u>16,183</u>	<u>18,561</u>
Associates	F&U Credit information Co., Ltd.		394	788	11,796	23,257	-	-
	HappyNarae Co., Ltd.		30	53	2,060	4,784	17,132	21,254
	SK hynix Inc.(*3)		4,929	156,893	178	206	-	-
	KEB HanaCard Co., Ltd.		4,906	8,938	8,286	12,317	-	-
	Others(*4)		292	2,259	5,130	18,134	123	123
			<u>10,551</u>	<u>167,255</u>	<u>27,450</u>	<u>58,698</u>	<u>17,255</u>	<u>21,377</u>
Other	SK Engineering & Construction Co., Ltd.		1,409	1,958	134	134	-	-
	SK Innovation Co., Ltd.		2,165	4,168	338	519	-	-
	SK Networks Co., Ltd.		3,064	5,805	3,244	7,679	67	67
	SK Networks service Co., Ltd.		164	316	11,174	22,860	1,554	1,560
	SK Telesys Co., Ltd.		55	103	232	439	20,933	27,198
	SK TNS Co., Ltd.		25	50	6,364	6,757	77,018	89,167
	SK energy Co., Ltd		746	1,333	141	145	-	-
	SKC Infra Services Co., Ltd		29	33	2,067	4,470	-	506
	SK Infosec Co., Ltd		74	76	8,456	15,116	1,084	1,121
	Others		2,770	5,759	1,437	2,485	-	-
			<u>10,501</u>	<u>19,601</u>	<u>33,587</u>	<u>60,604</u>	<u>100,656</u>	<u>119,619</u>
		₩	<u>89,672</u>	<u>326,985</u>	<u>828,432</u>	<u>1,834,325</u>	<u>139,336</u>	<u>166,325</u>

SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

For the six-month periods ended June 30, 2018 and 2017

29. Related Parties and Others, Continued

(3) Transactions with related parties for the six-month periods ended June 30, 2018 and 2017 are as follows, Continued:

(*1) Operating expenses and others include ₩183,271 million of dividends declared by the Company.

(*2) Operating expenses and others include ₩426,952 million paid to PS&Marketing Corporation relating to purchase of accounts receivables resulting from sale of handsets.

(*3) Operating revenue and others include ₩146,100 million of dividends income accrued.

(*4) Operating revenue and others include ₩1,676 million of dividends income accrued from Korea IT Fund and UniSK.

(In millions of won)

Scope	Company	2017					
		For the period ended June 30					
		Operating revenue and others		Operating expense and others		Acquisition of property and equipment	
		Three-month	Six-month	Three-month	Six-month	Three-month	Six-month
Ultimate Controlling Entity Subsidiaries	SK Holdings Co., Ltd.(*1)	₩ 2,143	4,823	80,370	330,279	35,924	61,010
	SK Broadband Co., Ltd.	28,785	56,271	132,072	277,189	2,776	2,864
	PS&Marketing Corporation(*2)	3,104	7,154	349,163	686,367	480	480
	Network O&S Co., Ltd.	1,171	1,929	56,185	108,173	1,902	4,421
	SK Planet Co., Ltd.	6,944	14,063	5,748	11,509	36	36
	SK Telink Co., Ltd.	16,105	30,578	4,566	9,051	-	-
	Service Ace Co., Ltd.	1,992	3,968	32,622	65,317	-	-
	Service Top Co., Ltd.	2,115	4,244	34,136	68,462	-	-
	SK techx Co., Ltd	295	1,078	46,335	94,097	282	282
	Others	7,388	14,159	8,079	19,842	881	935
		<u>67,899</u>	<u>133,444</u>	<u>668,906</u>	<u>1,340,007</u>	<u>6,357</u>	<u>9,018</u>
Associates	F&U Credit information Co., Ltd.	414	820	10,626	22,864	37	37
	HappyNarae Co., Ltd.	3	3	2,398	7,987	10,230	12,482
	SK hynix Inc.(*3)	5,849	97,369	182	213	-	-
	KEB HanaCard Co., Ltd.	4,577	9,174	3,714	7,400	43	43
	Others(*4)	1,901	2,188	4,420	25,489	151	151
		<u>12,744</u>	<u>109,554</u>	<u>21,340</u>	<u>63,953</u>	<u>10,461</u>	<u>12,713</u>
Other	SK Engineering & Construction Co., Ltd.	1,724	2,342	141	141	-	-
	SK Innovation Co., Ltd.	1,407	2,943	309	490	-	-
	SK Networks Co., Ltd.	4,527	7,313	4,146	8,260	281	281
	SK Networks service Co., Ltd.	-	-	5,974	17,819	302	302
	SK Telesys Co., Ltd.	28	83	473	719	18,843	27,563
	SK TNS Co., Ltd.	24	49	6,146	6,393	49,437	65,054
	Others	2,513	4,660	11,864	23,489	2,025	2,100
		<u>10,223</u>	<u>17,390</u>	<u>29,053</u>	<u>57,311</u>	<u>70,888</u>	<u>95,300</u>
Total	₩	<u>93,009</u>	<u>265,211</u>	<u>799,669</u>	<u>1,791,550</u>	<u>123,630</u>	<u>178,041</u>

29. Related Parties and Others, Continued

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For the six-month periods ended June 30, 2018 and 2017

(3) Transactions with related parties for the six-month periods ended June 30, 2018 and 2017 are as follows, Continued:

(*1) Operating expenses and others include ₩183,271 million of dividends declared by the Company.

(*2) Operating expenses and others include ₩330,097 million paid to PS&Marketing Corporation relating to purchase of accounts receivables resulting from sale of handsets.

(*3) Operating revenue and others include ₩87,660 million of dividends income accrued.

(*4) Operating revenue and others include ₩1,403 million of dividends income accrued from Korea IT Fund and UniSK.

(4) Account balances with related parties as of June 30, 2018 and December 31, 2017 are as follows:

(In millions of won)

Scope		Company	June 30, 2018		
			Accounts receivable		Accounts payable
			Loans	Accounts receivable-trade and others	Accounts payable - other and others
Ultimate Entity	Controlling Subsidiaries	SK Holdings Co., Ltd.	₩ -	1,450	31,293
		SK Broadband Co., Ltd.	-	8,166	45,975
		PS&Marketing Corporation	-	123	75,268
		Network O&S Co., Ltd.	-	213	34,976
		SK Planet Co., Ltd.	-	4,623	15,235
		SK Telink Co., Ltd.	-	9,188	4,209
		SERVICE ACE Co., Ltd.	-	60	19,377
		SERVICE TOP Co., Ltd.	-	141	21,140
		SK techx Co., Ltd.	-	427	24,761
		One Store Co., Ltd.	-	979	24,254
		SK m&service Co.,Ltd.	-	3,421	4,999
		Others	-	329	11,372
				-	27,670
Associates		HappyNarae Co., Ltd.	-	8	1,620
		SK hynix Inc.	-	1,769	181
		Wave City Development Co., Ltd.(*)	-	37,263	-
		Daehan Kanggun BcN Co., Ltd.(*)	22,147	-	-
		KEB HanaCard Co., Ltd.	-	3,475	10,863
		F&U Credit InformationCo., Ltd.	-	74	1,258
		Others	611	3,459	336
		22,758	46,048	14,258	
Other		SK Engineering and Construction Co., Ltd.	-	97	147
		SK Networks Co., Ltd.	-	1,731	396
		SK Networks Services Co., Ltd.	-	11	9,321
		SK Telesys Co., Ltd.	-	27	2,150
		SK Innovation Co., Ltd.	-	2,323	338
		SK TNS Co., Ltd.	-	8	36,763
		Others	-	1,801	9,548
		-	5,998	58,663	
Total		₩ 22,758	81,166	385,780	

29. Related Parties and Others, Continued

(4) Account balances with related parties as of June 30, 2018 and December 31, 2017 are as follows, Continued:

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Notes to the Condensed Separate Interim Financial Statements

For the six-month periods ended June 30, 2018 and 2017

(*) As of June 30, 2018, the Company recognized the entire balance of loans and accounts receivable as loss allowances.

(In millions of won)

Scope		Company	December 31, 2017			
			Accounts receivable		Accounts payable	
			Loans	Accounts receivable-trade and others	Accounts payable - other and others	
Ultimate Controlling Entity	Subsidiaries	SK Holdings Co., Ltd.	₩ -	1,819	82,456	
		SK Broadband Co., Ltd.	-	12,458	117,262	
		PS&Marketing Corporation	-	335	116,333	
		Network O&S Co., Ltd.	-	611	52,507	
		SK Planet Co., Ltd.	-	4,232	14,487	
		SK Telink Co., Ltd.	-	8,626	4,119	
		SERVICE ACE Co., Ltd.	-	252	24,432	
		SERVICE TOP Co., Ltd.	-	136	26,625	
		SK techx Co., Ltd.	-	1,273	22,722	
		One Store Co., Ltd.	-	226	23,210	
		SK m&service Co.,Ltd.	-	5,967	6,096	
		Others	-	2,059	17,860	
				-	36,175	425,653
		Associates	HappyNarae Co., Ltd.	-	8	1,305
SK hynix Inc.	-		2,803	94		
Wave City Development Co., Ltd.	-		38,412	-		
Daehan Kanggun BcN Co., Ltd.(*)	22,147		-	-		
KEB HanaCard Co., Ltd.	-		1,427	11,080		
S.M. Culture & Contents Co.,Ltd.	-		77	4,559		
Others	611		1,928	2,443		
	22,758		44,655	19,481		
Other	SK Engineering and Construction Co., Ltd.	-	1,413	69		
	SK Networks Co., Ltd.	-	2,279	1,469		
	SK Networks Services Co., Ltd.	-	14	8,646		
	SK Telesys Co., Ltd.	-	26	397		
	SK Innovation Co., Ltd.	-	2,530	564		
	SK TNS Co., Ltd.	-	-	133,220		
	Others	-	1,884	14,016		
		-	8,146	158,381		
Total	₩	22,758	90,795	685,971		

(*) As of December 31, 2017, the Company recognized the entire balance of loans to Daehan Kanggun BcN Co., Ltd. as loss allowances.

30. Commitments and Contingencies

(1) Accounts receivables from sale of handsets

The sales agents of the Company sell handsets to the Company's subscribers on an installment basis. During the six-month period ended June 30, 2018, the Company entered into a comprehensive agreement to purchase the accounts

SK TELECOM CO., LTD.

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For the six-month periods ended June 30, 2018 and 2017

receivables from handset sales with agents and to transfer the accounts receivables from handset sales to special purpose companies which were established with the purpose of liquidating receivables, respectively.

The accounts receivables from sale of handsets amounting to ₩935,773 million as of June 30, 2018 which the Company purchased according to the relevant comprehensive agreement are recognized as accounts receivable – other and long-term accounts receivable – other.

(2) Legal claims and litigations

As of June 30, 2018, the Company is involved in various legal claims and litigation. Provision recognized in relation to these claims and litigation is immaterial. In connection with those legal claims and litigation for which no provision was recognized, management does not believe the Company has a present obligation, nor is it expected any of these claims or litigation will have a significant impact on the Company's financial position or operating results in the event an outflow of resources is ultimately necessary.

(3) Siren Holdings Korea Co., Ltd. stock purchase contract

On May 8, 2018, the Company entered into a contract to acquire 740,895 shares of Siren Holdings Korea Co., Ltd. at ₩702,000 million in cash in order to strengthen the security business and expand residential customer base. This contract requires Siren Holdings Korea Co., Ltd. to merge Siren Investments Korea Co., Ltd. which wholly owns ADT Caps Co., Ltd. as a prerequisite. At the conclusion of this acquisition, the Company expects to own 55% ownership interests in Siren Holdings Korea Co., Ltd. and will obtain control over ADT Caps Co., Ltd. The transaction is subject to government's approval, and terms and conditions of the contract may change in the course of obtaining approval and application of laws related to the approval, and the acquisition price may also change upon the price adjustment at the transaction date.

Blue Security Investments, LLC. will purchase 45% ownership of Siren Holdings Korea Co., Ltd. at the conclusion of transaction, and, according to the agreement with the shareholders along with the contract, the entire shares will be converted to cumulative and participating convertible preferred stocks as soon as possible. The holders of the convertible preferred stock can exercise the same voting right as the holders of the common stock. The convertible preferred stock has 1-to-1 conversion ratio to common stock without restriction and empowers the holders a right of priority to the dividends at 2% of their investments.

SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

For the six-month periods ended June 30, 2018 and 2017

31. Statements of Cash Flows

(1) Adjustments for income and expenses not involving cash flows for the six-month periods ended June 30, 2018 and 2017 are as follows:

(In millions of won)

	For the six-month period ended	
	June 30, 2018	June 30, 2017
Gain on foreign currency translations	₩ (1,604)	(184)
Interest income	(24,284)	(29,397)
Dividends	(162,918)	(99,423)
Gain relating to financial assets at FVTPL	(1,692)	(465)
Gain on disposal of long-term investment securities	-	(2,358)
Gain on disposal of property and equipment and intangible assets	(1,000)	(4,564)
Gain on valuation of derivatives	(897)	(831)
Gain on sale of accounts receivable - other	(8,139)	(9,090)
Other incomes	(72)	-
Loss on foreign currency translations	65	490
Bad debt for accounts receivable - trade	8,593	8,352
Bad debt for accounts receivable - other	1,498	2,177
Loss on disposal of long-term investments securities	-	556
Loss relating to financial assets at FVTPL	578	-
Depreciation and amortization	1,253,390	1,234,386
Loss on disposal of property and equipment and intangible assets	15,979	3,655
Interest expenses	118,383	123,597
Loss relating to financial liabilities at FVTPL	780	529
Loss on valuation of derivatives	12,156	8,910
Loss on investments in subsidiaries and associates	-	15,305
Retirement benefit expenses	19,699	19,282
Share option	289	145
Income tax expense	189,204	160,707
Other expenses	-	162
	₩ 1,420,008	1,431,941

SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

For the six-month periods ended June 30, 2018 and 2017

31. Statements of Cash Flows, Continued

(2) Changes in assets and liabilities from operating activities for the six-month periods ended June 30, 2018 and 2017 are as follows:

(In millions of won)

	For the six-month period ended	
	June 30, 2018	June 30, 2017
Accounts receivable - trade	₩ 114,762	(17,610)
Accounts receivable - other	147,405	40,005
Advance payments	6,646	16,066
Prepaid expenses	37,135	3,455
Inventories	4,633	150
Long-term accounts receivable - other	37,042	42,280
Guarantee deposits	(8,519)	7,057
Contract assets	(6,293)	-
Accounts payable - other	(170,167)	(344,948)
Advanced receipts	-	(5,059)
Withholdings	55,763	103,082
Deposits received	(674)	(4,283)
Accrued expenses	(156,883)	(51,087)
Unearned revenue	-	(349)
Provisions	(3,761)	(129)
Long-term provisions	1,580	(3,601)
Plan assets	6,642	4,034
Retirement benefit payment	(5,886)	(5,599)
Contract liabilities	14,436	-
Others	(3,346)	(30)
	<u>₩ 70,515</u>	<u>(216,566)</u>

(3) Significant non-cash transactions for the six-month periods ended June 30, 2018 and 2017 are as follows:

(In millions of won)

	June 30, 2018	June 30, 2017
Decrease in accounts payable - other relating to the acquisition of property and equipment and intangible assets	(292,135)	(317,987)

SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

For the six-month periods ended June 30, 2018 and 2017

32. Subsequent Events

(1) Interim dividend

The board of directors of the Company resolved to pay the interim dividend at the board meeting on July 26, 2018, and the details are as follows:

Interim dividend amount	₩1,000 per share (Total amount: ₩70,609 million)
Dividend rate	0.4%
Dividend date	June 30, 2018
Date of distribution	According to Article 464 Commercial Act 2-1, the Company is to distribute dividends by August 26, 2018.

(2) Paid-in capital increase of subsidiaries

IRVIER LIMITED, one of the Company's subsidiaries, resolved to increase its capital by allocating new issue of common shares to third parties with cash consideration of ₩70,000 million at the board of directors' meeting on July 26, 2018, and is to issue 7,990,867 common shares accordingly. In connection with this capital increase, the Company invested ₩65,000 million in cash and acquired 7,420,091 common shares of IRIVER LIMITED on August 10, 2018, which increased its ownership over IRIVER LIMITED from 45.9% to 53.7%.