

**SK TELECOM CO., LTD. AND SUBSIDIARIES**

Condensed Consolidated 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 consolidated interim financial statements of SK Telecom Co., Ltd. and its subsidiaries (the "Group"), which comprise the condensed consolidated statement of financial position as of September 30, 2018, the condensed consolidated statements of income and comprehensive income for the three and nine-month periods ended September 30, 2018 and 2017, the condensed consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 Group to the matter described in Note 3 to the condensed consolidated financial statements. The Group has initially adopted K-IFRS Nos. 1109 and 1115 for the year beginning on January 1, 2018, and the Group has taken an exemption not to restate the condensed consolidated 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 consolidated statement of financial position of the Group as of December 31, 2017, and the related consolidated 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 consolidated statement of financial position of the Group as of December 31, 2017, presented for comparative purposes, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

The procedures and practices utilized in the Republic of Korea to review such condensed consolidated 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 consolidated interim financial statements and notes thereto. Accordingly, the readers of the review report should understand that the above review report has not been updated to reflect the impact of such subsequent events or circumstances, if any.</p>
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SK TELECOM CO., LTD. and Subsidiaries  
Condensed Consolidated Statements of Financial Position

As of September 30, 2018 and December 31, 2017

<i>(In millions of won)</i>	<u>Note</u>	<u>September 30, 2018</u>	<u>December 31, 2017</u>
<b>Assets</b>			
<b>Current Assets:</b>			
Cash and cash equivalents	3,30,31	₩ 2,763,552	1,457,735
Short-term financial instruments	3,30,31,33	263,311	616,780
Short-term investment securities	3,9,30,31	129,441	144,386
Accounts receivable – trade, net	3,5,30,31,32	2,549,898	2,126,007
Short-term loans, net	3,5,30,31,32	70,837	62,830
Accounts receivable – other, net	3,5,30,31,32,33	1,030,845	1,260,835
Prepaid expenses	3,6	1,810,072	197,046
Contract assets	3,7	97,337	-
Inventories, net	8	257,687	272,403
Derivative financial assets	3,18,30,31	14,124	-
Advance payments and other	3,5,30,31,32	38,527	63,777
<b>Total Current Assets</b>		<b><u>9,025,631</u></b>	<b><u>6,201,799</u></b>
<b>Non-Current Assets:</b>			
Long-term financial instruments	3,30,31	1,217	1,222
Long-term investment securities	3,9,30,31	756,339	887,007
Investments in associates and joint ventures	11	12,080,823	9,538,438
Property and equipment, net	12,32,33	9,479,384	10,144,882
Goodwill	10	1,952,258	1,915,017
Intangible assets, net	13	3,196,659	3,586,965
Long-term contract assets	3,7	36,799	-
Long-term loans, net	3,5,30,31,32	27,476	50,874
Long-term accounts receivable - other	3,5,30,31,33	315,672	287,048
Long-term prepaid expenses	3,6	852,571	90,834
Guarantee deposits	3,5,30,31,32	299,259	292,590
Long-term derivative financial assets	3,18,30,31	33,204	253,213
Deferred tax assets	3,28	91,882	88,132
Defined benefit assets	17	5,989	45,952
Other non-current assets	5,30,31	31,333	44,696
<b>Total Non-Current Assets</b>		<b><u>29,160,865</u></b>	<b><u>27,226,870</u></b>
<b>Total Assets</b>		<b><u>₩ 38,186,496</u></b>	<b><u>33,428,669</u></b>

See accompanying notes to the condensed consolidated interim financial statements.

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

As of September 30, 2018 and December 31, 2017

<i>(In millions of won)</i>	<u>Note</u>	<u>September 30, 2018</u>	<u>December 31, 2017</u>
<b>Liabilities and Shareholders' Equity</b>			
<b>Current Liabilities:</b>			
Short-term borrowings	14,30,31	₩ 53,120	130,000
Current installments of long-term debt, net	14,30,31	1,183,870	1,530,948
Current installments of long-term payables - other	15,30,31	300,828	302,703
Accounts payable - trade	30,31,32	268,554	351,711
Accounts payable - other	30,31,32	1,318,205	1,867,074
Receipts in advance	3	-	161,266
Contract liabilities	3,7	99,298	-
Withholdings	3,30,31,32	1,139,295	961,501
Accrued expenses	30,31,32	1,328,234	1,327,906
Income tax payable	28	149,344	219,791
Unearned revenue	3	-	175,732
Derivative financial liabilities	18,30,31	-	28,406
Provisions	3,16	49,052	52,057
Other current liabilities		-	28
<b>Total Current Liabilities</b>		<b><u>5,889,800</u></b>	<b><u>7,109,123</u></b>
<b>Non-Current Liabilities:</b>			
Debentures, excluding current installments, net	14,30,31	6,777,192	5,596,570
Long-term borrowings, excluding current installments, net	14,30,31	106,066	211,486
Long-term payables - other	15,30,31	1,060,716	1,346,763
Long-term unearned revenue	3	-	7,052
Long-term contract liabilities	3,7	20,295	-
Defined benefit liabilities	17	107,967	61,960
Long-term derivative financial liabilities	18,30,31	8,233	11,064
Long-term provisions	16	32,213	32,669
Deferred tax liabilities	3,28	1,966,121	978,693
Other non-current liabilities	3,30,31	47,063	44,094
<b>Total Non-Current Liabilities</b>		<b><u>10,125,866</u></b>	<b><u>8,290,351</u></b>
<b>Total Liabilities</b>		<b><u>16,015,666</u></b>	<b><u>15,399,474</u></b>
<b>Shareholders' Equity</b>			
Share capital	1,19	44,639	44,639
Capital surplus and others	10,19,20,21	507,022	196,281
Retained earnings	3,22	21,696,906	17,835,946
Reserves	3,23	(356,081)	(234,727)
<b>Equity attributable to owners of the Parent Company</b>		<b>21,892,486</b>	<b>17,842,139</b>
<b>Non-controlling interests</b>		<b>278,344</b>	<b>187,056</b>
<b>Total Shareholders' Equity</b>		<b><u>22,170,830</u></b>	<b><u>18,029,195</u></b>
<b>Total Liabilities and Shareholders' Equity</b>		<b><u>₩ 38,186,496</u></b>	<b><u>33,428,669</u></b>

See accompanying notes to the condensed consolidated interim financial statements.

SK TELECOM CO., LTD. and Subsidiaries  
Condensed Consolidated 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)

	Note	September 30, 2018		September 30, 2017	
		Three-month period ended	Nine-month period ended	Three-month period ended	Nine-month period ended
<b>Operating revenue:</b>	3,4,32				
Revenue		₩ 4,186,392	12,522,253	4,442,739	13,022,697
<b>Operating expenses:</b>	3,32				
Labor		538,528	1,624,055	509,511	1,437,439
Commissions	3	1,266,093	3,745,048	1,372,781	4,103,409
Depreciation and amortization	4	767,529	2,321,230	777,663	2,305,546
Network interconnection		212,229	646,018	224,143	658,247
Leased line		79,594	236,739	86,636	257,835
Advertising		119,923	330,515	128,356	337,232
Rent		134,139	396,896	129,367	394,852
Cost of products that have been resold		418,288	1,228,108	477,928	1,325,497
Others	25	345,961	1,017,166	343,944	976,462
		<u>3,882,284</u>	<u>11,545,775</u>	<u>4,050,329</u>	<u>11,796,519</u>
<b>Operating profit</b>	4	<b>304,108</b>	<b>976,478</b>	<b>392,410</b>	<b>1,226,178</b>
Finance income	4,27	106,285	188,877	31,153	104,703
Finance costs	4,27	95,954	272,237	80,444	305,476
Other non-operating income	4,26	36,223	58,568	9,493	22,963
Other non-operating expenses	4,26	41,178	114,410	38,041	139,401
Gain on investments in subsidiaries, associates and joint ventures	4,11	992,448	2,534,688	689,480	1,567,730
<b>Profit before income tax</b>	4	<b>1,301,932</b>	<b>3,371,964</b>	<b>1,004,051</b>	<b>2,476,697</b>
Income tax expense	28	252,109	714,468	211,084	479,738
<b>Profit for the period</b>	₩	<b><u>1,049,823</u></b>	<b><u>2,657,496</u></b>	<b><u>792,967</u></b>	<b><u>1,996,959</u></b>
Attributable to:					
Owners of the Parent Company	₩	1,031,375	2,642,986	795,826	2,009,849
Non-controlling interests		18,448	14,510	(2,859)	(12,890)
<b>Earnings per share:</b>	29				
Basic and diluted earnings per share (in won)	₩	<u>14,555</u>	<u>37,260</u>	<u>11,271</u>	<u>28,345</u>

See accompanying notes to the condensed consolidated interim financial statements.

SK TELECOM CO., LTD. and Subsidiaries  
Condensed Consolidated 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
<b>Profit for the period</b>	₩	<b>1,049,823</b>	<b>2,657,496</b>	<b>792,967</b>	<b>1,996,959</b>
<b>Other comprehensive income (loss):</b>					
<b>Items that will never be reclassified to profit or loss, net of taxes:</b>					
Remeasurement of defined benefit liabilities	17	(80)	(52,710)	3,760	(6,118)
Valuation loss on financial assets at fair value through other comprehensive income	23	751	(9,987)	3,760	(6,118)
		(831)	(42,723)	-	-
<b>Items that are or may be reclassified subsequently to profit or loss, net of taxes:</b>					
Net change in unrealized fair value of available-for-sale financial assets	23	(86,904)	(23,374)	32,581	82,385
Net change in other comprehensive income of investments in associates and joint ventures	11,23	-	-	(5,409)	126,578
Net change in unrealized fair value of derivatives	23	(72,519)	(24,434)	28,458	(32,821)
Foreign currency translation differences for foreign operations	23	(5,328)	(14,289)	5,673	11,597
		(9,057)	15,349	3,859	(22,969)
<b>Other comprehensive income (loss) for the period, net of taxes</b>		<b>(86,984)</b>	<b>(76,084)</b>	<b>36,341</b>	<b>76,267</b>
<b>Total comprehensive income</b>	₩	<b>962,839</b>	<b>2,581,412</b>	<b>829,308</b>	<b>2,073,226</b>
Total comprehensive income (loss) attributable to:					
Owners of the Parent Company	₩	944,293	2,566,537	832,175	2,085,875
Non-controlling interests		18,546	14,875	(2,867)	(12,649)

See accompanying notes to the condensed consolidated interim financial statements.



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

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

(In millions of won)

	Note	Controlling Interest				Total	Non-controlling interests	Total equity
		Share capital	Capital surplus and others	Retained earnings	Reserves			
<b>Balance, January 1, 2017</b>		₩ 44,639	199,779	15,953,164	(226,183)	15,971,399	145,031	16,116,430
Total comprehensive income:								
Profit for the period		-	-	2,009,849	-	2,009,849	(12,890)	1,996,959
Other comprehensive income (loss)	17,23	-	-	(6,111)	82,137	76,026	241	76,267
		-	-	2,003,738	82,137	2,085,875	(12,649)	2,073,226
Transactions with owners:								
Annual dividends		-	-	(635,482)	-	(635,482)	(281)	(635,763)
Interim dividends		-	-	(70,609)	-	(70,609)	-	(70,609)
Interest on hybrid bonds		-	-	(8,420)	-	(8,420)	-	(8,420)
Share option	21	-	279	-	-	279	-	279
Changes in ownership in subsidiaries		-	(3,591)	13	-	(3,578)	4,520	942
		-	(3,312)	(714,498)	-	(717,810)	4,239	(713,571)
<b>Balance, September 30, 2017</b>		₩ 44,639	196,467	17,242,404	(144,046)	17,339,464	136,621	17,476,085
<b>Balance, December 31, 2017</b>		₩ 44,639	196,281	17,835,946	(234,727)	17,842,139	187,056	18,029,195
Impact of adopting K-IFRS No. 1115	3	-	-	1,900,049	-	1,900,049	-	1,900,049
Impact of adopting K-IFRS No. 1109	3	-	-	60,026	(68,804)	(8,778)	-	(8,778)
<b>Balance, January 1, 2018</b>		₩ 44,639	196,281	19,796,021	(303,531)	19,733,410	187,056	19,920,466
Total comprehensive income:								
Profit for the period		-	-	2,642,986	-	2,642,986	14,510	2,657,496
Other comprehensive income (loss)	17,23	-	-	(23,899)	(52,550)	(76,449)	365	(76,084)
		-	-	2,619,087	(52,550)	2,566,537	14,875	2,581,412
Transactions with owners:								
Annual dividends		-	-	(635,482)	-	(635,482)	-	(635,482)
Interim dividends		-	-	(70,609)	-	(70,609)	-	(70,609)
Interest on hybrid bonds		-	-	(12,111)	-	(12,111)	-	(12,111)
Repayments of hybrid bonds	20	-	(400,000)	-	-	(400,000)	-	(400,000)
Proceeds from issuance of hybrid bonds	20	-	398,759	-	-	398,759	-	398,759
Share option	21	-	441	-	-	441	126	567
Changes in ownership in subsidiaries		-	311,541	-	-	311,541	76,287	387,828
		-	310,741	(718,202)	-	(407,461)	76,413	(331,048)
<b>Balance, September 30, 2018</b>		₩ 44,639	507,022	21,696,906	(356,081)	21,892,486	278,344	22,170,830

See accompanying notes to the condensed consolidated interim financial statements.

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

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

(In millions of won)

	Note	September 30, 2018	September 30, 2017
<b>Cash flows from operating activities:</b>			
Cash generated from operating activities:			
Profit for the period		₩ 2,657,496	1,996,959
Adjustments for income and expenses	34	837,318	1,668,754
Changes in assets and liabilities related to operating activities	34	<u>(483,832)</u>	<u>(133,527)</u>
Sub-total		3,010,982	3,532,186
Interest received		41,990	50,246
Dividends received		193,962	102,676
Interest paid		(179,262)	(167,975)
Income tax paid		<u>(388,747)</u>	<u>(574,016)</u>
<b>Net cash provided by operating activities</b>		<b><u>2,678,925</u></b>	<b><u>2,943,117</u></b>
<b>Cash flows from investing activities:</b>			
Cash inflows from investing activities:			
Decrease in short-term financial instruments, net		373,505	-
Decrease in short-term investment securities, net		-	20,025
Collection of short-term loans		160,622	157,720
Decrease in long-term financial instruments		5	1
Proceeds from disposal of long-term investment securities		365,987	128,741
Proceeds from disposal of investments in associates and joint ventures		44,505	4,564
Proceeds from disposal of property and equipment		51,663	24,692
Proceeds from disposal of intangible assets		9,720	8,257
Collection of long-term loans		9,833	2,067
Decrease in deposits		6,509	61,193
Proceeds from disposal of other non-current assets		956	1,009
Acquisitions of subsidiaries, net of cash acquired		<u>8,163</u>	<u>-</u>
		1,031,468	408,269
Cash outflows for investing activities:			
Increase in short-term financial instruments, net		-	(155,482)
Increase in short-term investment securities, net		(4,379)	-
Increase in short-term loans		(168,543)	(159,798)
Increase in long-term loans		(4,710)	(3,868)
Increase in long-term financial instruments		-	(2,022)
Acquisition of long-term investment securities		(10,732)	(17,034)
Acquisition of investments in associates and joint ventures		(196,593)	(124,342)
Acquisition of property and equipment		(1,852,323)	(1,885,750)
Acquisition of intangible assets		(68,167)	(78,754)
Increase in deposits		(4,264)	(63,063)
Increase in other non-current assets		-	(48)
Acquisition of business, net of cash acquired		(4,452)	-
Acquisition of subsidiaries		(44,080)	(25,891)
Disposal of subsidiaries		<u>(1,836)</u>	<u>(1,600)</u>
		<u>(2,360,079)</u>	<u>(2,517,652)</u>
<b>Net cash used in investing activities</b>		<b>₩ <u>(1,328,611)</u></b>	<b><u>(2,109,383)</u></b>

See accompanying notes to the condensed consolidated interim financial statements.

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

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

(In millions of won)

	<u>September 30, 2018</u>	<u>September 30, 2017</u>
<b>Cash flows from financing activities:</b>		
Cash inflows from financing activities:		
Proceeds from short-term borrowings, net	₩ -	77,386
Proceeds from issuance of debentures	1,809,641	525,166
Proceeds from long-term borrowings, net	-	70,000
Proceeds from issuance of hybrid bonds	398,759	-
Cash inflows from capital increase by subsidiary	499,926	40,938
	<u>2,708,326</u>	<u>713,490</u>
Cash outflows for financing activities:		
Decrease in short-term borrowings, net	(78,393)	-
Repayments of long-term account payables-other	(304,672)	(304,815)
Repayments of debentures	(1,086,550)	(469,119)
Repayments of long-term borrowings	(58,354)	(21,307)
Cash outflows from settlement of derivatives	(29,278)	(22,884)
Payments of cash dividends	(706,091)	(706,091)
Payments of interest on hybrid bonds	(12,112)	(8,420)
Repayments of hybrid bonds	(400,000)	-
Transactions with the non-controlling shareholders	(76,805)	(41,795)
	<u>(2,752,255)</u>	<u>(1,574,431)</u>
<b>Net cash used in financing activities</b>	<b><u>(43,929)</u></b>	<b><u>(860,941)</u></b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>1,306,385</b>	<b>(27,207)</b>
Cash and cash equivalents at beginning of the period	1,457,735	1,505,242
Effects of exchange rate changes on cash and cash equivalents	(568)	(1,985)
Cash and cash equivalents classified as held for sale	-	(28,872)
<b>Cash and cash equivalents at end of the period</b>	<b>₩ <u>2,763,552</u></b>	<b><u>1,447,178</u></b>

See accompanying notes to the condensed consolidated interim financial statements.

# SK TELECOM CO., LTD. and Subsidiaries

## Notes to the Condensed Consolidated Interim Financial Statements

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

### 1. Reporting Entity

#### (1) General

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

The Parent Company’s common shares and depositary receipts (DRs) are listed on the Stock Market of Korea Exchange, the New York Stock Exchange and the London Stock Exchange. As of September 30, 2018, the Parent 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
	80,745,711	100.00

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

#### (2) List of subsidiaries

The list of subsidiaries as of September 30, 2018 and December 31, 2017 is as follows:

Subsidiary	Location	Primary business	Ownership (%)(*1)		
			Sept. 30, 2018	Dec. 31, 2017	
Subsidiaries owned by the Parent Company	SK Telink Co., Ltd.	Korea	Telecommunication and Mobile Virtual Network Operator service	100.0	100.0
	SK Communications Co., Ltd.	Korea	Internet website services	100.0	100.0
	SK Broadband Co., Ltd.	Korea	Telecommunication services	100.0	100.0
	PS&Marketing Corporation	Korea	Communications device retail business	100.0	100.0
	SERVICEACE Co., Ltd.	Korea	Call center management service	100.0	100.0
	SERVICE TOP Co., Ltd.	Korea	Call center management service	100.0	100.0
	Network O&S Co., Ltd.	Korea	Base station maintenance service	100.0	100.0
	SK Planet Co., Ltd.(*3)	Korea	Telecommunication service	98.7	98.1
	IRIVER LIMITED (*2)	Korea	Manufacturing digital audio players and other portable media devices	52.6	45.9
	SK Telecom China Holdings Co., Ltd.	China	Investment	100.0	100.0
	SK Global Healthcare Business Group, Ltd.	Hong Kong	Investment	100.0	100.0
	SKT Vietnam PTE. Ltd.	Singapore	Used device distribution business	73.3	73.3
	SKT Americas, Inc.	USA	Information gathering and consulting	100.0	100.0
	YTK Investment Ltd.	Cayman Islands	Investment association	100.0	100.0
	Atlas Investment	Cayman Islands	Investment association	100.0	100.0
	SK techx Co., Ltd.(*4)	Korea	System software development and supply	-	100.0
	One Store Co., Ltd.	Korea	Telecommunication services	65.5	65.5
	Eleven Street Co., Ltd.(*3,4)	Korea	E-commerce	81.8	-
	SK Telecom Japan Inc.(*4)	Japan	Information gathering and consulting	100.0	-
	id Quantique SA(*4)	Switzerland	Quantum information and communications service	58.1	-

### 1. Reporting Entity, Continued

#### (2) List of subsidiaries, Continued

# SK TELECOM CO., LTD. and Subsidiaries

## Notes to the Condensed Consolidated Interim Financial Statements

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

The list of subsidiaries as of September 30, 2018 and December 31, 2017 is as follows, Continued:

	Subsidiary	Location	Primary business	Ownership (%)(*1)	
				Sept. 30, 2018	Dec. 31, 2017
Subsidiaries owned by SK Planet Co., Ltd.	SK m&service Co.,Ltd.	Korea	Data base and internet website service	100.0	100.0
	SK Planet Japan, K. K.	Japan	Digital contents sourcing service	79.5	79.5
	SK Planet Global PTE. Ltd.(*4)	Singapore	Digital contents sourcing service	-	100.0
	SKP GLOBAL HOLDINGS PTE. LTD.	Singapore	Investment	100.0	100.0
	SKP America LLC.	USA	Digital contents sourcing service	100.0	100.0
	shopkick Management Company, Inc.	USA	Investment	100.0	100.0
	shopkick, Inc.	USA	Reward points-based in-store shopping application development	100.0	100.0
	11street (Thailand) Co., Ltd.(*4)	Thailand	Electronic commerce	-	100.0
	Hello Nature Ltd.(*4)	Korea	Retail of agro-fisheries and livestock	49.9	100.0
	K-net Culture and Contents Venture Fund	Korea	Capital investing in startups	59.0	59.0
Subsidiaries owned by IRIVER LIMITED	iriver Enterprise Ltd.	Hong Kong	Management of Chinese subsidiaries	100.0	100.0
	iriver Inc.	USA	Marketing and sales in North America	100.0	100.0
	iriver China Co., Ltd.	China	Sales of and manufacturing MP3 and 4	100.0	100.0
	Dongguan iriver Electronics Co., Ltd.	China	Sales of and manufacturing e-book	100.0	100.0
	groovers Japan Co., Ltd.	Japan	Digital music contents sourcing and distribution service	100.0	100.0
	LIFE DESIGN COMPANY Inc. (formerly,S.M. LIFE DESIGN COMPANY JAPAN INC.)	Japan	Sale of goods in Japan	100.0	100.0
	S.M. Mobile Communications JAPAN Inc.(*4)	Japan	Digital contents service	-	100.0
	groovers Inc.(*4)	Korea	Sale of contents and Mastering Quality Sound album	100.0	44.2
Subsidiary owned by SK Telink Co., Ltd.	NSOK Co., Ltd.	Korea	Security and maintenance services	100.0	100.0
	SK TELINK VIETNAM Co., Ltd.(*4)	Vietnam	Communications device retail business	100.0	-
Subsidiaries owned by SK Broadband Co., Ltd.	Home & Service Co., Ltd.	Korea	Operation of information and communications facility	100.0	100.0
	SK stoa Co., Ltd.	Korea	Other telecommunication retail business	100.0	100.0
Others(*5)	SK Telecom Innovation Fund, L.P	USA	Investment	100.0	100.0
	SK Telecom China Fund I L.P.	Cayman Islands	Investment	100.0	100.0

# SK TELECOM CO., LTD. and Subsidiaries

## Notes to the Condensed Consolidated Interim Financial Statements

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

### 1. Reporting Entity, Continued

#### (2) List of subsidiaries, Continued

The list of subsidiaries as of September 30, 2018 and December 31, 2017 is as follows, Continued:

- (\*1) The ownership interest represents direct ownership interest in subsidiaries either by the Parent Company or subsidiaries of the Parent Company.
- (\*2) The Parent Company participated in a third party allotment offering to itself and to SM Entertainment Co., Ltd., and acquired 7,420,091 shares out of 7,990,867 new shares that were issued.
- (\*3) SK Planet Co., Ltd. spun off the business unit of 11st (E-commerce and Internet-related business) and incorporated Eleven Street Co., Ltd. on August 31, 2018. Subsequent to the spin-off, Eleven Street Co., Ltd. issued redeemable convertible preferred stocks to H&Q Korea Partners, LLC. The present value of obligatory dividends amounting to ₩19,413 million based on the shareholders agreement are recognized as financial liabilities as of September 30, 2018.
- (\*4) Details of changes in consolidation scope for the nine-month period ended September 30, 2018 are presented and explained separately in Note 1-(4).
- (\*5) Others are owned together by Atlas Investment and another subsidiary of the Parent Company.

#### (3) Condensed financial information of subsidiaries

Condensed financial information of significant subsidiaries as of and for the nine-month period ended September 30, 2018 is as follows:

(In millions of won)

Subsidiary	As of September 30, 2018			For the nine-month period ended September 30, 2018	
	Total assets	Total liabilities	Total equity	Revenue	Profit (loss)
SK Telink Co., Ltd.	₩ 506,608	114,886	391,722	276,267	31,033
Eleven Street Co., Ltd. (*1)	1,043,122	481,540	561,582	51,711	2,799
SK m&service Co., Ltd.	92,735	43,361	49,374	147,488	(225)
SK Communications Co., Ltd.	83,690	27,710	55,980	31,481	(10,001)
SK Broadband Co., Ltd.	4,413,400	2,892,676	1,520,724	2,293,599	94,927
K-net Culture and Contents Venture Fund	178,234	33,090	145,144	-	46,370
PS&Marketing Corporation	441,347	224,471	216,876	1,193,608	(1,027)
SERVICEACE Co., Ltd.	80,437	47,223	33,214	147,405	3,208
SERVICE TOP Co., Ltd.	68,632	40,785	27,847	151,676	5,464
Network O&S Co., Ltd.	68,320	28,907	39,413	182,462	(1,902)
SK Planet Co., Ltd.	1,075,002	386,694	688,308	577,817	(64,218)
IRIVER LIMITED(*2)	214,338	34,069	180,269	93,001	238
SKP America LLC.	433,463	-	433,463	-	(238)
One Store Co., Ltd.	113,677	59,556	54,121	79,911	(10,995)
Home & Service Co., Ltd.	97,472	56,686	40,786	232,164	(4,562)
shopkick Management Company, Inc.	357,258	-	357,258	-	(204)
shopkick, Inc.	27,401	31,236	(3,835)	34,391	(13,719)

### 1. Reporting Entity, Continued

#### (3) Condensed financial information of subsidiaries, Continued

# SK TELECOM CO., LTD. and Subsidiaries

## Notes to the Condensed Consolidated Interim Financial Statements

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

Condensed financial information of significant subsidiaries as of and for the nine-month period ended September 30, 2018 is as follows, Continued:

(\*1) The condensed financial information of Eleven Street Co., Ltd. includes one month of revenue and profit since the spin-off on August 31, 2018.

(\*2) The condensed financial information of IRIVER LIMITED is consolidated financial information including iriver Enterprise Ltd. and six other subsidiaries of IRIVER LIMITED. Information for the other subsidiaries in the above summary is based on their separate financial statements.

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

(In millions of won)

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

(\* ) The condensed financial information of IRIVER LIMITED is consolidated financial information including iriver Enterprise Ltd. and six other subsidiaries of IRIVER LIMITED. Information for the other subsidiaries in the above summary is based on their separate financial statements.

# SK TELECOM CO., LTD. and Subsidiaries

## Notes to the Condensed Consolidated Interim Financial Statements

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

### 1. Reporting Entity, Continued

#### (4) Changes in subsidiaries

1) The list of subsidiaries that were newly included in consolidation during the nine-month period ended September 30, 2018 is as follows:

Subsidiary	Reason
Eleven street Co., Ltd.	Spun-off from SK Planet Co., Ltd.
id Quantique SA	Acquired by the Parent Company
SK Telecom Japan Inc.	Established by the Parent Company
groovers Inc.	Acquired additional ownership interests by IRIVER LIMITED
SK TELINK VIETNAM Co., Ltd.	Established by SK Telink Co., Ltd.

2) The list of subsidiaries that were excluded from consolidation during the nine-month period ended September 30, 2018 is as follows:

Subsidiary	Reason
11street (Thailand) Co., Ltd.	Disposed by SK Planet Co., Ltd.
Hello Nature Ltd.	Loss of control due to third parties' investments
SK techx Co., Ltd.	Merged into SK Planet Co., Ltd.
S.M. Mobile Communications JAPAN Inc.	Merged into groovers Japan Co., Ltd.
SK Planet Global PTE. Ltd.	Liquidated



SK TELECOM CO., LTD. and Subsidiaries  
Notes to the Condensed Consolidated Interim Financial Statements

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

1. Reporting Entity, Continued

(5) The financial information of significant non-controlling interests of the Group as of and for the nine-month period ended September 30, 2018, and as of and for the year ended December 31, 2017 are as follows.

(In millions of won)

		<b>K-net Culture and Contents Venture Fund</b>	<b>IRIVER LIMITED</b>	<b>One Store Co., Ltd.</b>	<b>Eleven Street Co., Ltd.</b>
Ownership of non-controlling interests (%)		41.00	47.36	34.46	18.19
<b>As of September 30, 2018</b>					
Current assets	₩	112	139,961	89,075	966,852
Non-current assets		178,122	74,377	24,602	76,270
Current liabilities		(33,090)	(25,691)	(57,459)	(470,243)
Non-current liabilities		-	(8,378)	(2,097)	(11,297)
Net assets		145,144	180,269	54,121	561,582
Carrying amount of non-controlling interests		59,509	88,605	18,650	98,621
<b>For the nine-month period ended September 30, 2018</b>					
Revenue	₩	-	93,001	79,911	51,712
Profit (Loss) for the period		46,370	238	(10,995)	2,799
Total comprehensive income (loss)		40,927	(714)	(11,023)	2,799
Profit (Loss) attributable to non-controlling interests		19,012	186	(3,789)	509
Net cash provided by (used in) operating activities	₩	115,482	4,385	(185)	(15,498)
Net cash provided by (used in) investing activities		600	(15,194)	(10,117)	(13,334)
Net cash provided by (used in) financing activities		(116,073)	79,636	4	494,923
Net increase(decrease) in cash and cash equivalents		9	68,827	(10,298)	466,091
Dividend paid to non-controlling interests during the nine-month period ended September 30, 2018	₩	36,178	-	-	-

SK TELECOM CO., LTD. and Subsidiaries  
Notes to the Condensed Consolidated Interim Financial Statements

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

**1. Reporting Entity, Continued**

- (5) The financial information of significant non-controlling interests of the Group as of and for the nine-month period ended September 30, 2018, and as of and for the year ended December 31, 2017 are as follows, Continued

(In millions of won)

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

There were no dividends paid during the year ended December 31, 2017 by subsidiaries of which non-controlling interests are significant.

**2. Basis of Preparation**

- (1) Statement of compliance

These condensed consolidated interim financial statements were prepared in accordance with K-IFRS No. 1034, *Interim Financial Reporting*, as part of the period covered by the Group'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 Group since December 31, 2017. These condensed consolidated interim financial statements do not include all of the disclosures required for full annual financial statements.

# SK TELECOM CO., LTD. and Subsidiaries

## Notes to the Condensed Consolidated Interim Financial Statements

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

### 2. Basis of Preparation, Continued

#### (2) Use of estimates and judgments

##### 1) Critical judgments, assumptions and estimation uncertainties

The preparation of the condensed consolidated 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 consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated 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.

##### 2) Fair value measurement

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. The Group has 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 Group uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

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

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

# SK TELECOM CO., LTD. and Subsidiaries

## Notes to the Condensed Consolidated 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 Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its consolidated 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 Group consolidated financial statements as at and for the year ending December 31, 2018.

#### (1) Changes in accounting policies

The Group 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 Group's condensed consolidated 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 the revenue recognition guidance, including K-IFRS No. 1018, *Revenue*, K-IFRS No. 1011, *Construction Contracts*, K-IFRS No. 2031, *Revenue: Barter Transactions Involving Advertising Services*, K-IFRS No. 2113, *Customer Loyalty Programs*, K-IFRS No. 2115, *Agreements for the Construction of Real Estate*, and K-IFRS No. 2118, *Transfers of Assets from Customers*.

The Group 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 Group 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 Group's revenue is generated from providing wireless telecommunications services. K-IFRS No. 1115 requires the Group 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 Group provides a wireless telecommunications service and sells a handset together to one customer, the Group 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.

The Group also determined that the installation services provided with the fixed-line telecommunication services are not distinguishable performance obligations from the related fixed-line telecommunication services such as high speed broadband Internet or Internet Protocol TV (IPTV) services. Therefore, the Group included the installation fee in the fixed-line telecommunication service revenue. The installation fee will be recognized as revenue over the contract term in which the Group has to provide fixed-line telecommunication services. The Group recognized ₩ 23,063 million as contract liability on the consolidated statement of financial position as of January 1, 2018 due to such change in the accounting policies.

# SK TELECOM CO., LTD. and Subsidiaries

## Notes to the Condensed Consolidated 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*, Continued

##### ii) Allocate the transaction price to each performance obligations

In accordance with K-IFRS No. 1115, the Group allocates the transaction price of a contract to each performance obligation on a relative stand-alone selling price basis. The Group uses “adjusted market assessment approach” method for estimating the stand-alone selling price of a good or service. However, in some circumstances, the Group used ‘expected cost plus a margin’ approach.

In the case of providing both wireless telecommunication services and mobile devices for sale, the Group allocates the transaction price based on relative stand-alone selling prices. As a result of applying K-IFRS No. 1115, the Group recognized ₩142,596 million of considerations allocated to handset sale revenue as contract assets at January 1, 2018.

##### iii) Incremental costs to acquire a contract

The Group 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 Group’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 Group 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 Group recognized ₩2,389,097 million of prepaid expenses as at January 1, 2018.

##### iv) Contract liability

Under K-IFRS No. 1115, the Group reclassified the receipts in advance and unearned revenue amounting to ₩109,555 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 consolidated interim financial statements

If the previous standards were applied to the Group’s condensed consolidated statement of financial position as of September 30, 2018, prepaid expenses and long-term prepaid expenses would be decreased by ₩1,602,901 million and ₩755,978 million, respectively, and contract assets and long-term contract assets would be decreased by ₩97,337 million and ₩36,799 million, respectively, while accounts receivable - trade would be increased by ₩3,404 million. As a result, total assets would be decreased by ₩2,489,611 million. In addition, contract liabilities, long-term contract liabilities and deferred tax liabilities would be decreased by ₩99,298 million, ₩20,295 million and ₩588,221 million, respectively, while other liabilities such as receipts in advance and unearned revenue would be increased by ₩93,172 million. As a result, total liabilities would be decreased by ₩614,642 million. In relation to these changes in assets and liabilities, retained earnings would be decreased by ₩1,874,969 million.

### 3. Significant Accounting Policies, Continued

#### (1) Changes in accounting policies, Continued

# SK TELECOM CO., LTD. and Subsidiaries

## Notes to the Condensed Consolidated Interim Financial Statements

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

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

#### v) Impact of adopting K-IFRS No. 1115 on the condensed consolidated interim financial statements, Continued

If the previous standards were applied to the Group's condensed consolidated statement of income for the nine-month period ended September 30, 2018, revenues and advertising would be increased by ₩69,329 million and ₩38,559 million, respectively, while commission expenses would be decreased by ₩10,596 million. Operating profit and profit before income tax would be increased by ₩41,033 million with increase in operating expenses by ₩28,296 million. As a result, profit for the period would be increased by ₩25,080 million with increase in income tax expense of ₩15,953 million.

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

### 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 Group adopted K-IFRS No. 1109, *Financial Instruments*, from January 1, 2018, and the Group 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")	₩ (5,336)	947
Reclassification of available-for-sale financial assets to financial assets measured at fair value through other comprehensive income ("FVOCI")	(84,881)	90,322
Recognition of loss allowances on accounts receivable – trade and others	-	(13,049)
Related income tax	21,413	(18,194)
	<u>₩ (68,804)</u>	<u>60,026</u>

# SK TELECOM CO., LTD. and Subsidiaries

## Notes to the Condensed Consolidated 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

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.

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 Group 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 Group 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.

SK TELECOM CO., LTD. and Subsidiaries  
Notes to the Condensed Consolidated 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 accounting policies apply to the subsequent measurement of financial assets.

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



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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 Group'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
<b>Short-term financial assets:</b>					
Cash and cash equivalents	Amortized cost	Amortized cost	₩ 1,457,735	1,457,735	-
Short-term financial instruments	Amortized cost	Amortized cost	616,780	616,780	-
Short-term investment securities(*1)	Available-for-sale	FVTPL	47,383	47,383	-
Short-term investment securities	Designated as at FVTPL	FVTPL	97,003	97,003	-
Accounts receivable - trade	Amortized cost	Amortized cost	2,126,007	2,113,057	(12,950)
Short-term loans	Amortized cost	Amortized cost	62,830	62,830	-
Accounts receivable - other(*3)	Amortized cost	FVTPL	830,321	830,321	-
Accounts receivable - other	Amortized cost	Amortized cost	430,514	430,415	(99)
Accrued revenue	Amortized cost	Amortized cost	3,979	3,979	-
Guarantee deposits	Amortized cost	Amortized cost	3,927	3,927	-
			<u>5,676,479</u>	<u>5,663,430</u>	<u>(13,049)</u>
<b>Long-term financial assets:</b>					
Long-term financial instruments	Amortized cost	Amortized cost	1,222	1,222	-
Long-term investment securities(*1)	Available-for-sale	FVTPL	173,394	169,005	(4,389)
Long-term investment securities(*2)	Available-for-sale	FVOCI	713,613	719,054	5,441
Long-term accounts receivable - trade	Amortized cost	Amortized cost	12,748	12,748	-
Long-term loans	Amortized cost	Amortized cost	50,874	50,874	-
Long-term accounts receivable - other(*3)	Amortized cost	FVTPL	243,742	243,742	-
Long-term accounts receivable - other	Amortized cost	Amortized cost	43,306	43,306	-
Guarantee deposits	Amortized cost	Amortized cost	292,590	292,590	-
Derivative financial assets	Derivatives	Derivatives			
	hedging instrument	hedging instrument	21,902	21,902	-
Derivative financial assets(*1)	Designated as at FVTPL	FVTPL	231,311	9,054	(222,257)
Long-term investment securities(*1)	Designated as at FVTPL	FVTPL	-	222,257	222,257
			<u>1,784,702</u>	<u>1,785,754</u>	<u>1,052</u>
			<u>₩ 7,461,181</u>	<u>7,449,184</u>	<u>(11,997)</u>

3. Significant Accounting Policies, Continued

# SK TELECOM CO., LTD. and Subsidiaries

## Notes to the Condensed Consolidated Interim Financial Statements

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

### (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 Group'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 ₩205,435 million were reclassified to financial assets measured at FVTPL. In addition, as derivatives embedded in contracts where the host is a financial asset in the scope of K-IFRS No. 1109 are never separated, the available-for-sale financial assets related to the redeemable convertible preferred shares of ₩15,342 million and the related derivative financial assets of ₩222,257 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 designated as financial assets measured at amortized cost. As a result of this reclassification, as at January 1, 2018, accumulated OCI of ₩5,336 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 ₩7,265 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 ₩713,613 million were reclassified to equity investments at FVOCI and debt instrument at FVOCI of ₩713,399 million and ₩214 million, respectively. As a result of this reclassification, as at January 1, 2018, retained earnings of ₩ (-)90,322 million was reclassified to accumulated OCI and accumulated OCI was increased by ₩5,441 million due to the fair value measurement of financial assets which were stated at cost under K-IFRS No. 1039. The Group 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 ₩1,074,063 million were reclassified to financial assets at FVTPL. Upon the initial application of K-IFRS No. 1109, the Group 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.

### 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

# SK TELECOM CO., LTD. and Subsidiaries

## Notes to the Condensed Consolidated Interim Financial Statements

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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 Group expects to receive).

At each reporting date, the Group 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 Group 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 Group elected as its accounting policy to apply hedge accounting requirements under K-IFRS No. 1109. The Group designates derivatives such as currency swaps as hedging instruments to hedge the risk of variability in cash flows associated with the foreign currency debentures and borrowings. As the Group's hedging instruments as of 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 Consolidated Interim Financial Statements

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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 Group's statement of financial position as of January 1, 2018.

(In millions of won)

		December 31,	Adjustments		January 1, 2018
		2017	K-IFRS 1115	K-IFRS 1109	Restated
		As reported			
<b>Current Assets</b>	₩	6,201,799	1,804,080	(13,049)	7,992,830
Accounts receivable - trade, net		2,126,007	(4,314)	(12,950)	2,108,743
Accounts receivable - other, net		1,260,835	-	(99)	1,260,736
Prepaid expenses		197,046	1,695,704	-	1,892,750
Contract assets		-	112,690	-	112,690
Others		2,617,911	-	-	2,617,911
<b>Non-Current Assets</b>		27,226,870	718,898	1,052	27,946,820
Long-term investment securities		887,007	-	223,309	1,110,316
Long-term prepaid expenses		90,834	693,393	-	784,227
Long-term contract assets		-	30,363	-	30,363
Deferred tax assets		88,132	(4,858)	-	83,274
Others		26,160,897	-	(222,257)	25,938,640
<b>Total Assets</b>	₩	33,428,669	2,522,978	(11,997)	35,939,650
<b>Current Liabilities</b>		7,109,123	12,485	-	7,121,608
Provisions		52,057	(215)	-	51,842
Contract liabilities		-	114,284	-	114,284
Receipts in advance		161,266	(161,266)	-	-
Unearned revenue		175,732	(175,732)	-	-
Withholdings		961,501	235,414	-	1,196,915
Others		5,758,567	-	-	5,758,567
<b>Non-Current Liabilities</b>		8,290,351	610,444	(3,219)	8,897,576
Long-term contract liabilities		-	19,100	-	19,100
Long-term unearned revenue		7,052	(7,052)	-	-
Other non-current liabilities		44,094	(919)	-	43,175
Deferred tax liabilities		978,693	599,315	(3,219)	1,574,789
Others		7,260,512	-	-	7,260,512
<b>Total Liabilities</b>	₩	15,399,474	622,929	(3,219)	16,019,184
Share capital		44,639	-	-	44,639
Capital surplus and others		196,281	-	-	196,281
Retained earnings		17,835,946	1,900,049	60,026	19,796,021
Reserves		(234,727)	-	(68,804)	(303,531)
Non-controlling interests		187,056	-	-	187,056
<b>Total Shareholders' Equity</b>	₩	18,029,195	1,900,049	(8,778)	19,920,466
<b>Total Liabilities and Shareholders' Equity</b>	₩	33,428,669	2,522,978	(11,997)	35,939,650

# SK TELECOM CO., LTD. and Subsidiaries

## Notes to the Condensed Consolidated 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 Group has not early adopted the following new standard in preparing the accompanying condensed consolidated interim financial statements as of and for the nine-month period ended September 30, 2018.

#### K-IFRS No. 1116, *Leases*

The Group 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 Group analyzes the lease contracts to establish related internal controls and to update its accounting system. At the end of reporting period, the Group 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. Operating Segments

The Group's operating segments have been identified to be each business unit, by which the Group provides independent services and goods. The Group's reportable segments are cellular, which provides wireless voice and data transmission services, sale of wireless devices, IoT solutions and platform services; fixed-line telecommunication, which provides fixed-line telephone services, broadband Internet services, advanced media platform services (including IPTV) and business communications services; e-commerce, which runs open marketplace platform, 11st, and other commerce solutions; and other businesses, which include online portal service, hardware business and other operations that do not meet the quantitative thresholds to be separately considered reportable segments.

(1) Segment information 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						
	Cellular	Fixed-line telecommunication	E-commerce Services	Others	Sub-total	Adjustments	Total
Total revenue	₩ 10,531,096	2,876,241	618,903	589,637	14,615,877	(2,093,624)	12,522,253
Inter-segment revenue	1,180,515	715,115	27,555	170,439	2,093,624	(2,093,624)	-
External revenue	9,350,581	2,161,126	591,348	419,198	12,522,253	-	12,522,253
Depreciation and amortization	1,772,934	474,561	31,498	42,237	2,321,230	-	2,321,230
Operating profit (loss)	1,035,390	127,254	(128,106)	(58,060)	976,478	-	976,478
Finance income and costs, net							(83,360)
Gain relating to investments in associates and joint ventures, net							2,534,688
Other non-operating income and expense, net							(55,842)
Profit before income tax							3,371,964

SK TELECOM CO., LTD. and Subsidiaries  
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4. Operating Segments, Continued

(1) Segment information 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						
	Cellular	Fixed-line telecommu- nication	E-commerce Services	Others	Sub-total	Adjustments	Total
Total revenue	₩ 11,072,955	2,573,392	813,788	568,327	15,028,462	(2,005,765)	13,022,697
Inter-segment revenue	1,196,120	553,584	35,042	221,019	2,005,765	(2,005,765)	-
External revenue	9,876,835	2,019,808	778,746	347,308	13,022,697	-	13,022,697
Depreciation and amortization	1,780,213	439,007	41,572	44,754	2,305,546	-	2,305,546
Operating profit (loss)	1,333,587	121,314	(176,773)	(51,950)	1,226,178	-	1,226,178
Finance income and costs, net							(200,773)
Gain relating to investments in associates and joint ventures, net							1,567,730
Other non-operating income and expense, net							(116,438)
Profit before income tax							2,476,697

Since there are no intersegment sales of inventory or depreciable assets, there is no unrealized intersegment profit to be eliminated on consolidation. The Group principally operates its businesses in Korea and the revenue earned outside of Korea are immaterial. Therefore, no entity-wide geographical information is presented.

No single customer contributed 10% or more to the Group's total revenue for the nine-month periods ended September 30, 2018 and 2017.

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

4. Operating Segments, Continued

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

(In millions of won)

		<u>September 30, 2018</u>	<u>September 30, 2017</u>
Products transferred at a point in time:			
Cellular revenue	Goods (*1)	₩ 902,728	843,417
Fixed-line telecommunication revenue	Goods	72,313	56,127
Other revenue	Goods	72,083	60,592
	Goods	24,564	19,154
		<u>1,071,688</u>	<u>979,290</u>
Services transferred over time:			
Cellular revenue	Wireless service(*2)	7,376,379	7,972,451
	Cellular interconnection	437,524	445,755
	Other(*3)	633,950	615,212
Fixed-line telecommunication revenue	Wireless service	219,840	232,997
	Cellular interconnection	77,170	88,417
	Internet Protocol Television(*4)	824,985	727,270
	International calls	61,282	68,996
	Internet service and miscellaneous(*5)	905,536	846,001
E-commerce services revenue	E-commerce service	591,348	778,746
Other revenue	Miscellaneous(*6)	322,551	267,562
		<u>11,450,565</u>	<u>12,043,407</u>
		<u>₩ 12,522,253</u>	<u>13,022,697</u>

(\*1) Cellular revenue includes revenue from sales of handsets and others.

(\*2) Wireless service includes revenue from wireless voice and data transmission services principally derived from usage charges collected from the wireless subscribers.

(\*3) Other revenue includes revenue from billing and collection services as well as other miscellaneous services.

(\*4) IPTV service revenue includes revenue from IPTV services principally derived from usage charges collected from the IPTV subscribers.

(\*5) Internet service includes revenue from the high speed broadband internet service principally derived from usage charges collected from the subscribers as well as other miscellaneous services.

(\*6) Miscellaneous other revenue includes revenue from considerations received for the development and maintenance of system software, and digital contents platform services.

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5. 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)

		<b>September 30, 2018</b>		
		<b>Gross amount</b>	<b>Loss allowance</b>	<b>Carrying amount</b>
Current assets:				
Accounts receivable - trade	₩	2,817,364	(267,466)	2,549,898
Short-term loans		71,511	(674)	70,837
Accounts receivable - other(*)		1,102,165	(71,320)	1,030,845
Accrued income		4,747	-	4,747
Others		2,360	-	2,360
		<u>3,998,147</u>	<u>(339,460)</u>	<u>3,658,687</u>
Non-current assets:				
Long-term loans		74,581	(47,105)	27,476
Long-term accounts receivable - other(*)		315,672	-	315,672
Guarantee deposits		299,259	-	299,259
Long-term accounts receivable - trade		11,277	(122)	11,155
		<u>700,789</u>	<u>(47,227)</u>	<u>653,562</u>
	₩	<u>4,698,936</u>	<u>(386,687)</u>	<u>4,312,249</u>

(\*) Gross and carrying amounts of accounts receivable - other as of September 30, 2018 include ₩ 680,505 million of financial instruments classified as FVTPL.

(In millions of won)

		<b>December 31, 2017</b>		
		<b>Gross amount</b>	<b>Loss allowance</b>	<b>Carrying amount</b>
Current assets:				
Accounts receivable - trade	₩	2,365,270	(239,263)	2,126,007
Short-term loans		63,380	(550)	62,830
Accounts receivable - other		1,336,247	(75,412)	1,260,835
Accrued income		3,979	-	3,979
Others		3,927	-	3,927
		<u>3,772,803</u>	<u>(315,225)</u>	<u>3,457,578</u>
Non-current assets:				
Long-term loans		97,635	(46,761)	50,874
Long-term accounts receivable - other		287,048	-	287,048
Guarantee deposits		292,590	-	292,590
Long-term accounts receivable - trade		12,933	(185)	12,748
		<u>690,206</u>	<u>(46,946)</u>	<u>643,260</u>
	₩	<u>4,463,009</u>	<u>(362,171)</u>	<u>4,100,838</u>



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5. Trade and Other Receivables, Continued

- (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)

	<u>January 1, 2018</u>	<u>Impact of adopting K-IFRS No. 1109</u>	<u>Impairment</u>	<u>Write-offs (*)</u>	<u>Collection of receivables previously written-off</u>	<u>September 30, 2018</u>
Accounts receivable - trade	₩ 239,448	12,950	27,344	(23,191)	11,037	267,588
Accounts receivable - other	122,723	99	5,483	(14,013)	4,807	119,099
	₩ <u>362,171</u>	<u>13,049</u>	<u>32,827</u>	<u>(37,204)</u>	<u>15,844</u>	<u>386,687</u>

(In millions of won)

	<u>January 1, 2017</u>	<u>Impairment</u>	<u>Write-offs (*)</u>	<u>Collection of receivables previously written-off</u>	<u>September 30, 2017</u>
Accounts receivable - trade	₩ 241,828	24,146	(30,707)	12,753	248,020
Accounts receivable - other	127,504	225	(12,141)	7,478	123,066
	₩ <u>369,332</u>	<u>24,371</u>	<u>(42,848)</u>	<u>20,231</u>	<u>371,086</u>

(\*) The Group 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.

- (3) The Group applies the simplified approach that allows the Group 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 Group uses its historical credit loss experience and classifies the accounts receivable - trade by their credit risk characteristics and days overdue.

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

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**6. Prepaid expenses**

As discussed in Note 3, the Group 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	₩ 1,602,901	-
Others	207,171	197,046
	<u>1,810,072</u>	<u>197,046</u>
Non-current assets:		
Incremental costs of obtaining contracts	755,978	-
Others	96,593	90,834
	₩ <u>852,571</u>	<u>90,834</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	₩ 511,362	1,531,089

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

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**7. Contract assets and liabilities**

As discussed in Note 3, the Group 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	₩	134,136	143,053
Contract liabilities:			
wireless service contracts		17,648	16,624
customer loyalty programs		14,863	10,739
fixed-line service contracts		43,422	47,125
commerce service		3,818	6,779
others		39,842	52,117
	₩	<u>119,593</u>	<u>133,384</u>

**8. Inventories**

Details of inventories 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>		
		<u>Acquisition cost</u>	<u>Write-down</u>	<u>Carrying amount</u>	<u>Acquisition cost</u>	<u>Write-down</u>	<u>Carrying amount</u>
Merchandise	₩	232,488	(5,814)	226,674	251,463	(7,488)	243,975
Finished goods		1,895	(187)	1,708	1,889	(557)	1,332
Work in process		4,284	(340)	3,944	1,906	(956)	950
Raw materials		9,207	(2,032)	7,175	10,426	(3,249)	7,177
Supplies		18,186	-	18,186	18,969	-	18,969
	₩	<u>266,060</u>	<u>(8,373)</u>	<u>257,687</u>	<u>284,653</u>	<u>(12,250)</u>	<u>272,403</u>

**9. 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	₩	-	144,386
	FVTPL		129,441	-
		₩	<u>129,441</u>	<u>144,386</u>

SK TELECOM CO., LTD. and Subsidiaries  
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For the nine-month periods ended September 30, 2018 and 2017

**9. Investment Securities, Continued**

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

(In millions of won)

	Category	September 30, 2018	December 31, 2017
Equity instruments	Available-for-sale financial assets	₩ -	867,079
	FVOCI(*1)	486,758	-
		486,758	867,079
Debt instruments	Available-for-sale financial assets	-	19,928
	FVOCI	1,130	-
	FVTPL(*2)	268,451	-
		269,581	19,928
		₩ 756,339	887,007

(\*1) The Group designated ₩486,758 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 Group disposed the total shares of 3,520,964 issued by KB Financial Group Inc. in exchange for ₩179,569 million in cash.

(\*2) During the nine-month period ended September 30, 2018, the Group disposed 200,000 shares of the redeemable convertible preference shares issued by Bluehole Inc. in exchange for ₩130,000 million in cash.

**10. Business Combinations**

(1) Business combination

1) Acquisition of id Quantique SA by the Parent Company

During the nine-month period ended September 30, 2018, the Parent Company acquired additional 41,157,506 shares in exchange of ₩55,249 million in cash, which resulted in the Parent Company obtaining control over id Quantique SA with 44,157,506 shares and 58.1% ownership of the outstanding shares, in aggregate. Taking control of id Quantique SA will enable the Parent Company to increase its corporate value as the leading mobile telecommunication operator in Korea and to generate profit in overseas markets by utilizing quantum cryptographic security. id Quantique SA has recognized ₩3,328 million in revenue and ₩3,340 million in net losses since the transfer of control. Meanwhile, the existing shares were reclassified into the investment in a subsidiary from the FVOCI equity instrument with the valuation gain on FVOCI equity instrument of ₩1,636 million reclassified into the retained earnings.

2) Summary of the acquiree

Corporate name	id Quantique SA
Location	3, CHEMIN DE LA MARBRERIE, 1227 CAROUGE, SWITZERLAND
CEO	Gregoire Ribordy
Industry	Quantum information and communications industry

SK TELECOM CO., LTD. and Subsidiaries  
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For the nine-month periods ended September 30, 2018 and 2017

**10. Business Combinations, Continued**

(1) Business combination, Continued

3) Considerations paid and assets and liabilities recognized at the acquisition date are as follows:

*(In millions of won)*

I. Considerations paid:

Cash and cash equivalents	₩	55,249
Existing shares(financial assets at FVOCI) at fair value		3,965
		<u>59,214</u>

II. Assets and liabilities acquired:

Cash and cash equivalent	1,538
Trade and other receivables	13,609
Inventories	2,003
Property and equipment	415
Intangible assets	7,566
Other assets	447
Trade and other payables	(1,569)
Deferred tax liabilities	(1,648)
Other liabilities	(1,232)
	<u>21,129</u>

III. Non-controlling interests:	9,290
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IV. Goodwill( I -II+III)	₩ <u>47,375</u>
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(2) Business combination under common control

During the nine-month period ended September 30, 2018, SK Telink Co., Ltd., the subsidiary owned by the Parent Company, acquired a device business in exchange of ₩4,450 million in cash from SK Holdings Co., Ltd., the ultimate controlling entity of the Parent Company. As this transaction is a business combination under common control, the difference between the consideration and carrying amount of net assets amounting to ₩1,018 million was recognized as capital surplus and others.

SK TELECOM CO., LTD. and Subsidiaries  
Notes to the Condensed Consolidated Interim Financial Statements

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**11. Investments in Associates and Joint Ventures**

(1) Investments in associates and joint ventures accounted for using the equity method as of September 30, 2018 and December 31, 2017 are as follows:

(In millions of won)

	Country	September 30, 2018		December 31, 2017	
		Ownership (%)	Carrying amount	Ownership (%)	Carrying amount
<b>Investments in associates:</b>					
SK China Company Ltd.	China	27.3	₩ 523,594	27.3	526,099
Korea IT Fund(*1)	Korea	63.3	272,475	63.3	257,003
KEB HanaCard Co., Ltd.(*2)	Korea	15.0	285,014	15.0	280,988
NanoEnTek, Inc.	Korea	27.1	37,847	28.5	38,718
SK Technology Innovation Company	Cayman Islands	49.0	44,139	49.0	42,511
HappyNarae Co., Ltd.	Korea	45.0	25,120	45.0	21,873
SK hynix Inc.	Korea	20.1	10,493,628	20.1	8,130,000
SK MENA Investment B.V.	Netherlands	32.1	14,372	32.1	13,853
S.M.Culture & Contents Co.,Ltd.	Korea	23.4	63,220	23.4	64,966
Xian Tianlong Science and Technology Co., Ltd.(*3)	China	-	-	49.0	25,891
Hello Nature Ltd.(*4,5)	Korea	49.9	30,252	-	-
12CM Japan, Inc.(*6)	Japan	28.2	7,596	-	-
MAKEUS Corp.(*2,6)	Korea	8.9	9,487	-	-
SE ASIA INVESTMENT PTE. LTD.(*6)	Singapore	20.0	111,000	-	-
Pacific Telecom Inc.(*2,6)	USA	15.0	36,487	-	-
Daehan Kanggun BcN Co., Ltd. and others	-	-	102,612	-	96,479
			<u>12,056,843</u>		<u>9,498,381</u>
<b>Investments in joint ventures:</b>					
Dogus Planet, Inc.(*5,7)	Turkey	50.0	13,954	50.0	13,991
Finnq Co., Ltd.(*7)	Korea	49.0	10,026	49.0	16,474
12CM GLOBAL PTE. LTD.(*3)	Singapore	-	-	62.7	9,592
Celcom Planet(*5,7,8)	Malaysia	49.5	-	49.5	-
			<u>23,980</u>		<u>40,057</u>
			<u>₩ 12,080,823</u>		<u>9,538,438</u>

SK TELECOM CO., LTD. and Subsidiaries  
Notes to the Condensed Consolidated Interim Financial Statements

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

**11. Investments in Associates and Joint Ventures, Continued**

(1) Investments in associates and joint ventures accounted for using the equity method as of September 30, 2018 and December 31, 2017 are as follows, Continued

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

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

(\*3) During the nine-month period ended September 30, 2018, the Group disposed of the entire shares.

(\*4) During the nine-month period ended September 30, 2018, Hello Nature Ltd. increased capital by allocation to third parties, which decreased the Parent Company's ownership to 49.9% and was reclassified into the associate from the subsidiary due to the loss of the control. In addition, the Group has obligation for additional investments up to ₩20,000 million according to the agreement with the shareholders.

(\*5) The ownership interest is owned by SK Planet Co., Ltd.

(\*6) These investments were acquired during the nine-month period ended September 30, 2018.

(\*7) These investments were classified as investment in joint ventures as the Group has a joint control pursuant to the agreement with the other shareholders.

(\*8) During the nine-month period ended September 30, 2018, the Group invested ₩12,932 million by purchasing newly issued stocks, and the entire amount of this investment was recognized as equity losses.

(2) 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

SK TELECOM CO., LTD. and Subsidiaries  
Notes to the Condensed Consolidated Interim Financial Statements

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

11. Investments in Associates and Joint Ventures, Continued

(3) The condensed financial information of significant associates as of and for the nine-month period ended September 30, 2018 and as of and for the year ended December 31, 2017 are as follows:

(In millions of won)

	<b>SK hynix Inc.</b>	<b>KEB HanaCard Co., Ltd.</b>	<b>Korea IT Fund</b>	<b>SK China Company Ltd.</b>
<b>As of September 30, 2018</b>				
Current assets	₩ 17,700,533	7,962,996	131,443	644,243
Non-current assets	39,676,719	217,835	298,781	1,125,631
Current liabilities	10,002,009	1,579,306	-	63,863
Non-current liabilities	3,886,416	5,049,058	-	98,158
<b>For the nine-month period ended September 30, 2018</b>				
Revenue	30,506,985	1,204,993	35,521	67,816
Profit for the period	12,142,065	80,068	26,745	7,097
Other comprehensive income (loss)	2,520	(540)	(9,597)	(86,027)
Total comprehensive income (loss)	12,144,585	79,528	17,148	(78,930)

(In millions of won)

	<b>SK Hynix Inc.</b>	<b>KEB HanaCard Co., Ltd.</b>	<b>Korea IT Fund</b>	<b>SK China Company Ltd.</b>
<b>As of December 31, 2017</b>				
Current assets	₩ 17,310,444	7,339,492	144,874	729,872
Non-current assets	28,108,020	220,258	260,920	1,031,647
Current liabilities	8,116,133	1,181,746	-	81,161
Non-current liabilities	3,481,412	4,861,842	-	64,717
<b>For the year ended December 31, 2017</b>				
Revenue	30,109,434	1,519,607	11,743	69,420
Profit for the year	10,642,219	106,352	1,916	11,492
Other comprehensive income (loss)	(422,042)	(984)	4,108	27,190
Total comprehensive income	10,220,177	105,368	6,024	38,682



SK TELECOM CO., LTD. and Subsidiaries  
Notes to the Condensed Consolidated Interim Financial Statements

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

**11. Investments in Associates and Joint Ventures, Continued**

- (4) The condensed financial information of joint ventures as of and for the nine-month period ended September 30, 2018 and as of and for the year ended December 31, 2017 are as follows:

(In millions of won)

	<u>Dogus Planet, Inc.</u>	<u>Finnq Co., Ltd.</u>
	<u>As of September 30, 2018</u>	
Current assets	₩ 43,341	16,919
Cash and cash equivalents	42,318	1,181
Non-current assets	21,006	15,786
Current liabilities	35,059	5,037
Accounts payable, other payables and provision	29,523	905
Non-current liabilities	1,380	8,090
	<u>For the nine-month period ended September 30, 2018</u>	
Revenue	90,987	201
Depreciation and amortization	(5,422)	(2,535)
Interest income	1,191	4
Interest expense	-	(229)
Profit (Loss) for the period	3,570	(13,249)
Total comprehensive income (loss)	3,570	(13,249)

(In millions of won)

	<u>Dogus Planet, Inc.</u>	<u>Finnq Co., Ltd.</u>
	<u>As of December 31, 2017</u>	
Current assets	₩ 39,656	32,232
Cash and cash equivalents	25,818	4,590
Non-current assets	21,159	15,610
Current liabilities	32,622	5,685
Accounts payable, other payables and provision	2,743	2,290
Non-current liabilities	212	13,862
	<u>For the year ended December 31, 2017</u>	
Revenue	82,791	-
Depreciation and amortization	(6,152)	(1,077)
Interest income	781	532
Interest expense	(4)	(276)
Loss for the year	(4,535)	(15,699)
Total comprehensive loss	(4,535)	(15,699)

SK TELECOM CO., LTD. and Subsidiaries  
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For the nine-month periods ended September 30, 2018 and 2017

**11. Investments in Associates and Joint Ventures, Continued**

- (5) Reconciliations of financial information of significant associates to carrying amounts of investments in associates in the consolidated financial statements as of September 30, 2018 and December 31, 2017 are as follows:

(In millions of won)

		<b>September 30, 2018</b>				
		<b>Net assets</b>	<b>Ownership interests (%)</b>	<b>Net assets attributable to the ownership interests</b>	<b>Cost-book value differentials</b>	<b>Carrying amount</b>
<b>Associates:</b>						
SK hynix Inc. (*1,2)	₩	43,482,338	20.1	9,287,643	1,205,985	10,493,628
KEB HanaCard Co., Ltd.		1,552,467	15.0	232,870	52,144	285,014
Korea IT Fund		430,224	63.3	272,475	-	272,475
SK China Company Ltd. (*1)		1,605,509	27.3	437,842	85,752	523,594

(In millions of won)

		<b>December 31, 2017</b>				
		<b>Net assets</b>	<b>Ownership interests (%)</b>	<b>Net assets attributable to the ownership interests</b>	<b>Cost-book value differentials</b>	<b>Carrying amount</b>
<b>Associates:</b>						
SK hynix Inc. (*1,2)	₩	33,814,467	20.1	6,997,560	1,132,440	8,130,000
KEB HanaCard Co., Ltd.		1,516,162	15.0	227,424	53,564	280,988
Korea IT Fund		405,794	63.3	257,003	-	257,003
SK China Company Ltd. (*1)		1,612,899	27.3	439,857	86,242	526,099

(\*1) Net assets of these entities represent net assets excluding those attributable to their non-controlling interests.

(\*2) The ownership interest is based on the number of shares owned by the Parent Company as divided by the total shares issued by the investee company. The Group applied the equity method using the effective ownership interest which is based on the number of shares owned by the Parent Company and the investee's total shares outstanding. The effective ownership interest changed from 20.69% to 21.36% due to the investee company's acquisition of treasury shares.

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11. Investments in Associates and Joint Ventures, Continued

(6) Details of the changes in investments in associates and joint ventures accounted for using the equity method 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 and Disposal	Share of profits (losses)	Other comprehensive income (loss)	Other increase (decrease)	Ending balance
<b>Investments in associates:</b>							
SK China Company Ltd.	₩	526,099	-	1,451	(3,956)	-	523,594
Korea IT Fund (*)		257,003	-	26,467	(7,496)	(3,499)	272,475
KEB HanaCard Co., Ltd.		280,988	-	10,510	(6,484)	-	285,014
NanoEnTek, Inc.		38,718	-	(270)	(601)	-	37,847
SK Technology Innovation Company		42,511	-	(26)	1,654	-	44,139
HappyNarae Co., Ltd.		21,873	-	3,240	7	-	25,120
SK hynix Inc.(*)		8,130,000	-	2,515,916	(6,188)	(146,100)	10,493,628
SK MENA Investment B.V.		13,853	-	(4)	523	-	14,372
S.M.Culture & Contents Co., Ltd.		64,966	-	(1,431)	(315)	-	63,220
Xian Tianlong Science and Technology Co., Ltd.		25,891	(25,553)	(338)	-	-	-
Hello Nature Ltd.		-	-	372	-	29,880	30,252
12CM Japan, Inc.		-	7,697	(16)	(85)	-	7,596
MAKEUS Corp.		-	9,773	(286)	-	-	9,487
SE ASIA INVESTMENT PTE. LTD.		-	111,000	-	-	-	111,000
Pacific Telecom Inc.		-	36,487	-	-	-	36,487
Daehan Kanggun BcN Co., Ltd. and others (*)		96,479	17,942	(3,416)	(113)	(8,280)	102,612
Sub-total		9,498,381	157,346	2,552,169	(23,054)	(127,999)	12,056,843
<b>Investments in joint ventures:</b>							
Dogus Planet, Inc.		13,991	(76)	1,785	(1,648)	(98)	13,954
Finnq Co., Ltd.		16,474	-	(6,402)	(46)	-	10,026
12CM GLOBAL PTE. LTD.		9,592	(9,631)	42	(3)	-	-
Celcom Planet		-	12,932	(12,932)	-	-	-
Sub-total		40,057	3,225	(17,507)	(1,697)	(98)	23,980
	₩	9,538,438	160,571	2,534,662	(24,751)	(128,097)	12,080,823

(\*) Dividends received from the associates are deducted from the carrying amount during the nine-month period ended September 30, 2018.

SK TELECOM CO., LTD. and Subsidiaries  
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11. Investments in Associates and Joint Ventures, Continued

(6) Details of the changes in investments in associates and joint ventures accounted for using the equity method 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 and Disposal	Share of profits (losses)	Other comprehensive income (loss)	Other increase (decrease)	Ending balance
<b>Investments in associates:</b>							
SK China Company Ltd. (*)	₩	46,354	113,587	(524)	(1,355)	400,018	558,080
Korea IT Fund (*)		263,850	-	(8,718)	3,370	(1,403)	257,099
KEB HanaCard Co., Ltd.		265,798	-	14,259	(80)	-	279,977
NanoEnTek, Inc.		39,514	-	(451)	5	-	39,068
SK Industrial Development China Co., Ltd.		74,717	-	5,154	(1,092)	(78,779)	-
SK Technology Innovation Company		47,488	-	331	(2,426)	-	45,393
HappyNarae Co., Ltd.		17,236	688	1,690	46	-	19,660
SK hynix Inc.(*)		6,132,122	-	1,512,697	(26,924)	(87,660)	7,530,235
SK MENA Investment B.V.		15,451	-	99	7	-	15,557
SKY Property Mgmt. Ltd.		263,225	-	2,362	1,141	(266,728)	-
Xian Tianlong Science and Technology Co., Ltd.		25,880	-	(1)	-	-	25,879
Daehan Kanggun BcN Co., Ltd. and others (*)		115,181	(3,533)	5,085	(2,041)	(1,376)	113,316
Sub-total		7,306,816	110,742	1,531,983	(29,349)	(35,928)	8,884,264
<b>Investments in joint ventures:</b>							
Dogus Planet, Inc.		20,081	-	(802)	(522)	-	18,757
PT XL Planet Digital		27,512	9,036	(8,648)	(2,633)	-	25,267
Finnq Co., Ltd.		24,174	-	(4,040)	-	-	20,134
Celcom Planet and others		25,740	-	(6,143)	(389)	-	19,208
Sub-total		97,507	9,036	(19,633)	(3,544)	-	83,366
Total	₩	7,404,323	119,778	1,512,350	(32,893)	(35,928)	8,967,630

(\*) Dividends received from the associates are deducted from the carrying amount during the nine-month period ended September 30, 2017.

(7) The Group discontinued the application of equity method to the following investees due to their carrying amounts being reduced to zero. The details of cumulative unrecognized equity method losses as of September 30, 2018 are as follows:

(In millions of won)

		Unrecognized loss		Unrecognized change in equity	
		For the nine-month period ended September 30, 2018	Cumulative loss	For the nine-month period ended September 30, 2018	Cumulative loss
Wave City Development Co., Ltd.	₩	8,115	10,215	-	-
Daehan Kanggun BcN Co., Ltd. and others		4,625	9,941	-	365
	₩	12,740	20,156	-	365

12. Property and Equipment

SK TELECOM CO., LTD. and Subsidiaries  
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For the nine-month periods ended September 30, 2018 and 2017

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								
	Beginning balance	Acquisition	Disposal	Transfer	Depreciation	Business Combination	Disposal of subsidiaries	Ending balance
Land	₩ 862,861	2,418	(7,151)	8,275	-	-	-	866,403
Buildings	882,650	920	(4,149)	20,795	(39,057)	-	-	861,159
Structures	378,575	4,763	(26)	3,276	(27,071)	-	-	359,517
Machinery	7,079,798	412,275	(27,542)	777,206	(1,656,915)	20	-	6,584,842
Other	531,057	392,333	(4,445)	(352,321)	(101,034)	500	(3,079)	463,011
Construction in progress	409,941	520,930	(3,585)	(582,834)	-	-	-	344,452
	₩ 10,144,882	1,333,639	(46,898)	(125,603)	(1,824,077)	520	(3,079)	9,479,384

(In millions of won)

For the nine-month period ended September 30, 2017									
	Beginning balance	Acquisition	Disposal	Transfer	Depreciation	Impairment	Business Combination(*1)	Classified as held for sale(*2)	Ending balance
Land	₩ 835,909	2,938	(4,406)	18,288	-	-	-	-	852,729
Buildings	899,972	221	(459)	23,249	(38,663)	-	-	-	884,320
Structures	358,955	13,845	(74)	2,679	(26,235)	-	-	-	349,170
Machinery	7,036,050	323,535	(16,727)	991,658	(1,649,521)	(5)	-	(34)	6,684,956
Other	563,034	463,835	(5,616)	(394,202)	(106,770)	(2,213)	4	(625)	517,447
Construction in progress	680,292	672,040	(1,845)	(1,037,525)	-	-	-	-	312,962
	₩ 10,374,212	1,476,414	(29,127)	(395,853)	(1,821,189)	(2,218)	4	(659)	9,601,584

(\*1) Other includes property and equipment acquired in IRIVER LIMITED's purchase of LIFE DESIGN COMPANY Inc. (formerly, S.M. LIFE DESIGN COMPANY INC.) during the nine-month period ended September 30, 2017.

(\*2) The assets of advertising department of SK Planet Co., Ltd., a subsidiary of the Parent Company, were classified as held for sale during the nine-month period ended September 30, 2017.

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13. 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							Ending balance
	Beginning balance	Acquisition	Disposal	Transfer	Amortization	Impairment	Business Combination	
Frequency usage rights	₩ 2,176,940	-	-	-	(302,916)	-	-	1,874,024
Land usage rights	15,750	2,600	(842)	406	(5,737)	-	-	12,177
Industrial rights	111,347	4,274	(768)	4,119	(5,314)	-	55	113,713
Development costs	4,103	3,968	-	-	(1,319)	-	209	6,961
Facility usage rights	36,451	1,472	(36)	100	(5,806)	-	-	32,181
Customer relations	4,035	213	-	126	(1,391)	-	-	2,983
Club memberships	73,614	4,510	(2,304)	-	-	(173)	-	75,647
Other	1,164,725	48,503	(12,284)	160,149	(291,158)	(904)	9,942	1,078,973
	₩ 3,586,965	65,540	(16,234)	164,900	(613,641)	(1,077)	10,206	3,196,659

(In millions of won)

	For the nine-month period ended September 30, 2017							Ending balance
	Beginning balance	Acquisition	Disposal	Transfer	Amortization	Impairment	Classified as held for sale(*)	
Frequency usage rights	₩ 2,580,828	-	-	-	(302,916)	-	-	2,277,912
Land usage rights	20,834	2,836	(905)	200	(6,033)	-	-	16,932
Industrial rights	121,200	2,280	(19)	(2,165)	(5,299)	-	(1)	115,996
Development costs	4,871	1,925	-	-	(2,487)	-	-	4,309
Facility usage rights	41,788	1,689	(36)	122	(6,266)	-	-	37,297
Customer relations	6,652	918	-	-	(2,751)	-	-	4,819
Club memberships	74,039	4,598	(2,880)	87	-	-	(1,349)	74,495
Other	926,142	59,570	(7,340)	417,189	(268,534)	(233)	(359)	1,126,435
	₩ 3,776,354	73,816	(11,180)	415,433	(594,286)	(233)	(1,709)	3,658,195

(\*) The assets of advertising department of SK Planet Co., Ltd., a subsidiary of the Parent Company, were classified as held for sale during the nine-month period ended September 30, 2017.

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**13. Intangible Assets, Continued**

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

(In millions of won)

	<u>Amount</u>	<u>Description</u>	<u>Commencement of amortization</u>	<u>Completion of amortization</u>
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 Group participated in the frequency license allocation auction hosted by Ministry of Science and Information and Communication Technology (ICT) and was selected for the 3.5GHz and 28GHz license allocation during the 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 Group 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 Group 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.

**14. Borrowings and Debentures**

(1) Short-term borrowings as of September 30, 2018 and December 31, 2017 are as follows:

(In millions of won)

	<u>Lender</u>	<u>Annual interest rate(%)</u>	<u>September 30, 2018</u>	<u>December 31, 2017</u>
Short-term borrowings	Shinhan Bank	3.19	₩ 30,000	30,000
	KEB Hana Bank	3.90	5,000	-
		3.92	15,000	-
	WOORI Bank	5.75	3,120	-
Commercial paper	KEB Hana Bank	1.67	-	50,000
Bank overdraft	KEB Hana Bank	3.17	-	30,000
	Shinhan Bank	3.38	-	20,000
			<u>₩ 53,120</u>	<u>130,000</u>

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**14. Borrowings and Debentures, Continued**

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

(In millions of won)

	<u>Lender</u>	<u>Annual interest rate(%)</u>	<u>Maturity</u>	<u>Book value</u>
Current				₩ 41,331
Non-current				211,486
As of January 1, 2018				<u>252,817</u>
Repayments of long-term borrowings:				
	Kookmin Bank	1.95	Mar. 15, 2018	(717)
	Korea Development Bank	2.20	Jul. 30, 2019	(9,750)
	Korea Development Bank	2.20	Jul. 30, 2019	(2,500)
	Korea Development Bank	2.32	Dec. 20, 2021	(9,187)
	Korea Development Bank	3.20	Mar. 31, 2020	(30,000)
	Export Kreditnamnden	1.70	Apr. 29, 2022	(6,200)
Other changes(*)				<u>2,186</u>
Current				90,583
Non-current				106,066
As of September 30, 2018				<u>₩ 196,649</u>

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



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**14. Borrowings and Debentures, Continued**

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

(In millions of won, thousands of other currencies)

	<u>Purpose</u>	<u>Annual interest rate(%)</u>	<u>Maturity</u>		<u>Face value</u>	<u>Book value</u>
Current				₩	1,491,400	1,489,617
Non-current					5,615,816	5,596,570
As of January 1, 2018					<u>7,107,216</u>	<u>7,086,187</u>
Debentures newly issued:						
Unsecured corporate bonds	Refinancing fund	2.57	Feb. 20, 2021		110,000	109,507
		2.81	Feb. 20, 2023		100,000	99,576
		3.00	Feb. 20, 2028		200,000	199,228
		3.02	Feb. 20, 2038		90,000	89,664
Unsecured corporate bonds(*1)	Operating and refinancing fund	2.10	Sept. 17, 2021		100,000	99,565
		2.33	Sept. 17, 2023		150,000	149,429
		2.44	Sept. 17, 2038		50,000	49,811
Unsecured corporate bonds(*1)	Operating fund	2.59	Feb. 1, 2021		70,000	69,681
		2.93	Feb. 1, 2023		80,000	79,636
Global unsecured corporate bonds	Operating fund	3.75	Apr. 16, 2023		535,000	529,566
					USD 500,000	USD 500,000
Global unsecured corporate bonds(*1)	Refinancing fund	3.88	Aug. 13, 2023		337,890	333,978
					USD 300,000	USD 300,000
Debentures repaid:						
Unsecured corporate bonds	Other fund	5.00	Mar. 3, 2018		(200,000)	(200,000)
					(90,000)	(90,000)
Unsecured corporate bonds	Operating fund	1.89	Jul. 17, 2018		(90,000)	(90,000)
Unsecured corporate bonds(*1)	Operating fund	2.23	Jan. 14, 2018		(50,000)	(50,000)
					(746,550)	(746,550)
Global unsecured corporate bonds	Operating fund	2.13	May. 1, 2018		(746,550)	(746,550)
					(USD 700,000)	(USD 700,000)
Other changes(*2)					<u>56,205</u>	<u>61,201</u>
Current					1,093,810	1,093,287
Non-current					<u>6,805,951</u>	<u>6,777,192</u>
As of September 30, 2018				₩	<u><u>7,899,761</u></u>	<u><u>7,870,479</u></u>

(\*1) Unsecured corporate bonds were issued by SK Broadband Co., Ltd., one of the subsidiaries.

(\*2) Other changes include the effects from translation of foreign currency-denominated debentures and changes in present value discount on debentures during the nine-month period ended September 30, 2018.

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**15. Long-term Payables - other**

(1) Long-term payables - other 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>
Payables related to acquisition of frequency usage rights	₩ 1,045,208	1,328,630
Other(*)	15,508	18,133
	<u>₩ 1,060,716</u>	<u>1,346,763</u>

(\*) Other includes other long-term employee compensation liabilities.

(2) As of September 30, 2018 and December 31, 2017, details of long-term payables - other related to the acquisition of frequency usage rights are as follows (See Note 13):

(In millions of won)

	<u>September 30, 2018</u>	<u>December 31, 2017</u>
Long-term payables - other	₩ 1,407,388	1,710,255
Present value discount on long-term payables - other	(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>

(3) The Group 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)

	<u>Amount</u>
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>

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**16. 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	Impact of adopting K-IFRS No. 1115	Increase	Utilization	Reversal	Other	Ending balance	Current	Non-current
Provision for installment of handset subsidy	₩ 3,874	-	-	(1,075)	(2,799)	-	-	-	-
Provision for restoration	73,267	-	3,712	(676)	(654)	105	75,754	43,541	32,213
Emission allowance	4,650	-	2,896	(1,334)	(3,306)	-	2,906	2,906	-
Other provisions	2,935	(215)	555	(134)	(536)	-	2,605	2,605	-
	₩ 84,726	(215)	7,163	(3,219)	(7,295)	105	81,265	49,052	32,213

(In millions of won)

	For the nine-month period ended September 30, 2017						As of September 30, 2017	
	Beginning balance	Increase	Utilization	Reversal	Other	Ending balance	Current	Non-current
Provision for installment of handset subsidy	₩ 24,710	2	(6,735)	-	-	17,977	17,977	-
Provision for restoration	64,679	7,981	(2,633)	(396)	92	69,723	39,626	30,097
Emission allowance	2,788	3,573	(518)	(2,283)	-	3,560	3,560	-
Other provisions	5,740	4,074	(5,624)	-	-	4,190	4,190	-
	₩ 97,917	15,630	(15,510)	(2,679)	92	95,450	65,353	30,097

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**17. 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)

	<u>September 30, 2018</u>	<u>December 31, 2017</u>
Present value of defined benefit obligations	₩ 772,043	679,625
Fair value of plan assets	(670,065)	(663,617)
Defined benefit assets(*)	(5,989)	(45,952)
Defined benefit liabilities	<u>107,967</u>	<u>61,960</u>

(\*) Since the Group entities neither have legally enforceable right nor intention to settle the defined benefit obligations of Group entities with defined benefit assets of other Group entities, defined benefit assets of Group entities have been separately presented from defined benefit liabilities.

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

(In millions of won)

	<u>For the nine-month period ended</u>	
	<u>September 30, 2018</u>	<u>September 30, 2017</u>
Beginning balance	₩ 679,625	595,667
Current service cost	101,018	95,482
Interest cost	15,320	11,800
Remeasurement:		
- Adjustment based on experience	8,267	6,482
Benefit paid	(32,739)	(42,745)
Others	552	6,357
Ending balance	<u>₩ 772,043</u>	<u>673,043</u>

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

(In millions of won)

	<u>For the nine-month period ended</u>	
	<u>September 30, 2018</u>	<u>September 30, 2017</u>
Beginning balance	₩ 663,617	555,175
Interest income	14,488	10,275
Remeasurement	(4,106)	(2,422)
Contribution	33,153	39,601
Benefit paid	(41,501)	(52,523)
Others	4,414	2,996
Ending balance	<u>₩ 670,065</u>	<u>553,102</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)

	<u>For the nine-month period ended</u>	
	<u>September 30, 2018</u>	<u>September 30, 2017</u>
Current service cost	₩ 101,018	95,482
Net interest cost	832	1,525
	<u>₩ 101,850</u>	<u>97,007</u>

**18. Derivatives**

(1) Changes in derivative contracts for the nine-month period ended September 30, 2018 are as follows:

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(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
Contracted	Aug. 13, 2018	Fixed rate foreign currency bond (par value USD 300,000)	Currency risk	Currency swap contract	Citibank	Aug. 13, 2018 ~ Aug. 13, 2023

- (2) SK Broadband Co., Ltd., a subsidiary of the Parent Company, entered into a leasing contract with GL Gasan Metro Co., Ltd., which develops and leases real estate, for the building and operations of Internet Data Center in 2017. With respect to financing the development of the property, GL Gasan Metro Co., Ltd. has issued subordinated bonds to IGIS Professional Investment Type Private Real Estate Investment Trust No. 156, which financed the purchase of bonds by issuing beneficiary certificates to Sbsen Co., Ltd. and Msgadi Co., Ltd. In connection with these arrangements, SK Broadband Co., Ltd., Sbsen Co., Ltd. and Msgadi Co., Ltd. entered into a Total Return Swap (TRS) contract amounting to W70 billion with beneficiary certificates as underlying assets, to guarantee fixed rate of returns to Sbsen Co., Ltd. and Msgadi Co., Ltd.

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**19. Share Capital and Capital Surplus and Others**

The Parent 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 20)	398,759	398,518
Share option(Note 21)	855	414
Others (*)	(547,853)	(857,912)
	<u>₩ 507,022</u>	<u>196,281</u>

(\*) Others primarily consist of the excess of the consideration paid by the Group over the carrying amount of net assets acquired from entities under common control. Changes during the nine-month period ended September 30, 2018 include ₩377,400 million from the issuance of redeemable convertible preferred stocks by Eleven Street Co., Ltd.

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

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**20. Hybrid Bonds**

The Group repaid the hybrid bonds during the nine-month period ended September 30, 2018 and issued new hybrid bonds at par, and the details are as follows:

*(In millions of won)*

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

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

(\*1) The Group 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

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21. Share option

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

	Series				One Store Co., Ltd.
	1-1	1-2	1-3	2	
Grant date		March 24, 2017		February 20, 2018	April 27, 2018
Types of shares to be issued		Registered common shares			One Store Co., Ltd common shares
Grant method		Reissue of treasury shares			Issue of new shares
Number of shares	22,168	22,168	22,168	5,707	1,032,000
Exercise price (in won)	246,750	266,490	287,810	254,120	5,390
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	Apr. 28, 2020 ~ Apr. 27, 2024
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 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	567
In subsequent periods	1,131
	₩ 2,112

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

	Series				One Store Co., Ltd.
	1-1	1-2	1-3	2	
Risk-free interest rate	1.86%	1.95%	2.07%	2.63%	2.61%
Estimated option's life	5 years	6 years	7 years	5 years	6 years
Share price (Closing price on the preceding day in won)	262,500	262,500	262,500	243,500	4,925
Expected volatility	13.38%	13.38%	13.38%	16.45%	9.40%
Expected dividends	3.80%	3.80%	3.80%	3.70%	0.00%
Exercise price (in won)	246,750	266,490	287,810	254,120	5,390
Per share fair value of the option (in won)	27,015	20,240	15,480	23,988	566



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**22. Retained Earnings**

Retained earnings 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>
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	7,822,148	4,571,188
	<u>₩ 21,696,906</u>	<u>17,835,946</u>

**23. 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	₩ 70,702	-
Valuation gain on available-for-sale financial assets	-	168,211
Other comprehensive loss of investments in associates	(344,494)	(320,060)
Valuation loss on derivatives	(88,117)	(73,828)
Foreign currency translation differences for foreign operations	5,828	(9,050)
	<u>₩ (356,081)</u>	<u>(234,727)</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>Other comprehensive loss of investments in associates</u>	<u>Valuation gain (loss) on derivatives</u>	<u>Foreign currency translation differences for foreign operations</u>	<u>Total</u>
Balance at January 1, 2017	₩	-	12,534	(179,167)	(96,418)	36,868	(226,183)
Changes, net of taxes		-	126,047	(32,760)	11,603	(22,753)	82,137
Balance at September 30, 2017		-	138,581	(211,927)	(84,815)	14,115	(144,046)
Balance at December 31, 2017		-	168,211	(320,060)	(73,828)	(9,050)	(234,727)
Impact of adopting K-IFRS No.1109		99,407	(168,211)	-	-	-	(68,804)
Balance at January 1, 2018		99,407	-	(320,060)	(73,828)	(9,050)	(303,531)
Changes, net of taxes		(28,705)	-	(24,434)	(14,289)	14,878	(52,550)
Balance at September 30, 2018	₩	<u>70,702</u>	<u>-</u>	<u>(344,494)</u>	<u>(88,117)</u>	<u>5,828</u>	<u>(356,081)</u>

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**24. Redeemable convertible preferred stocks**

The Group issued redeemable convertible preferred stocks on September 7, 2018 according to the board of directors' resolution. The details of the issuance are as follows:

Issuer	Eleven Street Co., Ltd.
Number of shares issued	1,863,093
Issue price	₩268,371 per share
Voting rights	1 voting right per 1 share
Dividend rate(*)	6% of the issue price per annum (cumulative, non-participating)
Conversion period	The obligatory dividend rate of the Group is 1% of the issue price per annum From 6 months after the date of issue to 1 business day before the expiration date of the redemption period
Conversion ratio	[Issue price ÷ Conversion price at the date of conversion] per share
Conversion price	₩268,371 per share
Refixing clauses	<ul style="list-style-type: none"> <li>• In the case when spin-off, merger, split merger of the company, comprehensive stock exchange or transfer and decrease in capital, ("merger and others"), conversion price is subject to refixing to guarantee the value that the holder could earn the day right before the circumstances arise.</li> <li>• In the case when this preferred share is split or merged, the conversion prices is subject to refixing to correspond with the split or merge ratio.</li> </ul>
Redemption period	Two months from September 30, 2023 to December 31, 2047 at the choice of the issuer.
Redeemer	Eleven Street Co., Ltd.
Redemption price	Amounts realizing the internal rate of return to be 3.5% at the date of actual redemption
Claim to the residue	Preferential to the common shares

(\*) The present value of obligatory dividends amounting to ₩19,413 million based on the shareholders agreement are recognized as financial liabilities as of September 30, 2018.

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**25. 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	₩ 8,123	24,746	7,246	21,243
Utilities	81,955	221,418	82,975	221,226
Taxes and dues	6,657	30,111	10,393	20,347
Repair	89,704	260,027	78,718	242,259
Research and development	94,110	281,808	103,192	292,657
Training	10,440	26,109	9,078	22,109
Bad debt for accounts receivable - trade	7,133	27,344	5,716	24,146
Traveling	6,144	19,473	6,053	17,675
Supplies and others	41,695	126,130	40,573	114,800
	₩ <u>345,961</u>	<u>1,017,166</u>	<u>343,944</u>	<u>976,462</u>

**26. 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
<b>Other Non-operating Income:</b>				
Fees revenues	₩ 91	635	90	276
Gain on disposal of property and equipment and intangible assets	31,725	35,265	4,230	12,206
Others	4,407	22,668	5,173	10,481
	₩ <u>36,223</u>	<u>58,568</u>	<u>9,493</u>	<u>22,963</u>
<b>Other Non-operating Expenses:</b>				
Loss on impairment of property and equipment and intangible assets	₩ -	1,077	-	2,451
Loss on disposal of property and equipment and intangible assets	18,065	37,821	7,329	20,503
Donations	16,725	48,724	30,445	67,950
Bad debt for accounts receivable - other	937	5,483	-	225
Loss on impairment of investment assets	441	3,175	319	6,735
Others	5,010	18,130	(52)	41,537
	₩ <u>41,178</u>	<u>114,410</u>	<u>38,041</u>	<u>139,401</u>

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27. 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
<b>Finance Income:</b>				
Interest income	₩ 14,031	49,251	18,472	58,440
Gain on sale of accounts receivable - trade	9,202	17,341	4,414	13,504
Dividends	19,752	34,894	1,833	12,416
Gain on foreign currency transactions	4,127	13,587	3,557	11,196
Gain on foreign currency translations	-	3,795	672	3,269
Gain on disposal of long-term investment securities	-	-	1,890	4,653
Gain on valuation of derivatives	526	1,423	285	1,195
Gain on financial assets at FVTPL	58,647	68,586	30	30
	₩ <u>106,285</u>	<u>188,877</u>	<u>31,153</u>	<u>104,703</u>

(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
<b>Finance Costs:</b>				
Interest expenses	₩ 71,031	218,007	72,015	221,501
Loss on sale of accounts receivable - trade	1,066	5,446	2,294	7,249
Loss on foreign currency transactions	3,207	13,064	4,104	13,323
Loss on foreign currency translations	1,687	3,043	-	3,387
Loss on disposal of long-term investment securities	-	-	-	36,024
Loss on settlement of derivatives	65	12,221	-	8,910
Loss on financial liabilities at FVTPL	363	1,143	38	567
Loss on financial assets at FVTPL	7,598	8,376	-	-
Other financial commissions	10,937	10,937	-	-
Impairment loss on long-term investment securities	-	-	1,993	14,515
	₩ <u>95,954</u>	<u>272,237</u>	<u>80,444</u>	<u>305,476</u>

- (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)

	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
Interest income on cash equivalents and short-term financial instruments	₩ 8,831	23,450	7,234	20,773
Interest income on installment receivables and others	5,200	25,801	11,238	37,667
	₩ <u>14,031</u>	<u>49,251</u>	<u>18,472</u>	<u>58,440</u>

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**27. Finance Income and Costs, Continued**

(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	₩ 2,126	8,458	2,562	8,701
Interest expenses on debentures	57,260	172,844	55,042	168,360
Others	11,645	36,705	14,411	44,440
	₩ <u>71,031</u>	<u>218,007</u>	<u>72,015</u>	<u>221,501</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	₩ 7,133	27,344	5,716	24,146
Other receivables	937	5,483	-	225
Available-for-sale financial assets	-	-	1,992	14,515
	₩ <u>8,070</u>	<u>32,827</u>	<u>7,708</u>	<u>38,886</u>

**28. 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.

**29. 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)

	September 30, 2018		September 30, 2017	
	Three-month period ended	Nine-month period ended	Three-month period ended	Nine-month period ended
Profit attributable to owners of the Parent Company on common shares	₩ 1,031,375	2,642,986	795,826	2,009,849
Interest on hybrid bonds	(3,691)	(12,111)	-	(8,420)
Profit for the period available for common shares	1,027,684	2,630,875	795,826	2,001,429
Weighted average number of common shares outstanding	<u>70,609,160</u>	<u>70,609,160</u>	<u>70,609,160</u>	<u>70,609,160</u>
Basic earnings per share (in won)	₩ <u>14,555</u>	<u>37,260</u>	<u>11,271</u>	<u>28,345</u>

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**29. Earnings per Share, Continued**

(1) Basic earnings per share, Continued

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	<u>70,609,160</u>	<u>70,609,160</u>	<u>70,609,160</u>

(In shares)

	Number of shares	Weighted number of shares	
		Three-month period ended 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	<u>70,609,160</u>	<u>70,609,160</u>	<u>70,609,160</u>

(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.

**30. 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					Total
	Financial assets at FVTPL	Equity instruments at FVOCI	Debt instruments at FVOCI	Financial assets at amortized cost	Derivatives hedging instrument	
Cash and cash equivalents	₩ -	-	-	2,763,552	-	2,763,552
Financial instruments	-	-	-	264,528	-	264,528
Short-term investment securities	129,441	-	-	-	-	129,441
Long-term investment securities(*)	268,451	486,758	1,130	-	-	756,339
Accounts receivable - trade	-	-	-	2,561,053	-	2,561,053
Loans and other receivables	680,505	-	-	1,070,691	-	1,751,196
Derivative financial assets	10,477	-	-	-	36,851	47,328
	<u>₩ 1,088,874</u>	<u>486,758</u>	<u>1,130</u>	<u>6,659,824</u>	<u>36,851</u>	<u>8,273,437</u>

(\*) The Group designated ₩ 486,758 million of equity instruments that are not held for trading as financial assets measured at FVOCI.

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**30. Categories of Financial Instruments, Continued**

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

(In millions of won)

	<b>December 31, 2017</b>				<b>Total</b>
	<b>Financial assets at FVTPL</b>	<b>Available-for-sale financial assets</b>	<b>Loans and receivables</b>	<b>Derivatives hedging instrument</b>	
Cash and cash equivalents	₩ -	-	1,457,735	-	1,457,735
Financial instruments	-	-	618,002	-	618,002
Short-term investment securities	97,003	47,383	-	-	144,386
Long-term investment securities	-	887,007	-	-	887,007
Accounts receivable – trade	-	-	2,138,755	-	2,138,755
Loans and other receivables	-	-	1,962,083	-	1,962,083
Derivative financial assets	231,311	-	-	21,902	253,213
	<b>₩ 328,314</b>	<b>934,390</b>	<b>6,176,575</b>	<b>21,902</b>	<b>7,461,181</b>

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

(In millions of won)

	<b>September 30, 2018</b>			<b>Total</b>
	<b>Financial liabilities at FVTPL</b>	<b>Financial liabilities at amortized cost</b>	<b>Derivatives hedging instrument</b>	
Accounts payable – trade	₩ -	268,554	-	268,554
Derivative financial liabilities	-	-	8,233	8,233
Borrowings	-	249,769	-	249,769
Debentures(*)	61,422	7,809,057	-	7,870,479
Accounts payable - other and others	-	4,874,535	-	4,874,535
	<b>₩ 61,422</b>	<b>13,201,915</b>	<b>8,233</b>	<b>13,271,570</b>

(\*) 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.

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**30. Categories of Financial Instruments, Continued**

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

(In millions of won)

	<b>December 31, 2017</b>			
	<b>Financial liabilities at FVTPL</b>	<b>Financial liabilities at amortized cost</b>	<b>Derivatives hedging instrument</b>	<b>Total</b>
Accounts payable – trade	₩ -	351,711	-	351,711
Derivative financial liabilities	-	-	39,470	39,470
Borrowings	-	382,817	-	382,817
Debentures(*)	60,278	7,025,909	-	7,086,187
Accounts payable - other and others	-	4,865,519	-	4,865,519
	<b>₩ 60,278</b>	<b>12,625,956</b>	<b>39,470</b>	<b>12,725,704</b>

(\*) 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.

**31. Financial Risk Management**

(1) Financial risk management

The Group 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 Group implements a risk management system to monitor and manage these specific risks.

The Group'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 - trade and others, borrowings, and debentures.

1) Market risk

(i) Currency risk

The Group incurs exchange position due to revenue and expenses from its foreign operations. Major foreign currencies where the currency risk occur are USD, JPY and EUR. The Group determines the currency risk management policy after considering the nature of business and the presence of methods that mitigate the currency risk for each Group entities. Currency risk occurs on forecasted transactions and recognized assets and liabilities which are denominated in a currency other than the functional currency of each Group entity. The Group manages currency risk arising from business transactions by using currency forwards, etc.



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**31. Financial Risk Management, Continued**

(1) Financial risk management, Continued

1) Market risk, Continued

(i) Currency risk, Continued

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	195,420 ₩	217,443	1,908,914 ₩	2,124,050
EUR	24,143	31,255	83	108
JPY	746,773	7,327	649,449	6,372
Others	-	283	-	-
	₩	<u>256,308</u>	₩	<u>2,130,530</u>

In addition, the Group 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 Group's income before income taxes as follows:

*(In millions of won)*

		If increased by 10%	If decreased by 10%
USD	₩	13,260	(13,260)
EUR		3,115	(3,115)
JPY		95	(95)
Others		28	(28)
	₩	<u>16,498</u>	<u>(16,498)</u>

(ii) Interest rate risk

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

The Group 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 Group takes various measures such as refinancing, renewal, alternative financing and hedging.

As of September 30, 2018, floating-rate borrowings and debentures of the Group are ₩199,266 million and ₩333,810 million, respectively, and the Group has entered into interest rate swap agreements for some of floating-rate borrowings and debentures to hedge interest rate risk.

If the interest rate increases (decreases) 1%p with all other variables held constant, income before income taxes for the nine-month period ended September 30, 2018 would change by ₩931 million due to the interest expense on floating-rate borrowings that are exposed to interest rate risk.

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**31. Financial Risk Management, Continued**

(1) Financial risk management, Continued

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	₩ 2,159,202	1,457,416
Financial instruments	264,528	618,002
Investment securities	20,874	19,928
Accounts receivable – trade	2,561,053	2,138,755
Loans and other receivables	1,751,196	1,962,083
Derivative financial assets	47,328	30,956
	<u>₩ 6,804,181</u>	<u>6,227,140</u>

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. To manage credit risk, the Group 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 Group establishes credit limits for each customer or counterparty.

The Group 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 Group'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 Group has a policy to deal only with financial institutions with high credit ratings. The amount of maximum exposure to credit risk of the Group is the carrying amount of financial assets as of September 30, 2018.

3) Liquidity risk

The Group'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 Group 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)*

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Less than 1 year</u>	<u>1 - 5 years</u>	<u>More than 5 years</u>
Accounts payable - trade	₩ 268,554	268,554	268,554	-	-
Borrowings(*)	249,769	259,632	148,801	110,831	-
Debentures(*)	7,870,479	9,247,717	1,325,385	4,900,262	3,022,070
Accounts payable - other and others	4,874,535	4,990,380	3,813,546	865,570	311,264
	<u>₩ 13,263,337</u>	<u>14,766,283</u>	<u>5,556,286</u>	<u>5,876,663</u>	<u>3,333,334</u>

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**31. Financial Risk Management, Continued**

(1) Financial risk management, Continued

3) Liquidity risk, Continued

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

(\*) Includes interest payables.

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

(In millions of won)

	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>Less than 1 year</b>	<b>1 - 5 years</b>	<b>More than 5 years</b>
Assets	₩ 36,851	30,138	33,708	40,566	(44,136)
Liabilities	(8,233)	(8,309)	(147)	(8,162)	-
	<u>₩ 28,618</u>	<u>21,829</u>	<u>33,561</u>	<u>32,404</u>	<u>(44,136)</u>

(2) Capital management

The Group 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 Group is the same as that of the Group as of and for the year ended December 31, 2017.

The Group 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.

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

(In millions of won)

	<b>September 30, 2018</b>	<b>December 31, 2017</b>
Total liabilities	₩ 16,015,666	15,399,474
Total equity	22,170,830	18,029,195
Debt-equity ratios	72.24%	85.41%

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**31. Financial Risk Management, Continued**

(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)

	Carrying amount	September 30, 2018			Total
		Level 1	Level 2	Level 3	
<b>Financial assets that are measured at fair value:</b>					
FVTPL	₩ 1,088,874	-	820,422	268,452	1,088,874
Derivative financial assets	36,851	-	36,851	-	36,851
FVOCI	487,888	353,281	-	134,607	487,888
	₩ <u>1,613,613</u>	<u>353,281</u>	<u>857,273</u>	<u>403,059</u>	<u>1,613,613</u>
<b>Financial liabilities that are measured at fair value:</b>					
FVTPL	₩ 61,422	-	61,422	-	61,422
Derivative financial liabilities	8,233	-	8,233	-	8,233
	₩ <u>69,655</u>	<u>-</u>	<u>69,655</u>	<u>-</u>	<u>69,655</u>
<b>Financial liabilities that are not measured at fair value:</b>					
Borrowings	₩ 249,769	-	250,748	-	250,748
Debentures	7,809,057	-	8,153,918	-	8,153,918
Long-term payables - other	1,361,544	-	1,452,333	-	1,452,333
	₩ <u>9,420,370</u>	<u>-</u>	<u>9,856,999</u>	<u>-</u>	<u>9,856,999</u>

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31. 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)

	December 31, 2017				
	Carrying amount	Level 1	Level 2	Level 3	Total
<b>Financial assets that are measured at fair value:</b>					
Financial assets at fair value through profit or loss	₩ 328,314	-	106,057	222,257	328,314
Derivative financial assets	21,902	-	21,902	-	21,902
Available-for-sale financial assets	734,487	589,202	47,383	97,902	734,487
	₩ 1,084,703	589,202	175,342	320,159	1,084,703
<b>Financial liabilities that are measured at fair value:</b>					
Financial liabilities at fair value through profit or loss	₩ 60,278	-	60,278	-	60,278
Derivative financial liabilities	39,470	-	39,470	-	39,470
	₩ 99,748	-	99,748	-	99,748
<b>Financial liabilities that are not measured at fair value:</b>					
Borrowings	₩ 382,817	-	383,748	-	383,748
Debentures	7,025,909	-	7,325,370	-	7,325,370
Long-term payables - other	1,649,466	-	1,766,451	-	1,766,451
	₩ 9,058,192	-	9,475,569	-	9,475,569

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 ₩199,903 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 Group 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 Group performs valuation using the inputs which are consistent with natures of assets and liabilities measured.

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31. Financial Risk Management, Continued

(3) Fair value, Continued

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

	<u>Interest rate</u>
Derivative instruments	1.75 ~ 2.50%
Borrowings and debentures	2.37 ~ 2.46%
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>Other compre- hensive income</u>	<u>Acquisition</u>	<u>Disposal</u>	<u>Balance at September 30, 2018</u>
Financial assets at fair value through profit or loss	₩ 222,257	(222,257)	-	-	-	-	-
Available-for-sale financial assets	97,902	(97,902)	-	-	-	-	-
FVTPL	-	391,515	(507)	769	3,465	(126,790)	268,452
FVOCI	-	129,455	-	1,947	7,267	(4,062)	134,607
	<u>₩ 320,159</u>	<u>200,811</u>	<u>(507)</u>	<u>2,716</u>	<u>10,732</u>	<u>(130,852)</u>	<u>403,059</u>

(4) Enforceable master netting agreement or similar agreement

Carrying amount of financial instruments recognized of which offset agreements are applicable as of September 30, 2018 and December 31, 2017 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>
<b>Financial assets:</b>					
Accounts receivable – trade and others	₩ 97,088	(96,512)	576	-	576
<b>Financial liabilities:</b>					
Accounts payable - other and others	₩ 96,512	(96,512)	-	-	-

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**31. Financial Risk Management, Continued**

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

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

(In millions of won)

	December 31, 2017				
	Gross financial instruments recognized	Amount offset	Net financial instruments presented on the statement of financial position	Relevant financial instruments not offset	Net amount
<b>Financial assets:</b>					
Derivatives(*)	₩ 26,645	-	26,645	(19,875)	6,770
Accounts receivable – trade and others	93,146	(92,409)	737	-	737
	₩ 119,791	(92,409)	27,382	(19,875)	7,507
<b>Financial liabilities:</b>					
Derivatives(*)	₩ 19,875	-	19,875	(19,875)	-
Accounts payable - other and others	92,409	(92,409)	-	-	-
	₩ 112,284	(92,409)	19,875	(19,875)	-

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

**32. Transactions with Related Parties**

(1) List of related parties

Relationship	Company
Ultimate Controlling Entity	SK Holdings Co., Ltd.
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.

For the periods presented, the Group 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 Group.

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32. Transactions with Related Parties, Continued

(2) Compensation to key management personnel

The Parent 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.

(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)	₩	5,019	16,313	119,113	494,320	25,835	45,079
Associates	F&U Credit information Co., Ltd.		711	2,061	13,357	40,963	-	-
	HappyNarae Co., Ltd.		176	1,942	5,465	12,926	17,333	41,495
	SK hynix Inc.(*2)		7,475	166,878	14	220	-	-
	KEB HanaCard Co., Ltd.		3,151	12,089	3,818	11,655	-	-
	Others(*3)		2,354	5,282	3,964	22,441	355	898
			13,867	188,252	26,618	88,205	17,688	42,393
Other	SK Engineering & Construction Co., Ltd.		895	3,662	220	792	-	-
	SK Innovation Co., Ltd.		2,326	6,739	181	700	-	-
	SK Networks Co., Ltd.(*4)		7,020	17,236	299,440	852,769	376	460
	SK Networks Service Co., Ltd.		194	576	21,934	67,780	726	2,759
	SK Telesys Co., Ltd.		74	268	2,533	8,460	29,115	68,024
	SK TNS Co., Ltd		35	107	12,339	21,190	133,089	256,331
	SK Energy Co., Ltd.		2,694	5,963	241	646	-	-
	SKC Infra Services Co., Ltd.		10	51	14,322	36,184	3,789	16,447



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**32. 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)

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
Other	SK infosec Co., Ltd.	₩ 131	634	12,446	39,671	6,175	8,725
	SK trading international Co., Ltd.	11,269	11,308	-	-	-	-
	Others	8,444	43,306	6,021	14,414	-	-
		33,092	89,850	369,677	1,042,606	173,270	352,746
		₩ 51,978	294,415	515,408	1,625,131	216,793	440,218

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

(\*2) Operating revenue and others include ₩146,100 million of dividends declared by the associates which was deducted from the investment in associates.

(\*3) Operating revenue and others include ₩4,338 million of dividends declared by Korea IT Fund, KIF-Stonebridge IT Investment Fund and UniSK which were deducted from the investment in associates.

(\*4) Operating expenses and others include costs for handset purchases.

(In millions of won)

Scope	Company	For the period ended September 30, 2017					
		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)	₩ 7,664	18,544	99,615	478,937	34,542	171,181
Associates	F&U Credit information Co., Ltd.	709	2,079	12,948	40,085	-	37
	HappyNarae Co., Ltd.	126	2,897	9,127	22,159	22,928	38,289
	SK hynix Inc.(*2)	20,202	121,367	11	157	-	-
	KEB HanaCard Co., Ltd.	4,455	13,629	3,780	11,223	-	-
	Others(*3)	315	3,527	672	27,144	-	151
		25,807	143,499	26,538	100,768	22,928	38,477
Other	SK Engineering & Construction Co., Ltd.	880	3,965	219	795	-	-
	SK Innovation Co., Ltd.	2,619	6,278	183	673	-	-
	SK Networks Co., Ltd. (*4)	6,372	16,405	289,320	817,631	390	671
	SK Networks Service Co., Ltd.	217	295	29,058	69,075	521	2,210
	SK Telesys Co., Ltd.	114	276	16,973	36,124	43,306	90,173

**32. 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

SK TELECOM CO., LTD. and Subsidiaries  
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For the nine-month periods ended September 30, 2018 and 2017

(In millions of won)

Scope	Company	For the period ended September 30, 2017					
		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 TNS Co., Ltd	₩ 34	101	8,897	16,395	132,813	227,539
	SK Energy Co., Ltd.	2,942	5,275	140	560	-	-
	SKC Infra Services Co., Ltd.	6	14	11,519	33,231	9,849	30,707
	SK infosec Co., Ltd.	407	910	12,031	39,230	3,146	7,802
	Others	6,778	21,051	7,353	22,001	17	17
		20,369	54,570	375,693	1,035,715	190,042	359,119
		₩ 53,840	216,613	501,846	1,615,420	247,512	568,777

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

(\*2) Operating revenue and others include ₩87,660 million of dividends declared by the associates which was deducted from the investment in associates.

(\*3) Operating revenue and others include ₩1,403 million of dividends declared by Korea IT Fund which was deducted from the investment in associates.

(\*4) Operating expenses and others include costs for handset purchases.

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32. 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		
			Accounts receivable		Accounts payable
			Loans	Accounts receivable - trade and others	Accounts payable - other and others
Ultimate Entity	Controlling Associates	SK Holdings Co., Ltd.	₩ -	1,609	58,522
		HappyNarae Co., Ltd.	-	26	3,680
		F&U Credit information Co., Ltd.	-	75	1,211
		SK hynix Inc.	-	4,769	-
		Wave City Development Co., Ltd.	-	37,263	-
		Daehan Kanggun BcN Co., Ltd.(*)	22,147	-	-
		KEB HanaCard Co., Ltd.	-	5,974	10,573
		Others	611	2,624	4,904
			22,758	50,731	20,368
		Other		SK Engineering & Construction Co., Ltd.	-
SK Networks Co., Ltd.	-			5,350	133,854
SK Networks Services Co., Ltd.	-			3	6,996
SK Telesys Co., Ltd.	-			12	6,935
SK TNS Co., Ltd.	-			9	1,159
SK Innovation Co., Ltd.	-			1,968	297
SK Energy Co., Ltd.	-			4,390	1,123
Others	-			4,459	15,302
	-	16,985	165,667		
	₩ 22,758	69,325	244,557		

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

SK TELECOM CO., LTD. and Subsidiaries  
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32. Transactions with Related Parties, Continued

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

(In millions of won)

		December 31, 2017		
		Loans	Accounts receivable	Accounts payable
Scope	Company		Accounts receivable - trade and others	Accounts payable - other and others
Ultimate Controlling Entity	SK Holdings Co., Ltd.	₩ -	2,068	148,066
Associates	HappyNarae Co., Ltd.	-	15	6,865
	F&U Credit information Co., Ltd.	-	21	1,612
	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	11,099
	S.M. Culture & Contents Co., Ltd.	-	448	8,963
	Xian Tianlong Science and Technology Co., Ltd.	7,032	-	-
	Others	611	2,272	1,164
		29,790	45,398	29,797
Other	SK Engineering & Construction Co., Ltd.	-	2,033	69
	SK Networks Co., Ltd.	-	3,050	267,297
	SK Networks Services Co., Ltd.	-	15	9,522
	SK Telesys Co., Ltd.	-	36	58,346
	SK TNS Co., Ltd.	-	3	140,311
	SK Innovation Co., Ltd.	-	4,112	599
	SK Energy Co., Ltd.	-	2,965	582
	SK Gas Co., Ltd.	-	1,941	9
	Others	-	2,998	27,318
		-	17,153	504,053
Total		₩ 29,790	64,619	681,916

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

- (5) SK m&service Co., Ltd., a subsidiary of the Parent Company, has entered into a performance agreement with SK Energy Co., Ltd. and provided a blank note to SK Energy Co., Ltd., with regard to this transaction.
- (6) During the nine-month period ended September 30, 2018, there were additional investments in the associates (See note 11).

# SK TELECOM CO., LTD. and Subsidiaries

## Notes to the Condensed Consolidated Interim Financial Statements

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

### 33. Commitments and Contingencies

#### (1) Collateral assets and commitments

SK Broadband Co., Ltd., a subsidiary of the Parent Company, has pledged its properties as collateral for leases on buildings in the amount of ₩3,933 million as of September 30, 2018.

SK Broadband Co., Ltd. has guaranteed the payment of employees' borrowings relating to employee stock ownership program and provided short-term financial instruments amounting to ₩11 million as collateral as of September 30, 2018.

#### (2) Legal claims and litigations

The Group is involved in a legal claim with Nonghyup Bank over the validity of partnership contract. No provisions have been made as the final outcome of the matter cannot be determined or predicted at the current stage.

The Group 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 Group has a present obligation, nor is it expected any of these claims or litigation will have a significant impact on the Group's financial position or operating results in the event an outflow of resources is ultimately necessary.

#### (3) Accounts receivables from sale of handsets

The sales agents of the Group sell handsets to the Group's subscribers on an installment basis. During the nine-month period ended September 30, 2018, the Group 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 Group purchased according to the relevant comprehensive agreement are recognized as accounts receivable – other and long-term accounts receivable – other.

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Notes to the Condensed Consolidated Interim Financial Statements

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

**34. 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)*

	<b>For the nine-month period ended</b>	
	<b>September 30, 2018</b>	<b>September 30, 2017</b>
Interest income	₩ (49,251)	(58,440)
Dividends	(34,894)	(12,416)
Gain on foreign currency translations	(3,795)	(3,269)
Gain relating to financial assets at FVTPL	(68,586)	(30)
Gain on disposal of long-term investments securities	-	(4,653)
Gain on valuation of derivatives	(1,423)	(1,195)
Gain on sale of accounts receivable - other	(17,341)	(13,504)
Gain relating to investments in associates and joint ventures, net	(2,534,688)	(1,567,730)
Gain on disposal of property, equipment and intangible assets	(35,265)	(12,206)
Other income	(280)	(18)
Interest expenses	218,007	221,501
Loss on foreign currency translations	3,043	3,387
Loss on disposal of long-term investments securities	-	36,024
Other finance expenses	-	14,515
Loss on settlement of derivatives	12,221	8,910
Loss relating to financial assets at FVTPL	8,376	-
Loss relating to financial liabilities at FVTPL	1,143	567
Loss on sale of accounts receivable – other	5,446	7,249
Bad debt for accounts receivable – trade	27,344	24,146
Income tax expense	714,468	479,738
Depreciation and amortization	2,437,718	2,415,475
Impairment loss on property and equipment and intangible assets	1,077	2,451
Loss on disposal of property and equipment and intangible assets	37,821	20,503
Retirement benefit expenses	101,850	97,007
Share option	567	279
Loss on impairment of investment assets	3,175	6,735
Bad debt for accounts receivable - other	5,483	225
Other expenses	5,102	3,503
	<b>₩ 837,318</b>	<b>1,668,754</b>

SK TELECOM CO., LTD. and Subsidiaries  
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For the nine-month periods ended September 30, 2018 and 2017

**34. 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)*

	<b>For the nine-month period ended</b>	
	<b>September 30, 2018</b>	<b>September 30, 2017</b>
Accounts receivable - trade	₩ (459,345)	54,890
Accounts receivable - other	222,456	80,087
Accrued income	-	140
Advance payments	11,117	1,786
Prepaid expenses	19,570	(21,383)
Value-Added Tax refundable	5,624	2,980
Inventories	16,165	8,195
Long-term accounts receivable - other	(30,554)	(93,611)
Contract assets	8,850	-
Guarantee deposits	(3,373)	16,465
Accounts payable - trade	(87,811)	(97,921)
Accounts payable - other	(51,411)	(40,541)
Advanced receipts	-	(4,148)
Withholdings	(75,567)	(36,464)
Deposits received	1,482	(3,602)
Contract liabilities	(15,072)	-
Accrued expenses	(23,896)	34,194
Value-Added Tax payable	10,142	12,898
Unearned revenue	-	(10,893)
Provisions	(4,360)	(3,673)
Long-term provisions	3,149	(1,067)
Plan assets	8,348	12,922
Retirement benefit payment	(32,739)	(42,745)
Others	(6,607)	(2,036)
	<b>₩ (483,832)</b>	<b>(133,527)</b>

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

*(In millions of won)*

	<b>For the nine-month period ended</b>	
	<b>September 30, 2018</b>	<b>September 30, 2017</b>
Decrease in accounts payable - other relating to the acquisition of property and equipment and intangible assets	₩ (521,311)	(414,270)

# SK TELECOM CO., LTD. and Subsidiaries

## Notes to the Condensed Consolidated Interim Financial Statements

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### 35. Subsequent Events

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

On May 8, 2018, the Parent Company entered into a contract to acquire 740,895 shares of Life & Security Holdings Co., Ltd. (formerly, Siren Holdings Korea Co., Ltd.) at ₩697,207 million in cash in order to strengthen the security business and expand residential customer base, and the Parent Company owns 55% ownership interests in Life & Security Holdings Co., Ltd. (formerly, Siren Holdings Korea Co., Ltd.) upon completion of the acquisition of shares on October 1, 2018. As a result, the Parent Company obtained a control over Life & Security Holdings Co., Ltd. (formerly, Siren Holdings Korea Co., Ltd.) and its subsidiaries including ADT Caps Co., Ltd. and two others. The acquisition amount of ₩697,207 million is subject to change in accordance with the contract price adjustment method.

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

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

On October 31, 2018, the Parent 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 Parent 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.