

SK TELECOM CO., LTD.

Condensed Separate Interim Financial Statements

(Unaudited)

September 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 September 30, 2018, the condensed separate statements of income and comprehensive income for the three and nine-month periods ended September 30, 2018 and 2017, the condensed separate statements of changes in equity and cash flows for the nine-month periods ended September 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 and for the three and nine-month period ended September 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
November 9, 2018

<p>This report is effective as of November 9, 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>

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

As of September 30, 2018 and December 31, 2017

(In millions of won)

	<u>Note</u>	<u>September 30, 2018</u>	<u>December 31, 2017</u>
Assets			
Current Assets:			
Cash and cash equivalents	3,27,28 ₩	1,058,447	880,583
Short-term financial instruments	3,27,28	79,000	94,000
Short-term investment securities	3,6,27,28	47,690	47,383
Accounts receivable - trade, net	3,4,27,28,29	1,842,565	1,520,209
Short-term loans, net	3,4,27,28,29	65,449	54,403
Accounts receivable - other, net	3,4,27,28,29,30	648,083	1,003,509
Accrued income	3,4,27,28	608	659
Contract assets	3,15	1,706	-
Advanced payments		9,819	13,783
Prepaid expenses	3,5	1,736,993	121,121
Inventories, net		25,788	29,837
Others		1,281	2,611
Total Current Assets		<u>5,517,429</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	484,422	724,603
Investments in subsidiaries, associates and joint ventures	7	9,455,991	9,152,321
Property and equipment, net	8,29	6,335,895	6,923,133
Goodwill		1,306,236	1,306,236
Intangible assets, net	9	2,702,465	3,089,545
Long-term loans, net	3,4,27,28,29	7,617	7,512
Long-term accounts receivable - other	3,4,27,28,30	315,672	285,118
Long-term contract assets	3,15	5,902	-
Long-term prepaid expenses	3,5	709,751	25,169
Guarantee deposits	3,4,27,28,29	183,978	173,513
Long-term derivative financial assets	3,13,27,28	33,167	30,608
Deferred tax assets	3,25	-	30,953
Defined benefit assets	14	5,989	40,082
Other non-current assets		249	249
Total Non-Current Assets		<u>21,547,716</u>	<u>21,789,424</u>
Total Assets	₩	<u>27,065,145</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 September 30, 2018 and December 31, 2017

(In millions of won)

	<u>Note</u>	<u>September 30, 2018</u>	<u>December 31, 2017</u>
Liabilities and Shareholders' Equity			
Current Liabilities:			
Accounts payable - other	27,28,29	₩ 1,100,786	1,664,054
Receipts in advance	3	-	76,126
Contract liabilities	3,15	43,323	-
Withholdings	3,27,28	522,457	517,991
Accrued expenses	27,28	714,598	790,368
Income tax payable	25	140,990	206,060
Unearned revenue	3	-	3,705
Derivative financial liabilities	13,27,28	-	27,791
Provisions	12	45,834	48,508
Current installments of long-term debt, net	10,27,28	432,383	1,131,047
Current installments of long-term payables - other	11,27,28	300,414	301,751
Total Current Liabilities		<u>3,300,785</u>	<u>4,767,401</u>
Non-Current Liabilities:			
Debentures, excluding current installments, net	10,27,28	5,374,962	4,334,848
Long-term borrowings, excluding current installments, net	10,27,28	37,878	42,486
Long-term payables - other	11,27,28	1,045,208	1,328,630
Long-term contract liabilities	3,15	7,538	-
Long-term unearned revenue	3	-	7,033
Long-term derivative financial liabilities	13,27,28	1,655	10,719
Long-term provisions	12	15,813	16,178
Deferred tax liabilities	3,25	526,243	-
Other non-current liabilities	27,28	43,247	42,836
Total Non-Current Liabilities		<u>7,052,544</u>	<u>5,782,730</u>
Total Liabilities		<u>10,353,329</u>	<u>10,550,131</u>
Shareholders' Equity:			
Share capital	1,16	44,639	44,639
Capital surplus and others	16,17,18	371,095	371,895
Retained earnings	19	16,317,319	14,512,556
Reserves	20	(21,237)	78,301
Total Shareholders' Equity		<u>16,711,816</u>	<u>15,007,391</u>
Total Liabilities and Shareholders' Equity	₩	<u>27,065,145</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 nine-month periods ended September 30, 2018 and 2017

(In millions of won except for per share data)

	<i>Note</i>	September 30, 2018		September 30, 2017	
		Three-month period ended	Nine-month period ended	Three-month period ended	Nine-month period ended
Operating revenue:	3,21,29				
Revenue		₩ 2,925,572	8,855,945	3,156,536	9,354,122
Operating expenses:	29				
Labor		174,779	508,487	152,635	461,444
Commissions	3,5	1,112,744	3,331,204	1,242,501	3,636,624
Depreciation and amortization		578,269	1,759,703	593,341	1,765,653
Network interconnection		162,286	491,913	161,691	470,650
Leased line		70,146	208,975	73,726	220,470
Advertising		43,678	107,644	37,489	100,648
Rent		108,978	331,560	110,106	331,407
Cost of products that have been resold		126,474	383,169	132,890	398,966
Others	22	237,578	685,114	231,477	645,836
		<u>2,614,932</u>	<u>7,807,769</u>	<u>2,735,856</u>	<u>8,031,698</u>
Operating profit	3	310,640	1,048,176	420,680	1,322,424
Finance income	24	34,427	241,720	23,357	169,776
Finance costs	24	59,087	198,989	64,288	204,045
Other non-operating income	23	2,573	19,067	5,945	13,315
Other non-operating expenses	23	25,650	73,654	32,803	70,311
Gain (Loss) on investments in subsidiaries and associates	7	(12,977)	(12,977)	211,306	196,001
Profit before income tax	3	249,926	1,023,343	564,197	1,427,160
Income tax expense	3,25	66,604	255,808	85,482	246,189
Profit for the period	3	₩ 183,322	767,535	478,715	1,180,971
Earnings per share:	26				
Basic and diluted earnings per share (in won)		₩ 2,544	10,699	6,780	16,606

See accompanying notes to the condensed separate interim financial statements.

SK TELECOM CO., LTD.

Condensed Separate Statements of Comprehensive Income

For the three and nine-month periods ended September 30, 2018 and 2017

(In millions of won)

	<i>Note</i>	September 30, 2018		September 30, 2017	
		Three-month period ended	Nine-month period ended	Three-month period ended	Nine-month period ended
Profit for the period	₩	183,322	767,535	478,715	1,180,971
Other comprehensive income (loss):					
Items that will never be reclassified to profit or loss, net of taxes:					
Remeasurement of defined benefit liabilities	14	(85)	(4,150)	2,784	(3,588)
Valuation loss on financial assets at fair value through other comprehensive income	20	(184)	(40,911)	-	-
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	-	-	(5,412)	93,935
Net change in unrealized fair value of derivatives	20	(4,248)	(14,254)	4,910	10,714
Other comprehensive income (loss) for the period, net of taxes		(4,517)	(59,315)	2,282	101,061
Total comprehensive income	₩	178,805	708,220	480,997	1,282,032

See accompanying notes to the condensed separate interim financial statements.

SK TELECOM CO., LTD.

Condensed Separate Statements of Changes in Equity

For the nine-month periods ended September 30, 2018 and 2017

(In millions of won)

	Note	Capital surplus and others						Sub-total	Retained earnings	Reserves	Total equity
		Share capital	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		-	-	-	-	-	-	-	1,180,971	-	1,180,971
Other comprehensive income (loss)	14,20	-	-	-	-	-	-	-	(3,588)	104,649	101,061
		-	-	-	-	-	-	-	1,177,383	104,649	1,282,032
Transactions with owners:											
Annual dividends		-	-	-	-	-	-	-	(635,482)	-	(635,482)
Interim dividends		-	-	-	-	-	-	-	(70,609)	-	(70,609)
Share option	17	-	-	-	-	279	-	279	-	-	279
Interest on hybrid bonds		-	-	-	-	-	-	-	(8,420)	-	(8,420)
		-	-	-	-	279	-	279	(714,511)	-	(714,232)
Balance, September 30, 2017		₩ 44,639	2,915,887	(2,260,626)	398,518	279	(682,298)	371,760	14,365,499	42,856	14,824,754
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		-	-	-	-	-	-	-	767,535	-	767,535
Other comprehensive income (loss)	14,20	-	-	-	-	-	-	-	(18,166)	(41,149)	(59,315)
		-	-	-	-	-	-	-	749,369	(41,149)	708,220
Transactions with owners:											
Annual dividends		-	-	-	-	-	-	-	(635,482)	-	(635,482)
Interim dividends		-	-	-	-	-	-	-	(70,609)	-	(70,609)
Share option	17	-	-	-	-	441	-	441	-	-	441
Repayments of hybrid bonds	18	-	-	-	(398,518)	-	(1,482)	(400,000)	-	-	(400,000)
	18	-	-	-	398,759	-	-	398,759	-	-	398,759
Proceeds from issuance of hybrid bonds		-	-	-	-	-	-	-	(12,111)	-	(12,111)
Interest on hybrid bonds		-	-	-	-	-	-	-	(718,202)	-	(719,002)
		-	-	-	241	441	(1,482)	(800)	(718,202)	-	(719,002)
Balance, September 30, 2018		₩ 44,639	2,915,887	(2,260,626)	398,759	855	(683,780)	371,095	16,317,319	(21,237)	16,711,816

See accompanying notes to the condensed separate interim financial statements.

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

For the nine-month periods ended September 30, 2018 and 2017

(In millions of won)

	<u>Note</u>	<u>September 30, 2018</u>	<u>September 30, 2017</u>
Cash flows from operating activities:			
Cash generated from operating activities:			
Profit for the period	₩	767,535	1,180,971
Adjustments for income and expenses	31	2,166,079	1,989,161
Changes in assets and liabilities related to operating activities	31	(230,110)	(99,586)
Sub-total		2,703,504	3,070,546
Interest received		25,280	36,934
Dividends received		176,030	101,256
Interest paid		(142,482)	(133,346)
Income tax paid		(372,005)	(546,213)
Net cash provided by operating activities		2,390,327	2,529,177
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		15,000	1,000
Collection of short-term loans		154,579	148,723
Proceeds from disposal of long-term investment securities		185,142	14,253
Proceeds from disposal of investments in subsidiaries and associates		10,429	-
Proceeds from disposal of property and equipment		6,749	17,147
Proceeds from disposal of intangible assets		145	3,490
		372,044	234,613
Cash outflows for investing activities:			
Increase in short-term loans		(165,842)	(157,745)
Acquisition of long-term investment securities		(990)	(11,048)
Acquisition of investments in subsidiaries and associates		(323,112)	(184,414)
Acquisition of property and equipment		(1,304,941)	(1,331,694)
Acquisition of intangible assets		(21,415)	(23,987)
		(1,816,300)	(1,708,888)
Net cash used in investing activities	₩	(1,444,256)	(1,474,275)

See accompanying notes to the condensed separate interim financial statements.

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

For the nine-month periods ended September 30, 2018 and 2017

(In millions of won)

	<u>Note</u>	<u>September 30, 2018</u>	<u>September 30, 2017</u>
Cash flows from financing activities:			
Cash inflows from financing activities:			
Proceeds from issuance of hybrid bonds	₩	398,759	-
Proceeds from issuance of debentures		1,326,346	368,456
		<u>1,725,105</u>	<u>368,456</u>
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		(1,036,550)	(349,119)
Payments of cash dividends		(706,091)	(706,091)
Payments of interest on hybrid bonds		(12,111)	(8,420)
Cash outflows from settlement of derivatives		(29,213)	(22,884)
		<u>(2,493,032)</u>	<u>(1,395,788)</u>
Net cash used in financing activities		<u>(767,927)</u>	<u>(1,027,332)</u>
Net increase in cash and cash equivalents		178,144	27,570
Cash and cash equivalents at beginning of the period		880,583	874,350
Effects of exchange rate changes on cash and cash equivalents		(280)	1
Cash and cash equivalents at end of the period	₩	<u>1,058,447</u>	<u>901,921</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 nine-month periods ended September 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 September 30, 2018, the Company’s total issued shares are held by the following shareholders:

	Number of shares	Percentage of total shares issued (%)
SK Holdings Co., Ltd.	20,363,452	25.22
National Pension Service, institutional investors and other shareholders	50,245,708	62.23
Treasury shares	10,136,551	12.55
	<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 nine-month periods ended September 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 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 nine-month periods ended September 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 amended 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 replaced 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 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. As a result of applying K-IFRS No. 1115, the Company has no consideration to be reconciled with respect to the allocation of the transaction price at the date of initial application.

ii) Allocation of the transaction price to each performance obligations

In accordance with K-IFRS No. 1115, the Company allocates the transaction price of a contract to each performance obligation identified 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.

SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

For the nine-month periods ended September 30, 2018 and 2017

3. Significant Accounting Policies, Continued

(1) Changes in accounting policies, Continued

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

ii) Allocation of the transaction price to each performance obligations, Continued

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. There is no amount to be reconciled with respect to allocation of the transaction price at the date of initial application.

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

Under 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 the previous standards were applied to the Company's condensed separate statement of financial position as of September 30, 2018, prepaid expenses and long-term prepaid expenses would be decreased by ₩1,622,379 million and ₩683,948 million, respectively, and contract assets and long-term contract assets would be decreased by ₩1,706 million and ₩5,902 million, respectively, while deferred tax assets would be increased by ₩97,248 million. As a result, total assets would be decreased by ₩2,216,687 million. In addition, contract liabilities, long-term contract liabilities and deferred tax liabilities would be decreased by ₩43,323 million, ₩7,538 million and ₩526,243 million, respectively, while other liabilities such as receipts in advance and unearned revenue would be increased by ₩50,861 million. As a result, total liabilities would be decreased by ₩526,243 million. In relation to these changes in assets and liabilities, retained earnings would be decreased by ₩1,690,444 million.

If the previous standards were applied to the Company's condensed separate statement of income for the nine-month period ended September 30, 2018, revenues would be increased by ₩5,655 million, while commission expenses would be decreased by ₩36,547 million. Operating profit and profit before income tax would be increased by ₩42,202 million. As a result, profit for the period would be increased by ₩33,541 million with increase in income tax expense of ₩8,661 million.

The adoption of K-IFRS No. 1115 did not have material impact on the Company's condensed separate statement of cash flows for the nine-month period ended September 30, 2018.

SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

For the nine-month periods ended September 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 sets 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 income 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, and 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.

SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

For the nine-month periods ended September 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.

SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

For the nine-month periods ended September 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.

<i>(In millions of won)</i>	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 nine-month periods ended September 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 reclassification to financial assets measured at FVTPL, retained earnings was decreased by ₩4,389 million in relation to fair value measurement. In addition, change in the fair value of these financial assets of ₩208 million was recognized in profit before income tax during the nine-month period ended September 30, 2018.

(*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 which were stated at cost under K-IFRS No. 1039. The Company designated equity instruments that are not held for trading as FVOCI on initial application of K-IFRS No. 1109 with no subsequent 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).

SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

For the nine-month periods ended September 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 recognizes 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 nine-month periods ended September 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 nine-month periods ended September 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 nine-month period ended September 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. With the help of external accounting and IT specialists, the Company analyzes the lease contracts to establish related internal controls and to update its accounting system. At the end of reporting period, the Company is in the process of assessing the potential impact of applying K-IFRS No. 1116 to its financial statements and is planning to perform further detailed analysis after gathering more information.

4. Trade and Other Receivables

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

(In millions of won)

	September 30, 2018		
	Gross amount	Loss allowance	Carrying amount
Current assets:			
Accounts receivable - trade	₩ 1,968,388	(125,823)	1,842,565
Short-term loans	66,123	(674)	65,449
Accounts receivable - other(*)	702,657	(54,574)	648,083
Accrued income	608	-	608
	<u>2,737,776</u>	<u>(181,071)</u>	<u>2,556,705</u>
Non-current assets:			
Long-term loans	48,716	(41,099)	7,617
Long-term accounts receivable - other(*)	315,672	-	315,672
Guarantee deposits	183,978	-	183,978
	<u>548,366</u>	<u>(41,099)</u>	<u>507,267</u>
	<u>₩ 3,286,142</u>	<u>(222,170)</u>	<u>3,063,972</u>

(*) Gross and carrying amounts of accounts receivable - other as of September 30, 2018 include ₩609,828 million of financial instruments classified as FVTPL.

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Notes to the Condensed Separate Interim Financial Statements

For the nine-month periods ended September 30, 2018 and 2017

4. Trade and Other Receivables, Continued

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

(In millions of won)

	December 31, 2017		
	Gross amount	Loss allowance	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 nine-month periods ended September 30, 2018 and 2017 are as follows:

(In millions of won)

		Impact of adopting				Collection of receivables previously written-off	September 30, 2018
		January 1, 2018	K-IFRS No. 1109	Impairment	Write-offs (*)		
Accounts receivable - trade	₩ 107,827	12,950	11,756	(14,831)	8,121	125,823	
Accounts receivable - other	97,547	99	2,438	(7,794)	4,057	96,347	
	<u>₩ 205,374</u>	<u>13,049</u>	<u>14,194</u>	<u>(22,625)</u>	<u>12,178</u>	<u>222,170</u>	

(In millions of won)

		Collection of receivables				September 30, 2017
		January 1, 2017	Impairment	Write-offs (*)	previously written-off	
Accounts receivable - trade	₩ 119,027	10,354	(21,037)	9,865	118,209	
Accounts receivable - other	99,800	227	(11,112)	7,392	96,307	
	<u>₩ 218,827</u>	<u>10,581</u>	<u>(32,149)</u>	<u>17,257</u>	<u>214,516</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 nine-month periods ended September 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 uses 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 numerous 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 September 30, 2018 and December 31, 2017 are as follows:

(In millions of won)

	<u>September 30, 2018</u>	<u>December 31, 2017</u>
Current assets:		
Incremental costs of obtaining contracts	₩ 1,622,379	-
Others	114,614	121,121
	<u>1,736,993</u>	<u>121,121</u>
Non-current assets:		
Incremental costs of obtaining contracts	₩ 683,948	-
Others	25,803	25,169
	<u>709,751</u>	<u>25,169</u>

- (2) Incremental costs of obtaining contracts

Incremental costs of obtaining contracts that are capitalized as assets as of September 30, 2018 and the related depreciation recognized as commissions during the three and nine-month periods ended September 30, 2018 are as follows:

(In millions of won)

	<u>2018</u>	
	<u>Three-month period ended September 30</u>	<u>Nine-month period ended September 30</u>
Depreciation recognized as commission	₩ 518,836	1,554,042

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.

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Notes to the Condensed Separate Interim Financial Statements

For the nine-month periods ended September 30, 2018 and 2017

6. Investment Securities

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

(In millions of won)

	<u>Category</u>	<u>September 30, 2018</u>	<u>December 31, 2017</u>
Beneficiary certificates	Available-for-sale financial assets	₩ -	47,383
	FVTPL	47,690	-
		<u>₩ 47,690</u>	<u>47,383</u>

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

(In millions of won)

	<u>Category</u>	<u>September 30, 2018</u>	<u>December 31, 2017</u>
Equity instruments	Available-for-sale financial assets	₩ -	723,703
	FVOCI(*)	417,402	-
		417,402	723,703
Debt instruments	Available-for-sale financial assets	-	900
	FVTPL	67,020	-
		67,020	900
		<u>₩ 484,422</u>	<u>724,603</u>

(*) The Company designated ₩417,402 million of equity instruments that are not held for trading as financial assets at FVOCI. During the nine-month period ended September 30, 2018, the Company disposed of 3,520,964 shares issued by KB Financial Group Inc. in exchange for ₩179,569 million in cash.

7. Investments in Subsidiaries, Associates and Joint Ventures

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

(In millions of won)

	<u>September 30, 2018</u>	<u>December 31, 2017</u>
Investments in subsidiaries	₩ 4,545,499	4,391,693
Investments in associates and joint ventures	4,910,492	4,760,628
	<u>₩ 9,455,991</u>	<u>9,152,321</u>

SK TELECOM CO., LTD.

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For the nine-month periods ended September 30, 2018 and 2017

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

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

(In millions of won, except for share data)

	September 30, 2018		December 31, 2017	
	Number of shares	Ownership (%)	Carrying amount	Carrying amount
SK Telink Co., Ltd.	1,432,627	100.0	₩ 243,988	243,988
SK Broadband Co., Ltd.	298,460,212	100.0	1,870,582	1,870,582
SK Communications Co., Ltd.	43,427,530	100.0	69,668	69,668
PS&Marketing Corporation	66,000,000	100.0	313,934	313,934
SERVICEACE Co., Ltd.	4,385,400	100.0	21,927	21,927
SK Planet Co., Ltd. (*1,2)	69,593,562	98.7	404,833	1,298,237
Eleven Street Co., Ltd. (*1)	8,224,709	80.3	1,049,403	-
IRIVER LIMITED (*3)	29,246,387	52.6	156,642	91,642
SK Telecom China Holdings Co., Ltd.	-	100.0	48,096	38,652
SKT Americas, Inc.	122	100.0	45,701	45,701
Atlas Investment (*4)	-	100.0	94,328	84,495
SK Global Healthcare Business Group., Ltd.	-	100.0	39,649	39,649
SK techx Co., Ltd. (*2)	-	-	-	155,999
One Store Co., Ltd.	10,409,600	65.5	82,186	82,186
id Quantique SA (*5)	44,157,506	58.1	59,214	-
Network O&S Co., Ltd., etc	-	-	45,348	35,033
			₩ 4,545,499	4,391,693

(*1) During the nine-month period ended September 30, 2018, SK Planet Co., Ltd. spun off the business unit of 11st (E-commerce and Internet-related business) and incorporated Eleven Street Co., Ltd. in order to enhance the level of specialization and enhance competitiveness and growth potential by strengthening core competencies of the businesses.

(*2) During the nine-month period ended September 30, 2018, SK Planet Co., Ltd. merged SK techx Co., Ltd., a subsidiary owned by the Company.

(*3) The Company acquired additional 7,420,091 shares of IRIVER LIMITED at a consideration of ₩65,000 million in cash through a non-proportional paid-in capital during the nine-month period ended September 30, 2018.

(*4) The Company contributed ₩9,833 million in cash during the nine-month period ended September 30, 2018.

(*5) The Company acquired additional 41,157,506 shares of both common and preferred stocks, in aggregate, for ₩55,249 million in cash during the nine-month period ended September 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.

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

(3) Details of investments in associates and joint ventures as of September 30, 2018 and December 31, 2017 are as follows:

(In millions of won, except for share data)

	Number of shares	September 30, 2018		December 31, 2017	
		Ownership (%)	Carrying amount	Carrying amount	Carrying amount
Investments in associates:					
SK China Company Ltd.	10,928,921	27.3	₩ 601,192	601,192	601,192
HappyNarae Co., Ltd.	720,000	45.0	12,939	12,939	12,939
Korea IT Fund(*1)	190	63.3	220,957	220,957	220,957
Wave City Development Co., Ltd.(*2)	393,460	19.1	1,532	1,532	1,532
KEB HanaCard Co., Ltd.(*2)	39,902,323	15.0	253,739	253,739	253,739
Daehan Kanggun BcN Co., Ltd.	1,675,124	29.0	353	353	353
NanoEnTek, Inc.	6,960,445	27.1	47,958	47,958	47,958
SK Technology Innovation Company	14,700	49.0	45,864	45,864	45,864
SK hynix Inc.	146,100,000	20.1	3,374,725	3,374,725	3,374,725
SK MENA Investment B.V.	9,772,686	32.1	14,485	14,485	14,485
SK Latin America Investment S.A.	9,448,937	32.1	14,243	14,243	14,243
S.M.Culture & Contents Co., Ltd.	22,033,898	23.4	65,341	65,341	65,341
12CM Japan, Inc.(*3)	3,925	29.2	7,697	-	-
MAKEUS Corp.(*2,3)	2,153	8.9	9,773	-	-
SE ASIA INVESTMENT PTE. LTD.(*3)	100,000,000	20.0	111,000	-	-
Pacific Telecom Inc.(*2,3)	1,734,109	15.0	36,487	-	-
SK USA, Inc. and others(*4)	-	-	67,627	71,824	71,824
			₩ 4,885,912	4,725,152	4,725,152
Investment in joint ventures:					
Finnq Co., Ltd.(*5)	4,900,000	49.0	₩ 24,580	24,580	24,580
12CM GLOBAL PTE. LTD.(*6)	-	-	-	10,896	10,896
			24,580	35,476	35,476
			₩ 4,910,492	4,760,628	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) These investments were acquired during the nine-month period ended September 30, 2018.

(*4) Impairment loss amounting to ₩12,511 million was recognized in relation to its investment in HealthConnect Co., Ltd. during the nine-month period ended September 30, 2018.

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

(*6) During the nine-month period ended September 30, 2018, the Company disposed of the entire shares.

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Notes to the Condensed Separate Interim Financial Statements

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

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

(In millions of won, except for share data)

		September 30, 2018			December 31, 2017		
		Market price per share (in won)	Number of shares	Market value	Market price per share (in won)	Number of shares	Market value
IRIVER LIMITED	₩	8,540	29,246,387	249,764	5,580	21,826,296	121,790

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

(In millions of won, except for share data)

		September 30, 2018			December 31, 2017		
		Market price per share (in won)	Number of shares	Market value	Market price per share (in won)	Number of shares	Market value
NanoEnTek, Inc.	₩	6,280	6,960,445	43,712	5,950	6,960,445	41,415
SK hynix Inc.		73,100	146,100,000	10,679,910	76,500	146,100,000	11,176,650
S.M.Culture & Contents Co., Ltd.		2,630	22,033,898	57,949	2,700	22,033,898	59,492

8. Property and Equipment

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

(In millions of won)

		For the nine-month period ended September 30, 2018					Ending balance
		Beginning balance	Acquisition	Disposal	Transfer	Depreciation	
Land	₩	525,572	2,418	(29)	8,275	-	536,236
Buildings		546,872	485	(1,330)	20,794	(27,898)	538,923
Structures		376,755	4,762	(26)	3,275	(27,018)	357,748
Machinery		4,648,331	94,028	(22,505)	727,391	(1,216,619)	4,230,626
Other		448,203	371,690	(1,479)	(352,718)	(75,622)	390,074
Construction in progress		377,400	401,888	(3,466)	(493,534)	-	282,288
	₩	<u>6,923,133</u>	<u>875,271</u>	<u>(28,835)</u>	<u>(86,517)</u>	<u>(1,347,157)</u>	<u>6,335,895</u>

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For the nine-month periods ended September 30, 2018 and 2017

8. Property and Equipment, Continued

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

(In millions of won)

		For the nine-month period ended September 30, 2017					
		Beginning balance	Acquisition	Disposal	Transfer	Depreciation	Ending balance
Land	₩	506,786	2,935	(4,406)	10,380	-	515,695
Buildings		557,021	179	(459)	18,562	(27,559)	547,744
Structures		357,065	13,845	(74)	2,679	(26,183)	347,332
Machinery		4,781,985	75,297	(4,594)	786,966	(1,232,107)	4,407,547
Other		492,410	441,914	(4,272)	(406,567)	(81,976)	441,509
Construction in progress		603,272	436,662	(1,811)	(783,452)	-	254,671
	₩	<u>7,298,539</u>	<u>970,832</u>	<u>(15,616)</u>	<u>(371,432)</u>	<u>(1,367,825)</u>	<u>6,514,498</u>

9. Intangible Assets

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

(In millions of won)

		For the nine-month period ended September 30, 2018					
		Beginning balance	Acquisition	Disposal	Transfer	Amortization	Ending balance
Frequency usage rights	₩	2,176,940	-	-	-	(302,916)	1,874,024
Land usage rights		7,858	1,860	(49)	405	(2,944)	7,130
Industrial rights		12,899	4,216	(716)	-	(2,585)	13,814
Facility usage rights		16,456	1,472	(35)	99	(2,059)	15,933
Club memberships		44,843	1,237	(25)	-	-	46,055
Other		830,549	12,630	(1,400)	115,188	(211,458)	745,509
	₩	<u>3,089,545</u>	<u>21,415</u>	<u>(2,225)</u>	<u>115,692</u>	<u>(521,962)</u>	<u>2,702,465</u>

(In millions of won)

		For the nine-month period ended September 30, 2017					
		Beginning balance	Acquisition	Disposal	Transfer	Amortization	Ending balance
Frequency usage rights	₩	2,580,828	-	-	-	(302,916)	2,277,912
Land usage rights		8,359	2,489	(143)	200	(2,781)	8,124
Industrial rights		13,692	2,196	(19)	-	(2,523)	13,346
Facility usage rights		16,259	1,689	(36)	122	(2,014)	16,020
Club memberships		43,984	1,435	(1,960)	87	-	43,546
Other		612,541	16,178	(4,642)	386,203	(184,900)	825,380
	₩	<u>3,275,663</u>	<u>23,987</u>	<u>(6,800)</u>	<u>386,612</u>	<u>(495,134)</u>	<u>3,184,328</u>

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9. Intangible Assets, Continued

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

(In millions of won)

	Amount	Description	Commencement of amortization	Completion of amortization
800MHz license	₩ 111,496	CDMA and LTE service	Jul. 2011	Jun. 2021
1.8GHz license	408,265	LTE service	Sept. 2013	Dec. 2021
WiBro license	1,195	WiBro service	Mar. 2012	Mar. 2019
2.6GHz license	1,001,705	LTE service	Sept. 2016	Dec. 2026
2.1GHz license	351,363	W-CDMA and LTE service	Dec. 2016	Dec. 2021
	<u>₩ 1,874,024</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 licenses allocation during the nine-month period ended September 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 balances will be made for the next ten and five years, respectively. The Company will recognize these frequency licenses as intangible assets at the date of initial lump sum payment and will start amortization 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 long-term borrowings for the nine-month period ended September 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					<u>54,517</u>
Repayment of long-term borrowings	Export Kreditnamnden	1.70	Apr. 29, 2022		(6,200)
Other changes(*):					2,186
Current					12,625
Non-current					37,878
As of September 30, 2018				₩	<u><u>50,503</u></u>

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

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10. Borrowings and Debentures, Continued

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

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

	<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>
Debtures 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
	Operating and refinancing fund	3.02	Feb. 20, 2038	90,000	89,664
		2.10	Sept. 17, 2021	100,000	99,565
Global unsecured corporate bonds	Operating fund	2.33	Sept. 17, 2023	150,000	149,429
		2.44	Sept. 17, 2038	50,000	49,811
		3.75	Apr. 16, 2023	535,000	529,566
				<u>USD 500,000</u>	<u>USD 500,000</u>
				₩ <u>1,335,000</u>	<u>1,326,346</u>
Debtures repaid:					
Unsecured corporate bonds	Other fund	5.00	Mar. 3, 2018	(200,000)	(200,000)
	Operating fund	1.89	Jul. 17, 2018	(90,000)	(90,000)
Global unsecured corporate bonds	Operating fund	2.13	May. 1, 2018	(746,550)	(746,550)
				<u>USD 700,000</u>	<u>USD 700,000</u>
				₩ <u>(1,036,550)</u>	<u>(1,036,550)</u>
Other changes(*)				47,974	51,060
Current				420,000	419,758
Non-current				5,396,662	5,374,962
As of September 30, 2018				₩ <u><u>5,816,662</u></u>	<u><u>5,794,720</u></u>

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

11. Long-term Payables - other

(1) As of September 30, 2018 and December 31, 2017, details of long-term payables – other related to the

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acquisition of frequency usage rights are as follows (See Note 9):

(In millions of won)

	September 30, 2018	December 31, 2017
Long-term payables – other	₩ 1,407,388	1,710,255
Present value discount on long-term payables - other	(61,766)	(79,874)
Current installments of long-term payables - other	(300,414)	(301,751)
Carrying amount at period end	<u>₩ 1,045,208</u>	<u>1,328,630</u>

- (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 nine-month period ended September 30, 2018. The repayment schedule of the principal amount of long-term payables - other as of September 30, 2018 is as follows:

(In millions of won)

	Amount
Less than 1 year	₩ 302,867
1~3 years	605,734
3~5 years	199,515
More than 5 years	299,272
	<u>₩ 1,407,388</u>

12. Provisions

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

(In millions of won)

	For the nine-month period ended September 30, 2018					As of September 30, 2018	
	Beginning balance	Increase	Utilization	Reversal	Ending balance	Current	Non- current
Provision for installment of handset subsidy	₩ 3,874	-	(1,075)	(2,799)	-	-	-
Provision for restoration	56,162	3,656	(621)	(456)	58,741	42,928	15,813
Emission allowance	4,650	2,896	(1,334)	(3,306)	2,906	2,906	-
	<u>₩ 64,686</u>	<u>6,552</u>	<u>(3,030)</u>	<u>(6,561)</u>	<u>61,647</u>	<u>45,834</u>	<u>15,813</u>

(In millions of won)

	For the nine-month period ended September 30, 2017					As of September 30, 2017	
	Beginning balance	Increase	Utilization	Reversal	Ending balance	Current	Non- current
Provision for installment of handset subsidy	₩ 24,710	2	(6,735)	-	17,977	17,977	-
Provision for restoration	53,022	3,126	(645)	(395)	55,108	38,640	16,468
Emission allowance	2,788	3,573	(518)	(2,283)	3,560	3,560	-
	<u>₩ 80,520</u>	<u>6,701</u>	<u>(7,898)</u>	<u>(2,678)</u>	<u>76,645</u>	<u>60,177</u>	<u>16,468</u>

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13. Derivatives

Changes in derivative contracts for the nine-month period ended September 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
Contracted	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)

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

(In millions of won)

		September 30, 2018	December 31, 2017
Present value of defined benefit obligations	₩	316,830	278,778
Fair value of plan assets		(322,819)	(318,860)
Defined benefit assets	₩	(5,989)	(40,082)

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

(In millions of won)

		For the nine-month period ended	
		September 30, 2018	September 30, 2017
Beginning balance	₩	278,778	240,289
Current service cost		30,684	29,341
Interest cost		6,507	4,947
Remeasurement:			
- Adjustment based on experience		3,808	4,199
Benefit paid		(6,513)	(7,220)
Others		3,566	9,118
Ending balance	₩	316,830	280,674

14. Defined Benefit Liabilities (Assets), Continued

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

(In millions of won)

	For the nine-month period ended	
	September 30, 2018	September 30, 2017
Beginning balance	₩ 318,860	265,076
Interest income	7,144	5,059
Remeasurement	(1,968)	(535)
Contribution	9,000	20,000
Benefit paid	(16,155)	(25,655)
Others	5,938	6,518
Ending balance	₩ <u>322,819</u>	<u>270,463</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 nine-month periods ended September 30, 2018 and 2017 are as follows:

(In millions of won)

	For the nine-month period ended	
	September 30, 2018	September 30, 2017
Current service cost	₩ 30,684	29,341
Net interest income	(637)	(112)
	₩ <u>30,047</u>	<u>29,229</u>

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15. Contract assets and liabilities

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.

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

(In millions of won)

	<u>September 30, 2018</u>	<u>January 1, 2018</u>
Contract assets:		
Allocation of performance obligations	₩ 7,608	-
Contract liabilities:		
Wireless service contracts	17,648	16,577
Customer loyalty programs	14,863	10,739
Others	18,350	16,729
	<u>₩ 50,861</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 September 30, 2018 and December 31, 2017 are as follows:

(In millions of won, except for share data)

	<u>September 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)	855	414
Others	(683,780)	(682,298)
	<u>₩ 371,095</u>	<u>371,895</u>

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

(In shares)

	<u>September 30, 2018</u>			<u>September 30, 2017</u>		
	Issued shares	Treasury stock	Outstanding shares	Issued shares	Treasury stock	Outstanding shares
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 programs 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) Share compensation expense recognized 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 nine-month period ended September 30, 2018	441
In subsequent periods	673
	₩ <u>1,528</u>

(3) The Company used binomial option pricing model to determine the fair value of share options. 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 Series 1 hybrid bonds during the nine-month period ended September 30, 2018 and issued the following hybrid bonds at par:

(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 September 30, 2018 and December 31, 2017 are as follows:

(In millions of won)

	September 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	2,442,561	1,247,798
	<u>₩ 16,317,319</u>	<u>14,512,556</u>

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20. Reserves

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

(In millions of won)

	<u>September 30, 2018</u>	<u>December 31, 2017</u>
Valuation gain on financial assets at FVOCI	₩ 63,589	-
Valuation gain on available-for-sale financial assets	-	148,873
Valuation loss on derivatives	(84,826)	(70,572)
	<u>₩ (21,237)</u>	<u>78,301</u>

(2) Changes in reserves for the nine-month periods ended September 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	-	93,935	10,714	104,649
Balance at September 30, 2017	-	122,898	(80,042)	42,856
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	(26,895)	-	(14,254)	(41,149)
Balance at September 30, 2018	₩ <u>63,589</u>	<u>-</u>	<u>(84,826)</u>	<u>(21,237)</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>September 30, 2018</u>		<u>September 30, 2017</u>	
	<u>Three-month period ended</u>	<u>Nine-month period ended</u>	<u>Three-month period ended</u>	<u>Nine-month period ended</u>
Products transferred at a point in time:				
Product sales	₩ 36,688	106,655	38,305	127,848
Services transferred over time:				
Wireless service revenue(*1)	2,484,567	7,551,174	2,717,129	8,077,122
Cellular interconnection revenue	155,901	462,837	150,248	467,600
Other(*2)	248,416	735,279	250,854	681,552
	<u>2,888,884</u>	<u>8,749,290</u>	<u>3,118,231</u>	<u>9,226,274</u>
	₩ <u>2,925,572</u>	<u>8,855,945</u>	<u>3,156,536</u>	<u>9,354,122</u>

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

(*2) Other revenue includes revenue from billing and collection services as well as other miscellaneous services.

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

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22. Other Operating Expenses

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

(In millions of won)

	September 30, 2018		September 30, 2017	
	Three-month period ended	Nine-month period ended	Three-month period ended	Nine-month period ended
Communication	₩ 7,080	21,244	6,052	18,540
Utilities	62,597	170,150	63,630	170,146
Taxes and dues	2,601	18,452	7,644	14,918
Repair	65,080	181,754	58,249	165,021
Research and development	78,623	229,807	77,075	221,814
Training	8,030	19,723	6,679	16,009
Bad debt for accounts receivable - trade	3,163	11,756	2,002	10,354
Other	10,404	32,228	10,146	29,034
	₩ <u>237,578</u>	<u>685,114</u>	<u>231,477</u>	<u>645,836</u>

23. Other Non-operating Income and Expenses

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

(In millions of won)

	September 30, 2018		September 30, 2017	
	Three-month period ended	Nine-month period ended	Three-month period ended	Nine-month period ended
Other non-operating Income:				
Gain on disposal of property and equipment and intangible assets	₩ 520	1,520	2,461	7,025
Others	2,053	17,547	3,484	6,290
	₩ <u>2,573</u>	<u>19,067</u>	<u>5,945</u>	<u>13,315</u>
Other non-operating Expenses:				
Loss on disposal of property and equipment and intangible assets	₩ 9,704	25,683	5,149	8,804
Donations	12,409	40,559	27,202	57,896
Bad debt for accounts receivable - other	940	2,438	-	227
Others	2,597	4,974	452	3,384
	₩ <u>25,650</u>	<u>73,654</u>	<u>32,803</u>	<u>70,311</u>

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24. Finance Income and Costs

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

(In millions of won)

	September 30, 2018		September 30, 2017	
	Three-month period ended	Nine-month period ended	Three-month period ended	Nine-month period ended
Finance Income:				
Interest income	₩ 6,389	30,673	12,766	42,164
Gain on sale of accounts receivable - trade	9,202	17,341	4,414	13,504
Dividends	14,572	177,490	1,833	101,256
Gain on foreign currency transactions	3,251	11,720	2,798	8,235
Gain on foreign currency translations	-	894	392	132
Gain relating to financial assets at FVTPL	487	2,179	-	142
Gain on disposal of long-term investment securities	-	-	790	3,148
Gain on valuation of derivatives	526	1,423	364	1,195
	₩ 34,427	241,720	23,357	169,776

(In millions of won)

	September 30, 2018		September 30, 2017	
	Three-month period ended	Nine-month period ended	Three-month period ended	Nine-month period ended
Finance Costs:				
Interest expenses	₩ 55,340	173,723	58,755	182,351
Loss on foreign currency transactions	2,113	10,763	3,004	9,448
Loss on foreign currency translations	1,260	615	-	45
Loss on disposal of long-term investment securities	-	-	138	694
Loss on settlement of derivatives	-	12,156	-	8,910
Loss on financial assets at FVTPL	11	589	323	-
Loss on financial liabilities at FVTPL	363	1,143	38	567
Others	-	-	2,030	2,030
	₩ 59,087	198,989	64,288	204,045

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24. Finance Income and Costs, Continued

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

(In millions of won)

	September 30, 2018		September 30, 2017	
	Three-month period ended	Nine-month period ended	Three-month period ended	Nine-month period ended
Interest income on cash equivalents and short-term financial instruments	₩ 4,569	12,208	3,794	11,259
Interest income on installment receivables and others	1,820	18,465	8,972	30,905
	₩ <u>6,389</u>	<u>30,673</u>	<u>12,766</u>	<u>42,164</u>

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

(In millions of won)

	September 30, 2018		September 30, 2017	
	Three-month period ended	Nine-month period ended	Three-month period ended	Nine-month period ended
Interest expenses on borrowings	₩ 286	3,108	1,340	5,321
Interest expenses on debentures	43,672	134,650	43,495	133,528
Others	11,382	35,965	13,920	43,502
	₩ <u>55,340</u>	<u>173,723</u>	<u>58,755</u>	<u>182,351</u>

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

(In millions of won)

	September 30, 2018		September 30, 2017	
	Three-month period ended	Nine-month period ended	Three-month period ended	Nine-month period ended
Accounts receivable - trade	₩ 3,163	11,756	2,002	10,354
Other receivables	940	2,438	-	227
Available-for-sale financial assets	-	-	2,030	2,030
	₩ <u>4,103</u>	<u>14,194</u>	<u>4,032</u>	<u>12,611</u>

25. Income Tax Expense

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

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26. Earnings per Share

(1) Basic earnings per share

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

(In millions of won, except for share data)

	2018		2017	
	Three-month period ended September 30	Nine-month period ended September 30	Three-month period ended September 30	Nine-month period ended September 30
Profit for the period	₩ 183,322	767,535	478,715	1,180,971
Interest on hybrid bonds	(3,691)	(12,111)	-	(8,420)
Profit for the period available for common shares	179,631	755,424	478,715	1,172,551
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)	₩ 2,544	10,699	6,780	16,606

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

(In shares)

	Number of shares	Weighted number of shares	
		Three-month period ended September 30	Nine-month period ended September 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 September 30, 2018	70,609,160	70,609,160	70,609,160

(In shares)

	Number of shares	Weighted number of shares	
		Three-month period ended September 30	Nine-month period ended September 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 September 30, 2017	70,609,160	70,609,160	70,609,160

(2) Diluted earnings per share

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

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27. Categories of Financial Instruments

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

(In millions of won)

	September 30, 2018				
	Financial assets at FVTPL	Equity instruments at FVOCI	Financial assets at amortized cost	Derivatives-hedging instrument	Total
Cash and cash equivalents	₩ -	-	1,058,447	-	1,058,447
Financial instruments	-	-	79,382	-	79,382
Short-term investment securities	47,690	-	-	-	47,690
Long-term investment securities(*)	67,020	417,402	-	-	484,422
Accounts receivable - trade	-	-	1,842,565	-	1,842,565
Loans and other receivables	609,828	-	611,579	-	1,221,407
Derivative financial assets	10,477	-	-	22,690	33,167
	₩ <u>735,015</u>	<u>417,402</u>	<u>3,591,973</u>	<u>22,690</u>	<u>4,767,080</u>

(*) The Company designated ₩417,402 million of equity instruments that are not held for trading as financial assets measured at FVOCI.

(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
	₩ <u>9,054</u>	<u>771,986</u>	<u>4,019,888</u>	<u>21,554</u>	<u>4,822,482</u>

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

(In millions of won)

	September 30, 2018			
	Financial liabilities at FVTPL	Financial liabilities at amortized cost	Derivatives-hedging instrument	Total
Derivative financial liabilities	₩ -	-	1,655	1,655
Borrowings	-	50,503	-	50,503
Debentures (*)	61,422	5,733,298	-	5,794,720
Accounts payable - other and others	-	3,428,322	-	3,428,322
	₩ <u>61,422</u>	<u>9,212,123</u>	<u>1,655</u>	<u>9,275,200</u>

27. Categories of Financial Instruments, Continued

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

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- (*) Debentures classified as financial liabilities at FVTPL as of September 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
	₩ <u>60,278</u>	<u>9,564,861</u>	<u>38,510</u>	<u>9,663,649</u>

- (*) 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.

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 and others, 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.

28. Financial Risk Management, Continued

(1) Financial risk management, Continued

1) Market risk, Continued

(i) Currency risk, Continued

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For the nine-month periods ended September 30, 2018 and 2017

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

(In millions of won, thousands of foreign currencies)

	Assets		Liabilities	
	Foreign currencies	Won equivalent	Foreign currencies	Won equivalent
USD	112,084 ₩	124,715	1,236,338 ₩	1,375,674
EUR	24,131	31,239	73	95
JPY	16,460	161	-	-
Others	-	280	-	-
	₩	<u>156,395</u>	₩	<u>1,375,769</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 September 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)

	If increased by 10%	If decreased by 10%
USD	₩ 12,426	(12,426)
EUR	3,114	(3,114)
JPY	16	(16)
Others	28	(28)
	₩ <u>15,584</u>	<u>(15,584)</u>

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For the nine-month periods ended September 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 September 30, 2018, floating-rate debentures amount to ₩333,810 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 nine-month period ended September 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 September 30, 2018 and December 31, 2017 are as follows:

(In millions of won)

	<u>September 30, 2018</u>	<u>December 31, 2017</u>
Cash and cash equivalents	₩ 1,058,388	880,541
Financial instruments	79,382	94,382
Investment securities	900	900
Accounts receivable – trade	1,842,565	1,520,209
Loans and other receivables	1,221,407	1,524,714
Derivative financial assets	33,167	30,608
	<u>₩ 4,235,809</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 September 30, 2018.

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For the nine-month periods ended September 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 robust operating activities.

Contractual maturities of financial liabilities as of September 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(*)	₩ 50,503	53,632	13,759	39,873	-
Debentures(*)	5,794,720	7,013,477	598,658	3,392,749	3,022,070
Accounts payable - other and others	3,428,322	3,544,167	2,370,549	869,155	304,463
	<u>₩ 9,273,545</u>	<u>10,611,276</u>	<u>2,982,966</u>	<u>4,301,777</u>	<u>3,326,533</u>

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

(*) Includes interest payables.

As of September 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	₩ 22,690	15,977	19,583	40,530	(44,136)
Liabilities	(1,655)	(1,731)	(147)	(1,584)	-
	<u>₩ 21,035</u>	<u>14,246</u>	<u>19,436</u>	<u>38,946</u>	<u>(44,136)</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 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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28. Financial Risk Management, Continued

(2) Capital management, Continued

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

(In millions of won)

	<u>September 30, 2018</u>	<u>December 31, 2017</u>
Total liabilities	₩ 10,353,329	10,550,131
Total equity	16,711,816	15,007,391
Debt-equity ratios	61.95%	70.30%

(3) Fair value

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

(In millions of won)

	<u>September 30, 2018</u>				
	<u>Carrying amount</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets that are measured at fair value:					
FVTPL	₩ 735,015	-	667,996	67,019	735,015
Derivative financial assets	22,690	-	22,690	-	22,690
FVOCI	417,402	351,027	-	66,375	417,402
	<u>₩ 1,175,107</u>	<u>351,027</u>	<u>690,686</u>	<u>133,394</u>	<u>1,175,107</u>
Financial liabilities that are measured at fair value:					
FVTPL	₩ 61,422	-	61,422	-	61,422
Derivative financial liabilities	1,655	-	1,655	-	1,655
	<u>₩ 63,077</u>	<u>-</u>	<u>63,077</u>	<u>-</u>	<u>63,077</u>
Financial liabilities that are not measured at fair value:					
Borrowings	₩ 50,503	-	51,482	-	51,482
Debentures	5,733,298	-	6,055,380	-	6,055,380
Long-term payables - other	1,345,622	-	1,436,411	-	1,436,411
	<u>₩ 7,129,423</u>	<u>-</u>	<u>7,543,273</u>	<u>-</u>	<u>7,543,273</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
	₩ 667,250	586,713	77,991	2,546	667,250
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
	₩ 98,788	-	98,788	-	98,788
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
	₩ 7,078,484	-	7,451,901	-	7,451,901

The above information does not include fair values of financial assets and 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.

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28. Financial Risk Management, Continued

(3) Fair value, Continued

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

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

	<u>Interest rate</u>
Derivative instruments	1.75% ~ 2.50%
Borrowings and debentures	2.37% ~ 2.40%
Long-term payables - other	2.17% ~ 2.44%

- 3) There have been no transfers between Level 2 to Level 1 for the nine-month period ended September 30, 2018. The changes of financial assets classified as Level 3 for the nine-month period ended September 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>Loss for the period</u>	<u>Acquisition</u>	<u>Disposal</u>	<u>Balance at September 30, 2018</u>
Available-for-sale financial assets	₩ 2,546	(2,546)	-	-	-	-
FVTPL	-	71,139	(20)	90	(4,190)	67,019
FVOCI	-	67,804	-	900	(2,329)	66,375
	<u>₩ 2,546</u>	<u>136,397</u>	<u>(20)</u>	<u>990</u>	<u>(6,519)</u>	<u>133,394</u>

(4) Enforceable master netting agreement or similar agreement

- 1) Carrying amount of financial instruments recognized of which offset agreements are applicable as of September 30, 2018 are as follows

(In millions of won)

	<u>September 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:					
Accounts receivable – trade and others	₩ 86,474	(85,803)	671	-	671
Financial liabilities:					
Accounts payable – other and others	₩ 85,803	(85,803)	-	-	-

SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

For the nine-month periods ended September 30, 2018 and 2017

28. Financial Risk Management, Continued

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

2) Carrying amount of financial instruments recognized of which offset agreements are applicable as of December 31, 2017 are as follows

(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
	₩ 115,198	(88,301)	26,897	(19,781)	7,116
Financial liabilities:					
Derivatives(*)	₩ 19,781	-	19,781	(19,781)	-
Accounts payable – other and others	88,301	(88,301)	-	-	-
	₩ 108,082	(88,301)	19,781	(19,781)	-

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

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29. Transactions with Related Parties

(1) List of related parties

Relationship	Company
Ultimate Controlling Entity	SK Holdings Co., Ltd.
Subsidiaries	SK Planet Co., Ltd. and 38 others(*)
Joint ventures	Dogus Planet, Inc. and 2 others
Associates	SK Hynix Inc. and 40 others
Others	The Ultimate Controlling Entity's other subsidiaries and associates, etc.

(*) As of September 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 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
	SERVICE ACE 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
	One Store Co., Ltd.	65.5 Telecommunication services
	SK Planet Co., Ltd. (*2,3)	98.7 Telecommunication services
	Eleven Street Co., Ltd.(*2)	80.3 Telecommunication services
	IRIVER LIMITED	52.6 Manufacturing of media and audio equipment
	SK Telecom Japan Inc.(*4)	100.0 Investment
	id Quantique SA(*5)	58.1 Quantum information and communications service
	Subsidiaries owned by SK Planet Co., Ltd.	SK m&service Co.,Ltd.
SK Planet Japan, K. K.		79.5 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 application development
K-net Culture and Contents Venture Fund		59.0 Capital investing in startups
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 devices in China
	groovers Japan Co., Ltd.	100.0 Digital music contents sourcing and distribution service
	LIFE DESIGN COMPANY Inc. (formerly, S.M. LIFE DESIGN COMPANY JAPAN INC.)	100.0 Selling of goods in Japan
	groovers Inc.(*6)	100.0 Selling of contents and Mastering Quality Sound album

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Notes to the Condensed Separate Interim Financial Statements

For the nine-month periods ended September 30, 2018 and 2017

29. Transactions with Related Parties, Continued

(1) List of related parties, Continued

	<u>Company</u>	<u>Ownership percentage(%)(*1)</u>	<u>Types of business</u>
Subsidiaries owned	NSOK Co., Ltd.	100.0	Security systems service
by SK Telink Co., Ltd.	SK TELINK VIETNAM Co., Ltd.(*7)	100.0	Communications device retail business
Subsidiaries owned	Home & Service Co., Ltd.	100.0	Operation of information and communication facility
by SK Broadband Co., Ltd.	SK stoa Co., Ltd.	100.0	Other telecommunication retail business
Others(*8)	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) Eleven Street Co., Ltd. was spun off from SK Planet Co., Ltd. during the nine-month period ended September 30, 2018.

(*3) SK techx Co., Ltd. was merged into SK Planet Co., Ltd. during the nine-month period ended September 30, 2018.

(*4) SK Telecom Japan Inc. was established during the nine-month period ended September 30, 2018.

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

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

(*7) SK TELINK VIETNAM Co., Ltd. was established by SK Telink Co., Ltd. during the nine-month period ended September 30, 2018.

(*8) Others are owned together by Atlas Investment and another 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.

29. Transactions with Related Parties, Continued

(2) Compensation to the key management personnel

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Notes to the Condensed Separate Interim Financial Statements

For the nine-month periods ended September 30, 2018 and 2017

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 nine-month periods ended September 30, 2018 and 2017 are as follows:

(In millions of won)

	2018		2017	
	For the period ended September 30			
	Three-month	Nine-month	Three-month	Nine-month
Salaries	₩ 779	3,995	332	1,831
Defined benefits plan expenses	121	799	83	175
Share option	170	441	135	279
	₩ 1,070	5,235	550	2,285

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 nine-month periods ended September 30, 2018 and 2017

29. Transactions with Related Parties, Continued

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

(In millions of won)

Scope	Company	For the period ended September 30, 2018					
		Operating revenue and others		Operating expense and others		Acquisition of property and equipment	
		Three-month	Nine-month	Three-month	Nine-month	Three-month	Nine-month
Ultimate Controlling Entity	SK Holdings Co., Ltd.(*1)	₩ 2,727	8,538	96,274	428,244	8,964	15,732
Subsidiaries	SK Broadband Co., Ltd.	29,411	87,129	139,386	403,036	15,660	20,007
	PS&Marketing Corporation(*2)	2,666	8,720	382,500	1,120,402	362	424
	Network O&S Co., Ltd.	1,099	3,153	53,988	159,855	12,332	22,382
	SK Planet Co., Ltd.	4,578	18,969	12,921	26,944	771	938
	SK Telink Co., Ltd.	13,669	42,802	5,725	16,951	-	-
	SERVICE ACE Co., Ltd.	1,936	5,804	32,546	97,838	-	-
	SERVICE TOP Co., Ltd.	2,111	6,403	35,894	115,211	-	-
	Eleven Street Co., Ltd.	1,974	1,974	1,595	1,595	-	-
	SK techx Co., Ltd.(*3)	812	3,373	11,961	96,258	9,782	11,064
	Others(*4)	15,789	28,360	18,090	39,569	321	2,974
		<u>74,045</u>	<u>206,687</u>	<u>694,606</u>	<u>2,077,659</u>	<u>39,228</u>	<u>57,789</u>
Associates	F&U Credit information Co., Ltd.	393	1,181	11,296	34,553	-	-
	HappyNarae Co., Ltd.	22	75	3,997	8,781	15,017	36,271
	SK hynix Inc.(*5)	6,593	163,486	14	220	-	-
	KEB HanaCard Co., Ltd.	3,149	12,087	3,773	11,615	-	-
	Others(*6)	2,331	4,590	7,472	25,606	355	478
		<u>12,488</u>	<u>181,419</u>	<u>26,552</u>	<u>80,775</u>	<u>15,372</u>	<u>36,749</u>
Other	SK Engineering & Construction Co., Ltd.	542	2,500	-	134	-	-
	SK Innovation Co., Ltd.	2,166	6,334	181	700	-	-
	SK Networks Co., Ltd.	4,800	10,605	3,512	11,191	368	435
	SK Networks Service Co., Ltd.	162	478	10,178	33,038	717	2,277
	SK Telesys Co., Ltd.	36	139	200	639	18,882	46,080
	SK TNS Co., Ltd.	25	75	10,915	17,672	91,420	180,587
	SK energy Co., Ltd.	462	1,795	7	152	-	-
	SKC Infra Services Co., Ltd.	8	41	2,181	6,651	421	927
	SK Infosec Co., Ltd.	-	76	7,439	22,555	2,548	3,669
	Others	2,471	8,230	1,380	3,865	-	-
		<u>10,672</u>	<u>30,273</u>	<u>35,993</u>	<u>96,597</u>	<u>114,356</u>	<u>233,975</u>
		<u>₩ 99,932</u>	<u>426,917</u>	<u>853,425</u>	<u>2,683,275</u>	<u>177,920</u>	<u>344,245</u>

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Notes to the Condensed Separate Interim Financial Statements

For the nine-month periods ended September 30, 2018 and 2017

29. Transactions with Related Parties, Continued

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

(*1) Operating expenses and others include ₩203,635 million of dividends declared and paid by the Company

(*2) Operating expenses and others include ₩643,239 million paid to PS&Marketing Corporation relating to purchase of accounts receivables resulting from sale of handsets.

(*3) Transactions with SK techx Co., Ltd occurred before merger with SK Planet Co., Ltd.

(*4) Operating revenue and others include ₩10,090 million of dividends received from SK Global Healthcare Business Group Ltd.

(*5) Operating revenue and others include ₩146,100 million of dividends received.

(*6) Operating revenue and others include ₩3,715 million of dividends received from Korea IT Fund and UniSK.

(In millions of won)

		For the period ended September 30, 2017						
Scope	Company	Operating revenue and others		Operating expense and others		Acquisition of property and equipment		
		Three-month	Nine-month	Three-month	Nine-month	Three-month	Nine-month	
Ultimate Controlling Entity	SK Holdings Co., Ltd.(*1)	₩	3,495	8,318	72,907	403,186	15,563	76,573
Subsidiaries	SK Broadband Co., Ltd.		31,284	87,555	130,463	407,652	16,659	19,523
	PS&Marketing Corporation(*2)		2,924	10,078	381,426	1,067,792	62	542
	Network O&S Co., Ltd.		1,483	3,412	42,974	151,147	15,552	19,973
	SK Planet Co., Ltd.		7,325	21,388	11,351	22,860	20	56
	SK Telink Co., Ltd.		16,277	46,855	5,229	14,280	-	-
	SERVICE ACE Co., Ltd.		1,986	5,954	31,472	96,789	-	-
	SERVICE TOP Co., Ltd.		2,097	6,341	34,411	102,873	-	-
	SK techx Co., Ltd		3,513	4,591	46,956	141,053	1,605	1,887
	Others		6,735	20,894	21,609	41,451	1,269	2,204
			<u>73,624</u>	<u>207,068</u>	<u>705,891</u>	<u>2,045,897</u>	<u>35,167</u>	<u>44,185</u>
Associates	F&U Credit information Co., Ltd.		401	1,221	10,671	33,535	-	37
	HappyNarae Co., Ltd.		26	29	2,754	10,741	21,553	34,035
	SK hynix Inc.(*3)		17,424	114,661	10	156	-	-
	KEB HanaCard Co., Ltd.		4,455	13,629	3,780	11,223	-	-
	Others(*4)		288	2,476	537	26,026	-	151
			<u>22,594</u>	<u>132,016</u>	<u>17,752</u>	<u>81,681</u>	<u>21,553</u>	<u>34,223</u>
Other	SK Engineering & Construction Co., Ltd.		476	2,818	98	239	-	-
	SK Innovation Co., Ltd.		1,533	4,476	183	673	-	-
	SK Networks Co., Ltd.		4,816	12,129	3,670	11,930	390	671
	SK Networks Service Co., Ltd.		161	161	17,603	35,422	522	824

SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

For the nine-month periods ended September 30, 2018 and 2017

29. Transactions with Related Parties, Continued

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

(In millions of won)

		2017					
		For the period ended September 30					
Scope	Company	Operating revenue and others		Operating expense and others		Acquisition of property and equipment	
		Three-month	Nine-month	Three-month	Nine-month	Three-month	Nine-month
Other	SK Telesys Co., Ltd.	₩ 40	123	491	1,210	28,208	55,771
	SK TNS Co., Ltd.	25	74	8,044	14,437	107,742	172,796
	Others	<u>2,513</u>	<u>7,173</u>	<u>11,978</u>	<u>35,467</u>	<u>2,639</u>	<u>4,739</u>
		<u>9,564</u>	<u>26,954</u>	<u>42,067</u>	<u>99,378</u>	<u>139,501</u>	<u>234,801</u>
Total		₩ <u>109,277</u>	<u>374,356</u>	<u>838,617</u>	<u>2,630,142</u>	<u>211,784</u>	<u>389,782</u>

(*1) Operating expenses and others include ₩203,635 million of dividends declared by the Company.

(*2) Operating expenses and others include ₩532,733 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 received.

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

SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

For the nine-month periods ended September 30, 2018 and 2017

29. Transactions with Related Parties, Continued

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

(In millions of won)

Scope	Company	September 30, 2018		
		Receivables		Payables
		Loans	Accounts receivable-trade, etc.	Accounts payable – other, etc.
Ultimate Controlling Entity	SK Holdings Co., Ltd.	₩ -	1,510	32,695
Subsidiaries	SK Broadband Co., Ltd.	-	7,676	43,619
	PS&Marketing Corporation	-	156	76,184
	Network O&S Co., Ltd.	-	283	24,884
	SK Planet Co., Ltd.	-	631	32,338
	SK Telink Co., Ltd.	-	10,139	4,666
	SERVICE ACE Co., Ltd.	-	111	22,638
	SERVICE TOP Co., Ltd.	-	139	23,455
	Eleven Street Co., Ltd.	-	4,182	296
	One Store Co., Ltd.	-	1,073	25,544
	SK m&service Co., Ltd.	-	4,713	4,916
	Others	-	874	14,825
			-	29,977
Associates	F&U Credit information Co., Ltd.	-	74	1,172
	HappyNarae Co., Ltd.	-	-	1,552
	SK hynix Inc.	-	4,769	-
	Wave City Development Co., Ltd.	-	37,263	-
	Daehan Kanggun BcN Co., Ltd.(*)	22,147	-	-
	KEB HanaCard Co., Ltd.	-	5,913	10,554
Others	611	2,624	4,321	
		22,758	50,643	17,599
Other	SK Engineering and Construction Co., Ltd.	-	161	-
	SK Innovation Co., Ltd.	-	1,967	169
	SK Networks Co., Ltd.	-	3,742	934
	SK Networks Services Co., Ltd.	-	-	6,785
	SK Telesys Co., Ltd.	-	12	166
	SK TNS Co., Ltd.	-	8	857
	SK Infosec Co., Ltd	-	12	7,085
	Others	-	1,526	712
		-	7,428	16,708
Total		₩ 22,758	89,558	340,367

(*) As of September 30, 2018, the Company recognized the entire balance of loans to Daehan Kanggun BcN Co., Ltd. as loss allowances.

29. Transactions with Related Parties, Continued

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Notes to the Condensed Separate Interim Financial Statements

For the nine-month periods ended September 30, 2018 and 2017

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

(In millions of won)

Scope		Company	December 31, 2017				
			Accounts receivable		Accounts payable		
			Loans	Accounts receivable- trade, etc.	Accounts payable - other, etc.		
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

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Notes to the Condensed Separate Interim Financial Statements

For the nine-month periods ended September 30, 2018 and 2017

The sales agents of the Company sell handsets to the Company's subscribers on an installment basis. During the nine-month period ended September 30, 2018, the Company entered into comprehensive agreements to purchase accounts receivables from handset sales with the 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 ₩740,165 million as of September 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 September 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.

SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

For the nine-month periods ended September 30, 2018 and 2017

31. Statements of Cash Flows

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

(In millions of won)

	For the nine-month period ended	
	September 30, 2018	September 30, 2017
Gain on foreign currency translations	₩ (894)	(132)
Interest income	(30,673)	(42,164)
Dividends	(177,490)	(101,256)
Gain relating to financial assets at FVTPL	(2,179)	(142)
Gain on disposal of long-term investment securities	-	(3,148)
Gain on disposal of property and equipment and intangible assets	(1,520)	(7,025)
Gain on valuation of derivatives	(1,423)	(1,195)
Gain on sale of accounts receivable - other	(17,341)	(13,504)
Loss on foreign currency translations	615	45
Bad debt for accounts receivable - trade	11,756	10,354
Bad debt for accounts receivable - other	2,438	227
Loss on disposal of long-term investments securities	-	694
Other financial expenses	-	2,030
Loss relating to financial assets at FVTPL	589	-
Depreciation and amortization	1,869,119	1,862,959
Loss on disposal of property and equipment and intangible assets	25,683	8,804
Interest expenses	173,723	182,351
Loss relating to financial liabilities at FVTPL	1,143	567
Loss on settlement of derivatives	12,156	8,910
Loss(gain) on investments in subsidiaries and associates	12,977	(196,001)
Retirement benefit expenses	30,047	29,229
Share option	441	279
Income tax expense	255,808	246,189
Other expenses	1,104	1,090
	₩ 2,166,079	1,989,161

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Notes to the Condensed Separate Interim Financial Statements

For the nine-month periods ended September 30, 2018 and 2017

31. Statements of Cash Flows, Continued

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

(In millions of won)

	For the nine-month period ended	
	September 30, 2018	September 30, 2017
Accounts receivable - trade	₩ (346,574)	35,662
Accounts receivable - other	373,035	(4,609)
Advance payments	(2,754)	15,611
Prepaid expenses	55,681	(3,871)
Inventories	4,043	3,884
Long-term accounts receivable - other	(30,554)	(93,611)
Contract assets	(7,608)	-
Guarantee deposits	(6,188)	9,184
Accounts payable - other	(133,672)	(38,072)
Advanced receipts	-	2,583
Withholdings	(38,351)	(64,905)
Deposits received	539	(4,257)
Accrued expenses	(98,810)	49,468
Unearned revenue	-	(839)
Provisions	(3,874)	(1,962)
Long-term provisions	2,501	(2,266)
Plan assets	7,155	5,655
Retirement benefit payment	(6,513)	(7,220)
Contract liabilities	6,815	-
Others	(4,981)	(21)
	<u>₩ (230,110)</u>	<u>(99,586)</u>

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

(In millions of won)

	For the nine-month period ended	
	September 30, 2018	September 30, 2017
Decrease in accounts payable - other relating to the acquisition of property and equipment and intangible assets	₩ (429,670)	(360,862)

SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

For the nine-month periods ended September 30, 2018 and 2017

32. Subsequent Events

(1) Life & Security Holdings Co., Ltd. (formerly, Siren Holdings Korea Co., Ltd.) stock purchase contract

On May 8, 2018, the Company entered into a contract to acquire 740,895 shares or 55% of Life & Security Holdings Co., Ltd. at ₩697,207 million in cash in order to strengthen the security business and expand residential customer base. The acquisition of the shares was completed on October 1, 2018. As a result, the Company obtained a control over Life & Security Holdings Co., Ltd. and its subsidiaries including ADT Caps Co., Ltd. and two others. The total cash considerations paid or payable for acquisition amounting to ₩697,207 million is subject to change in accordance with the contract's price adjustment conditions.

Blue Security Investments, LLC. holds 45% ownership of Life & Security Holdings Co., Ltd. since completion of transaction, and, according to the shareholders' agreement with, the entire shares held by Blue Security Investments, LLC. 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 per annum.

(2) SK Infosec Co., Ltd. stock exchange contract

On October 31, 2018, the Company entered into a comprehensive stock exchange contract to acquire SK Infosec., Ltd. as a wholly owned subsidiary in order to create synergies in the security business and increase corporate value. The exchange ratio of the stock exchange between SK Infosec Co., Ltd. to SK Telecom Co., Ltd. is 1:0.0997678, and the Company will issue 1,260,668 shares of treasury stock to SK Holdings Co., Ltd. The acquisition of SK Infosec Co., Ltd. will be completed on December 27, 2018 at the completion of the stock exchange.