

SK TELECOM CO., LTD. AND SUBSIDIARIES

Condensed Consolidated Interim Financial Statements

(Unaudited)

March 31, 2019 and 2018

(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 March 31, 2019, the condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the three-month periods ended March 31, 2019 and 2018, 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 is necessary to enable the preparation of condensed consolidated interim financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' review 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 information 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 No.1116 for the year beginning on January 1, 2019, and the Group has taken an exemption not to restate the condensed consolidated financial statements as of December 31, 2018 or for the three-month period ended March 31, 2018 presented for comparative purposes, in accordance with transition requirements of the standards. The financial impacts of applying K-IFRS No. 1116 are discussed in note 3.

Other matters

The consolidated statement of financial position of the Group as of December 31, 2018, 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 28, 2019, expressed an unqualified opinion. The accompanying condensed consolidated statement of financial position of the Group as of December 31, 2018, 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
May 13, 2019

<p>This report is effective as of May 13, 2019, 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>

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

As of March 31, 2019 and December 31, 2018

(In millions of won)

	<u>Note</u>	<u>March 31, 2019</u>	<u>December 31, 2018</u>
Assets			
Current Assets:			
Cash and cash equivalents	26,27 ₩	2,057,080	1,506,699
Short-term financial instruments	26,27	724,339	1,045,676
Short-term investment securities	9,26,27	81,215	195,080
Accounts receivable – trade, net	5,26,27,28	1,962,911	2,008,640
Short-term loans, net	5,26,27,28	72,096	59,094
Accounts receivable – other, net	3,5,26,27,28,29	1,293,128	937,837
Prepaid expenses	3,6	1,718,467	1,769,559
Contract assets	7	90,294	90,072
Inventories, net	8	263,671	288,053
Derivative financial assets	26,27	21,401	13
Advanced payments and others	5,26,27,28	64,146	58,116
		8,348,748	7,958,839
Non-Current Assets:			
Long-term financial instruments	26,27	1,221	1,221
Long-term investment securities	9,26,27	699,197	664,726
Investments in associates and joint ventures	10	13,017,579	12,811,771
Property and equipment, net	3,11,28,29	11,195,863	10,718,354
Goodwill		2,939,368	2,938,563
Intangible assets, net	3,12	5,322,206	5,513,510
Long-term contract assets	7	41,215	43,821
Long-term loans, net	5,26,27,28	30,477	29,034
Long-term accounts receivable – other	3,5,26,27,29	294,859	274,053
Long-term prepaid expenses	3,6	875,763	895,272
Guarantee deposits	5,26,27,28	311,178	313,140
Long-term derivative financial assets	26,27	75,101	55,444
Deferred tax assets	24	109,214	92,465
Defined benefit assets	16	22,651	31,926
Other non-current assets	5,26,27	61,841	26,972
		34,997,733	34,410,272
Total Assets	₩	43,346,481	42,369,111

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 March 31, 2019 and December 31, 2018

(In millions of won)

	<u>Note</u>	<u>March 31, 2019</u>	<u>December 31, 2018</u>
Liabilities and Shareholders' Equity			
Current Liabilities:			
Short-term borrowings	13,26,27 ₩	80,000	80,000
Current installments of long-term debt, net	13,26,27	1,413,788	984,272
Current installments of long-term payables – other	14,26,27	418,739	424,243
Lease liabilities	3,26,27,28	270,594	-
Accounts payable – trade	26,27,28	311,739	381,302
Accounts payable – other	26,27,28	2,494,325	1,913,813
Withholdings	26,27,28	1,327,258	1,353,663
Accrued expenses	26,27	1,074,834	1,299,217
Income tax payable	24	294,686	182,343
Provisions	15,29	86,409	87,993
Contract liabilities	7	148,600	140,711
Derivative financial liabilities	26,27	619	-
		7,921,591	6,847,557
Non-Current Liabilities:			
Debentures, excluding current portion, net	13,26,27	6,709,609	6,572,211
Long-term borrowings, excluding current installments, net	13,26,27,29	2,008,180	2,015,365
Long-term payables – other	14,26,27	1,548,802	1,968,784
Long-term contract liabilities	7	39,367	43,102
Defined benefit liabilities	16	170,229	141,529
Long-term derivative financial liabilities	26,27	24	4,184
Long-term lease liabilities	3,26,27,28	390,256	-
Long-term provisions	15,29	91,199	99,215
Deferred tax liabilities	3,24	2,283,228	2,269,792
Other non-current liabilities	26,27	64,879	58,122
		13,305,773	13,172,304
Total Liabilities		21,227,364	20,019,861
Shareholders' Equity:			
Share capital	1,17	44,639	44,639
Capital surplus and others	17,18	646,177	655,084
Retained earnings	3,19	21,835,766	22,144,541
Reserves	20	(284,999)	(373,442)
Equity attributable to owners of the Parent Company		22,241,583	22,470,822
Non-controlling interests	3	(122,466)	(121,572)
Total Shareholders' Equity		22,119,117	22,349,250
Total Liabilities and Shareholders' Equity	₩	43,346,481	42,369,111

See accompanying notes to the condensed consolidated interim financial statements.

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

For the three-month periods ended March 31, 2019 and 2018

(In millions of won)

	<u>Note</u>	<u>March 31, 2019</u>	<u>March 31, 2018</u>
Operating revenue:	4,28		
Revenue	₩	4,334,906	4,181,537
Operating expenses:	28		
Labor		690,957	549,971
Commissions		1,273,726	1,262,099
Depreciation and amortization	3,4	891,150	785,979
Network interconnection		189,367	214,960
Leased lines		70,798	80,661
Advertising		85,810	100,117
Rent		58,417	131,613
Cost of goods sold	8	377,240	410,859
Others	21	374,869	319,802
		<u>4,012,334</u>	<u>3,856,061</u>
Operating profit	4	322,572	325,476
Finance income	4,23	37,777	49,797
Finance costs	3,4,23	(105,716)	(84,879)
Gain relating to investments in associates and joint ventures, net	4,10	223,345	626,643
Other non-operating income	4,22	7,935	16,920
Other non-operating expenses	4,22	(18,105)	(26,967)
Profit before income tax	4	467,808	906,990
Income tax expense	24	94,177	213,618
Profit for the period	₩	373,631	693,372
Attributable to:			
Owners of the Parent Company	₩	379,189	694,959
Non-controlling interests		(5,558)	(1,587)
Earnings per share	25		
Basic and diluted earnings per share (in won)	₩	<u>5,225</u>	<u>9,842</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-month periods ended March 31, 2019 and 2018

(In millions of won)

	<u>Note</u>	<u>March 31, 2019</u>	<u>March 31, 2018</u>
Profit for the period	₩	373,631	693,372
Other comprehensive income (loss):			
Items that will never be reclassified to profit or loss, net of taxes:			
Remeasurement of defined benefit liabilities	16	(9,567)	(13,150)
Valuation gain (loss) on financial assets at fair value through other comprehensive income	20	3,023	(19,921)
Items that are or may be reclassified subsequently to profit or loss, net of taxes:			
Net change in other comprehensive income of investments in associates and joint ventures	10,20	65,855	38,561
Net change in unrealized fair value of derivatives	20	12,625	(9,678)
Foreign currency translation differences for foreign operations	20	3,990	2,100
Other comprehensive income (loss) for the period, net of taxes		75,926	(2,088)
Total comprehensive income	₩	449,557	691,284
Total comprehensive income attributable to:			
Owners of the Parent Company	₩	455,144	692,594
Non-controlling interests		(5,587)	(1,310)

See accompanying notes to the condensed consolidated interim financial statements.

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

For the three-month periods March 31, 2019 and 2018

(In millions of won)

Note	Controlling Interest					Non-controlling interests	Total equity	
	Share capital	Capital surplus and others	Retained earnings	Reserves	Sub-total			
Balance, December 31, 2017	₩	44,639	196,281	17,835,946	(234,727)	17,842,139	187,056	18,029,195
Impact of adopting K-IFRS No. 1115		-	-	1,900,049	-	1,900,049	-	1,900,049
Impact of adopting K-IFRS No. 1109		-	-	60,026	(68,804)	(8,778)	-	(8,778)
Restated balance, January 1, 2018		44,639	196,281	19,796,021	(303,531)	19,733,410	187,056	19,920,466
Total comprehensive income:								
Profit for the period		-	-	694,959	-	694,959	(1,587)	693,372
Other comprehensive loss	10.16.20	-	-	(13,126)	10,761	(2,365)	277	(2,088)
		-	-	681,833	10,761	692,594	(1,310)	691,284
Transactions with owners:								
Annual dividends		-	-	(635,482)	-	(635,482)	-	(635,482)
Share option	18	-	139	-	-	139	-	139
Changes in ownership in subsidiaries		-	401	-	-	401	11,015	11,416
		-	540	(635,482)	-	(634,942)	11,015	(623,927)
Balance, March 31, 2018	₩	44,639	196,821	19,842,372	(292,770)	19,791,062	196,761	19,987,823
Balance, December 31, 2018	₩	44,639	655,084	22,144,541	(373,442)	22,470,822	(121,572)	22,349,250
Impact of adopting K-IFRS No. 1116	3	-	-	(24,956)	-	(24,956)	(503)	(25,459)
Restated balance, January 1, 2019	₩	44,639	655,084	22,119,585	(373,442)	22,445,866	(122,075)	22,323,791
Total comprehensive income:								
Profit for the period		-	-	379,189	-	379,189	(5,558)	373,631
Other comprehensive income (loss)	10.16.20	-	-	(12,488)	88,443	75,955	(29)	75,926
		-	-	366,701	88,443	455,144	(5,587)	449,557
Transactions with owners:								
Annual dividends		-	-	(646,828)	-	(646,828)	-	(646,828)
Interest on hybrid bonds		-	-	(3,692)	-	(3,692)	-	(3,692)
Share option	18	-	87	-	-	87	68	155
Changes in ownership in subsidiaries		-	(8,994)	-	-	(8,994)	5,128	(3,866)
		-	(8,907)	(650,520)	-	(659,427)	5,196	(654,231)
Balance, March 31, 2019	₩	44,639	646,177	21,835,766	(284,999)	22,241,583	(122,466)	22,119,117

See accompanying notes to the condensed consolidated interim financial statements.

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

For the three-periods ended March 31, 2019 and 2018

(In millions of won)

	<u>Note</u>	<u>March 31, 2019</u>	<u>March 31, 2018</u>
Cash flows from operating activities:			
Cash generated from operating activities:			
Profit for the period	₩	373,631	693,372
Adjustments for income and expenses	30	936,723	495,601
Changes in assets and liabilities related to operating activities	30	(278,850)	(138,405)
		<u>1,031,504</u>	<u>1,050,568</u>
Interest received		11,821	13,450
Dividends received		9,308	7,766
Interest paid		(82,928)	(67,192)
Income tax paid		(1,050)	(17,338)
Net cash provided by operating activities		<u>968,655</u>	<u>987,254</u>
Cash flows from investing activities:			
Cash inflows from investing activities:			
Decrease in short-term financial instruments, net		335,458	72,106
Decrease in short-term investment securities, net		134,179	47,185
Collection of short-term loans		26,083	53,886
Proceeds from disposals of long-term investment securities		88	3,051
Proceeds from disposals of investments in associates and joint ventures		81	73
Proceeds from disposals of property and equipment		4,766	2,283
Proceeds from disposals of intangible assets		2,418	6,978
Collection of long-term loans		541	259
Decrease in deposits		4,572	3,483
Proceeds from settlement of derivatives		121	-
Collection of lease receivables		5,084	70
Cash inflow form business combinations		4,944	10,854
		<u>518,335</u>	<u>200,228</u>
Cash outflows for investing activities:			
Increase in short-term loans		(38,426)	(67,000)
Increase in long-term loans		(1,630)	(2,370)
Increase of long-term financial instruments		-	(16)
Increase of long-term investment securities		(48,853)	(6,484)
Acquisition of investments in associates and joint ventures		(131,283)	(558)
Acquisition of property and equipment		(691,657)	(627,516)
Acquisition of intangible assets		(8,073)	(34,096)
Increase in deposits		(3,553)	(2,614)
Increase in other non-current assets		-	(1,136)
Cash outflow for business combinations		(34,554)	(2,275)
		<u>(958,029)</u>	<u>(744,065)</u>
Net cash used in investing activities	₩	<u>(439,694)</u>	<u>(543,837)</u>

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 three-month periods ended March 31, 2019 and 2018

(In millions of won)

	<u>Note</u>	<u>March 31, 2019</u>	<u>March 31, 2018</u>
Cash flows from financing activities:			
Cash inflows from financing activities:			
Proceeds from issuance of debentures	₩	607,427	647,290
Cash inflows from capital increase by subsidiaries		3,933	-
		<u>611,360</u>	<u>647,290</u>
Cash outflows for financing activities:			
Decrease in short-term borrowings, net		(466)	(100,000)
Repayments of long-term account payables – other		(426,022)	(304,112)
Repayments of debentures		(70,000)	(250,000)
Repayments of long-term borrowings		(10,271)	(7,862)
Repayments of lease liabilities		(83,600)	-
Transactions with the non-controlling shareholders		-	(1,155)
		<u>(590,359)</u>	<u>(663,129)</u>
Net cash provided by (used in) financing activities		<u>21,001</u>	<u>(15,839)</u>
Net increase in cash and cash equivalents		549,962	427,578
Cash and cash equivalents at beginning of the period		1,506,699	1,457,735
Effects of exchange rate changes on cash and cash equivalents		419	431
Cash and cash equivalents at end of the period	₩	<u>2,057,080</u>	<u>1,885,744</u>

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 three-month periods ended March 31, 2019 and 2018

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 March 31, 2019, the Parent Company’s total issued shares are held by the following shareholders:

	<u>Number of shares</u>	<u>Percentage of total shares issued (%)</u>
SK Holdings Co., Ltd.	21,624,120	26.78
National Pension Service, institutional investors and other shareholders	50,245,708	62.23
Treasury shares	8,875,883	10.99
	<u>80,745,711</u>	<u>100.00</u>

(2) List of subsidiaries

The list of subsidiaries as of March 31, 2019 and December 31, 2018 is as follows:

	<u>Subsidiary</u>	<u>Location</u>	<u>Primary business</u>	<u>Ownership (%)(*1)</u>	
				<u>Mar. 31, 2019</u>	<u>Dec. 31, 2018</u>
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 Telecom China Holdings Co., Ltd.	China	Investment (holdings company)	100.0	100.0
	SK Global Healthcare Business Group, Ltd.	Hong Kong	Investment	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
	SKT Americas, Inc.	USA	Information gathering and consulting	100.0	100.0
	One Store Co., Ltd.	Korea	Telecommunication services	65.5	65.5
	SK Planet Co., Ltd.(*2)	Korea	Telecommunication services, system software development and supply services	98.7	98.7
	Eleven Street Co., Ltd.(*2)	Korea	E-commerce	81.8	81.8
	DREAMUS COMPANY (Formerly, IRIVER LIMITED)(*3)	Korea	Manufacturing digital audio players and other portable media devices	52.4	52.6
	SK Infosec Co., Ltd.	Korea	Information security service	100.0	100.0
	Life & Security Holdings Co., Ltd.	Korea	Investment(holdings company)	55.0	55.0
	Quantum Innovation Fund I	Korea	Investment	59.9	59.9
	SK Telecom Japan Inc.	Japan	Information gathering and consulting	100.0	100.0
id Quantique SA(*4)	Switzerland	Quantum information and communications service	63.9	65.6	
SK Telecom TMT Investment Corp.(*5)	USA	Investment	100.0	-	
FSK L&S Co., Ltd.(*5)	Korea	Freight and logistics consulting business	60.0	60.0	

1. Reporting Entity, Continued

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

For the three-month periods ended March 31, 2019 and 2018

(2) List of subsidiaries, Continued

The list of subsidiaries as of March 31, 2019 and December 31, 2018 is as follows, Continued:

	Subsidiary	Location	Primary business	Ownership %)(*1)	
				Mar. 31, 2019	Dec. 31, 2018
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	79.8	79.8
	SKP GLOBAL HOLDINGS PTE. LTD.	Singapore	Investment(holdings company)	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
Subsidiaries owned by DREAMUS COMPANY (Formerly, IRIVER LIMITED)	K-net Culture and Contents Venture Fund	Korea	Capital investing in startups	59.0	59.0
	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.	Japan	Sale of goods in Japan	100.0	100.0
	groovers Inc.(*5)	Korea	Sale of contents and Mastering Quality Sound album	-	100.0
Subsidiaries owned by Life & Security Holdings Co., Ltd.	ADT CAPS Co., Ltd.	Korea	Unmanned security	100.0	100.0
	CAPSTEC Co., Ltd.	Korea	Manned security	100.0	100.0
	ADT SECURITY Co., Ltd.	Korea	Sales and trade of anti-theft devices and surveillance devices	100.0	100.0
Subsidiaries owned by SK Telink Co., Ltd.	SK TELINK VIETNAM Co., Ltd.	Vietnam	Communications device retail business	100.0	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
Subsidiary owned by id Quantique SA	Id Quantique LLC	Korea	Quantum information and communications service	100.0	100.0
Subsidiaries owned by FSK L&S Co., Ltd.	FSK L&S(Shanghai) Co., Ltd.(*5)	China	Logistics business	66.0	-
Others(*6)	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 three-month periods ended March 31, 2019 and 2018

1. Reporting Entity, Continued

(2) List of subsidiaries, Continued

The list of subsidiaries as of March 31, 2019 and December 31, 2018 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) 80.3% of the shares issued by Eleven Street Co., Ltd. are owned by the Parent Company and 1.5% are held by SK Planet Co., Ltd. H&Q Korea Partners, LLC acquired 1,863,093 shares of redeemable convertible preferred stocks for ₩500,000 million in cash and owns 18.2% of the shares issued by Eleven Street Co., Ltd. The Parent Company is obliged to guarantee at least 1% of dividend per annum of the preferred stock's issue price to the investor by the date on which Eleven Street Co., Ltd. is publicly listed or the date on which the qualifying listing period is completed, whichever occurs first. The present value of obligatory dividends amounting to ₩18,352 million are recognized as financial liabilities as of March 31, 2019.
- (*3) The ownership has changed due to the conversion of the convertible bonds issued by DREAMUS COMPANY (Formerly, IRIVER LIMITED) during the three-month period ended March 31, 2019.
- (*4) The ownership has changed due to an unequal paid-in capital increase of id Quantique SA during the three-month period ended March 31, 2019.
- (*5) Details of changes in the consolidation scope for the three-month period ended March 31, 2019 are presented and explained separately in Note 1-(4).
- (*6) Others are owned together by Atlas Investment and another subsidiary of the Parent Company.

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

For the three-month periods ended March 31, 2019 and 2018

1. Reporting Entity, Continued

(3) Condensed financial information of subsidiaries

Condensed financial information of the significant subsidiaries as of and for the three-month period ended March 31, 2019 is as follows:

(In millions of won)

Subsidiary	As of March 31, 2019			For the three-month period ended March 31, 2019	
	Total assets	Total liabilities	Total equity	Revenue	Profit (loss)
SK Telink Co., Ltd. (*1)	₩ 516,416	327,131	189,285	87,500	3,516
Eleven Street Co., Ltd.	1,096,634	559,740	536,894	156,945	4,367
SK m&service Co., Ltd.	105,963	55,011	50,952	49,279	1,376
SK Communications Co., Ltd.	80,070	31,506	48,564	10,828	(3,004)
SK Broadband Co., Ltd.	4,432,924	2,845,081	1,587,843	782,296	3,209
K-net Culture and Contents Venture Fund	147,690	20,873	126,817	-	(1)
PS&Marketing Corporation	394,101	181,500	212,601	349,903	(3,446)
SERVICE ACE Co., Ltd.	92,078	67,984	24,094	50,020	571
SERVICE TOP Co., Ltd.	72,996	56,703	16,293	43,419	775
Network O&S Co., Ltd.	80,602	43,209	37,393	53,314	(2,043)
SK Planet Co., Ltd.	703,198	382,429	320,769	72,427	3,088
DREAMUS COMPANY (Formerly, IRIVER LIMITED) (*2)	190,025	37,919	152,106	30,554	(8,707)
SKP America LLC.	390,374	-	390,374	-	(82)
Life & Security Holdings Co., Ltd. (*3)	2,651,427	2,326,604	324,823	223,102	511
SK Infosec Co., Ltd.	170,850	88,943	81,907	50,497	3,612
One Store Co., Ltd.	123,323	72,806	50,517	31,176	(389)
Home & Service Co., Ltd.	108,051	67,954	40,097	92,285	(192)
SK stoa Co., Ltd.	39,534	39,787	(253)	42,279	(3,838)

(*1) The condensed financial information of SK Telink Co., Ltd. is consolidated financial information including SK TELINK VIETNAM Co., Ltd.

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

(*3) The condensed financial information of Life & Security Holdings Co., Ltd. is consolidated financial information including ADT CAPS Co., Ltd. and two other subsidiaries of Life & Security Holdings Co., Ltd.

1. Reporting Entity, Continued

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

For the three-month periods ended March 31, 2019 and 2018

(3) Condensed financial information of subsidiaries, Continued

Condensed financial information of the significant subsidiaries as of and for the year ended December 31, 2018 is as follows:

(In millions of won)

Subsidiary	As of December 31, 2018			2018	
	Total assets	Total liabilities	Total equity	Revenue	Profit (loss)
SK Telink Co., Ltd.(*1)	₩ 493,972	107,565	386,407	373,019	39,962
Eleven Street Co., Ltd.(*2)	1,045,946	495,907	550,039	228,000	(9,507)
SK m&service Co., Ltd.	97,924	48,182	49,742	208,936	(119)
SK Communications Co., Ltd.	79,646	28,458	51,188	41,604	(10,323)
SK Broadband Co., Ltd.	4,266,458	2,682,236	1,584,222	3,158,877	154,999
K-net Culture and Contents Venture Fund	147,691	20,873	126,818	-	58,584
PS&Marketing Corporation	432,699	216,624	216,075	1,587,203	76
SERVICE ACE Co., Ltd.	76,770	45,229	31,541	198,164	4,217
SERVICE TOP Co., Ltd.	74,452	49,400	25,052	205,574	5,276
Network O&S Co., Ltd.	81,773	42,257	39,516	265,183	1,089
SK Planet Co., Ltd.	753,630	436,501	317,129	672,648	(436,106)
IRIVER LIMITED(*3)	204,479	44,620	159,859	137,849	(21,314)
SKP America LLC.	383,697	-	383,697	-	(370)
Life & Security Holdings Co., Ltd.(*4)	2,611,838	2,261,456	350,382	197,487	6,038
SK Infosec Co., Ltd.(*5)	183,896	54,301	129,595	-	-
One Store Co., Ltd.	116,716	65,890	50,826	110,284	(13,903)
Home & Service Co., Ltd.	87,159	45,341	41,818	325,177	(1,264)
SK stoa Co., Ltd.	41,305	37,560	3,745	116,459	(16,987)

(*1) The condensed financial information of SK Telink Co., Ltd. is consolidated financial information including SK TELINK VIETNAM Co., Ltd.

(*2) The condensed financial information of Eleven Street Co., Ltd. includes four months of revenue and profit and loss since the spin-off on August 31, 2018.

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

(*4) The condensed financial information of Life & Security Holdings Co., Ltd. is consolidated financial information including ADT CAPS Co., Ltd. and two other subsidiaries, including 3 months of revenue and profit and loss since Life & Security Holdings Co., Ltd. acquired by the Parent Company on October 1, 2018.

(*5) SK Infosec Co., Ltd. was acquired by the Parent Company and newly included in consolidation as of December 27, 2018.

1. Reporting Entity, Continued

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

For the three-month periods ended March 31, 2019 and 2018

(4) Changes in subsidiaries

The list of subsidiaries that were newly included in consolidation during the three-month period ended March 31, 2019 is as follows:

Subsidiary	Reason
SK Telecom TMT Investment Corp.	Established by the Parent Company
FSK L&S Co., Ltd.	Acquired by the Parent Company
FSK L&S(Shanghai) Co., Ltd.	Subsidiary of FSK L&S Co., Ltd.

The list of subsidiaries that were excluded from consolidation during the three-month period ended March 31, 2019 is as follows:

Subsidiary	Reason
groovers Inc.	Merged into DREAMUS COMPANY(Formerly, IRIVER LIMITED)

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

For the three-month periods ended March 31, 2019 and 2018

- (5) The financial information of significant non-controlling interests of the Group as of and for the three-month period ended March 31, 2019, and as of and for the year ended December 31, 2018 are as follows:

(In millions of won)

	K-net Culture and Contents Venture Fund	DREAMUS COMPANY (Formerly, RIVER LIMITED)	One Store Co., Ltd.	Eleven Street Co., Ltd.	Life & Security Holdings Co., Ltd.
Ownership of non-controlling interests (%)	41.00	47.61	34.46	18.19	45.00
As of March 31, 2019					
Current assets	₩ 117	131,612	98,670	916,996	154,209
Non-current assets	147,573	58,413	24,653	179,638	2,497,218
Current liabilities	(20,873)	(32,931)	(70,047)	(522,184)	(300,063)
Non-current liabilities	-	(4,988)	(2,759)	(37,556)	(2,026,541)
Net assets	126,817	152,106	50,517	536,894	324,823
Fair value adjustment and others	-	-	-	(18,352)	(1,213,857)
Net assets on the consolidated financial statements	126,817	152,106	50,517	518,542	(889,034)
Carrying amount of non-controlling interests	51,995	72,430	17,581	94,323	(400,065)
For the three-month period ended March 31, 2019					
Revenue	₩ -	30,554	31,176	156,945	223,102
Profit (Loss) for the period	(1)	(8,707)	(389)	4,367	511
Depreciation of the fair value adjustment and others	-	-	-	(161)	(3,254)
Profit (Loss) for the period on the consolidated financial statements	(1)	(8,707)	(389)	4,206	(2,743)
Total comprehensive income (loss)	(1)	(8,795)	(377)	4,194	(2,744)
Profit (Loss) attributable to non-controlling interests	-	(4,145)	(134)	765	(1,235)
Net cash provided by (used in) operating activities	₩ (1)	(9,236)	5,261	(37,383)	69,813
Net cash provided by (used in) investing activities	(35)	2,220	3,839	81,504	(40,550)
Net cash used in financing activities	-	(840)	(308)	(3,059)	(3,663)
Effects on exchange rate changes on cash and cash equivalents	-	(415)	2	23	-
Net increase (decrease) in cash and cash equivalents	(36)	(8,271)	8,794	41,085	25,600
Dividend declared to non-controlling interests during the three-month period ended March 31, 2019	₩ -	-	-	17,500	14,394

1. Reporting Entity, Continued

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

For the three-month periods ended March 31, 2019 and 2018

(5) The financial information of significant non-controlling interests of the Group as of and for the three-month period ended March 31, 2019, and as of and for the year ended December 31, 2018 are as follows, Continued:

(In millions of won)

	K-net Culture and Contents Venture Fund	IRIVER LIMITED	One Store Co., Ltd.	Eleven Street Co., Ltd.	Life & Security Holdings Co., Ltd.
Ownership of non-controlling interests (%)	41.00	47.36	34.46	18.19	45.00
As of December 31, 2018					
Current assets	₩ 118	150,014	92,844	923,153	124,091
Non-current assets	147,573	54,465	23,872	122,793	2,487,747
Current liabilities	(20,873)	(41,957)	(63,440)	(486,391)	(243,064)
Non-current liabilities	-	(2,663)	(2,450)	(9,516)	(2,018,392)
Net assets	126,818	159,859	50,826	550,039	350,382
Fair value adjustment and others	-	-	-	(23,191)	(1,216,347)
Net assets on the consolidated financial statements	126,818	159,859	50,826	526,848	(865,965)
Carrying amount of non-controlling interests	51,995	76,204	17,711	95,811	(389,684)
2018					
Revenue	₩ -	137,849	110,284	228,000	197,487
Profit (Loss) for the year	58,584	(21,314)	(13,903)	(9,507)	6,038
Depreciation of the fair value adjustment and others	-	-	-	(161)	(2,954)
Profit(Loss) for the year on the consolidated financial statements	58,584	(21,314)	(13,903)	(9,668)	3,084
Total comprehensive income (loss)	27,773	(21,125)	(14,386)	(8,897)	(991)
Profit (Loss) attributable to non-controlling interests	24,019	(10,094)	(4,791)	(1,758)	1,387
Net cash provided by (used in) operating activities	₩ 115,566	13,635	7,181	(69,347)	(23,451)
Net cash provided by (used in) investing activities	600	(10,169)	(11,482)	(470,211)	(139,430)
Net cash provided by (used in) financing activities	(116,150)	69,267	5	494,923	124,076
Net increase(decrease) in cash and cash equivalents	16	72,733	(4,296)	(44,635)	(38,805)
Dividend paid to non-controlling interests during the year ended December 31, 2018	₩ 36,178	-	-	-	-

2. Basis of Preparation

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

For the three-month periods ended March 31, 2019 and 2018

(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, 2018. These condensed consolidated interim financial statements do not include all of the disclosures required for full annual financial statements.

This is the first set of the Group's consolidated financial statements in which K-IFRS No. 1116, *Leases*, has been applied. Changes to significant accounting policies are described in note 3.

(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, 2018 except significant judgments and key sources of estimation uncertainty related to the K-IFRS No. 1116, *Leases* that are described in note 3.

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

For the three-month periods ended March 31, 2019 and 2018

2. Basis of Preparation, Continued

(2) Use of estimates and judgments, Continued

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 including Level 3 fair values, and the measurement of fair values is reviewed and is directly reported to the finance executives.

The Group regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the Group 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 27.

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

For the three-month periods ended March 31, 2019 and 2018

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, 2018, 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's consolidated financial statements as at and for the year ending December 31, 2019.

(1) Changes in accounting policies

The Group has initially adopted K-IFRS No. 1116 from January 1, 2019. A number of other amended standards are effective from January 1, 2019, but they do not have a material effect on the Group's condensed consolidated interim financial statements.

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

K-IFRS No. 1116 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognized right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation on make lease payments. Lessor accounting remains similar to previous accounting policies.

The Group has applied K-IFRS No. 1116 from January 1, 2019 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, 2019. Accordingly, the comparative information presented for 2018 has been presented, as previously reported, under K-IFRS No. 1017 and has not been restated. Details of the changes in accounting policies are disclosed below.

i) Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under K-IFRS No. 2104, *Determining Whether an Arrangement an Arrangement contains a Lease*. The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under K-IFRS No. 1116, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

ii) As a lessee

The Group leases a number of assets including buildings and vehicles. The terms of leases are negotiated individually and include various conditions. Each lease contract is entered into with a term of 1~50 years.

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under K-IFRS 1116, the Group recognizes right-of-use assets and lease liabilities for most leases – i.e. these leases are on the consolidated statements of financial position.

However, the Group has elected not to recognize right-of-use assets and lease liabilities for some leases with terms less than 12 months or leases of low-value assets. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

For the three-month periods ended March 31, 2019 and 2018

3. Significant Accounting Policies, Continued

(1) Changes in accounting policies, Continued

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

ii) As a lessee, Continued

The Group has also elected to apply the practical expedient not to separate non-leases components and instead account for the lease and non-lease components as a single lease component.

① Significant accounting policies

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses and adjusted for certain remeasurements of the lease liability. The Group presents its right-of-use assets in property and equipment on the consolidated statements of financial position.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include extension options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognized. The Group has not included the extension option periods in the lease term because it is not reasonably certain to exercise such options. After the commencement date, the Group reassesses the lease term upon the occurrence of a significant event or a significant change in circumstances that is within the control of the Group that affects whether the Group is reasonably certain to exercise the extension option.

3. Significant Accounting Policies, Continued

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

For the three-month periods ended March 31, 2019 and 2018

(1) Changes in accounting policies, Continued

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

ii) As a lessee, Continued

② Transition

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as of January 1, 2019. Right-of-used assets are measured at either:

- their carrying amount as if K-IFRS No. 1116 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application; or
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Group used the following practical expedients when applying K-IFRS No. 1116 to leases previously classified as operating leases under K-IFRS No. 1017.

- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

iii) As a lessor

The accounting policies applicable to the Group as a lessor are not different from those under K-IFRS No. 1017. However, when the Group is an intermediate lessor the sub-leases are classified with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

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 three-month periods ended March 31, 2019 and 2018

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

iv) Impacts on consolidated financial statements

① Impacts on transition, Continued

On transition to K-IFRS No. 1116, the Group recognized right-of-use assets and lease liabilities, with the difference recognized in retained earnings. The impacts on transition are summarized below.

(In millions of won)

	<u>January 1, 2019</u>	
Impacts on the assets:		
Right-of-use assets presented in property and equipment	₩	653,695
Increase in accounts receivable – other (lease receivable)		31,355
Adjustments in property and equipment, intangible assets		(3,208)
Decrease in advanced payments and others		(55,679)
		<u>626,163</u>
Impacts on the liabilities:		
Increase in the lease liabilities		661,211
Decrease in deferred tax liabilities		(9,589)
		<u>651,622</u>
Decrease in retained earnings		(24,956)
Decrease in non-controlling interests	₩	(503)

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted average rate applied is 2.11%.

(In millions of won)

	<u>January 1, 2019</u>	
Operating lease commitments at December 31, 2018	₩	769,754
Discounted using the incremental borrowing rate at January 1, 2019		723,654
- Recognition exemption for leases with less than 12 months of lease term at the lease commencement date		(60,543)
- Recognition exemption for leases of low-value assets		(1,900)
Lease liabilities recognized at January 1, 2019	₩	<u><u>661,211</u></u>

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

For the three-month periods ended March 31, 2019 and 2018

3. Significant Accounting Policies, Continued

(1) Changes in accounting policies, Continued

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

iv) Impacts for on consolidated financial statements, Continued

② Impacts subsequent to adoption

As a result of initially applying K-IFRS No. 1116, in relation to the leases that were previously classified as operating leases, the Group recognized ₩641,079 million of right-of-use assets and ₩660,850 million of lease liabilities as of March 31, 2019.

Also, in relation to those leases under K-IFRS No. 1116, the Group has recognized depreciation and interest costs, instead of operating lease expense. For the three-month period ended March 31, 2019, the Group recognized ₩84,460 million of depreciation charges and ₩3,478 million of interest costs from those leases. Expenses related to short-term leases and leases of low-value assets are ₩45,901 million and ₩746 million, respectively.

The payments of lease liabilities presented in the cash flows from financing activities would have been included in the cash flows from operating activities if the previous accounting standards were applied.

4. Operating Segments

The Group's operating segments have been identified to be each business unit, by which the Group provides independent services and merchandise. The Group's reportable segments are cellular services, which include cellular voice service, wireless data service and wireless internet services; fixed-line telecommunication services, which include telephone services, internet services, and leased line services; e-commerce services, the open marketplace platform; and all other businesses, which include the Group's internet portal services and other immaterial operations, each of which does not meet the quantitative threshold to be considered as a reportable segment and are presented collectively as others.

(1) Segment information for the three-month periods ended March 31, 2019 and 2018 are as follows:

(In millions of won)

	For the three-month period ended March 31, 2019						
	Cellular Services	Fixed-line telecommunication services	E-commerce Services	Others	Sub-total	Adjustments	Total
Total revenue	₩ 3,308,864	1,004,360	156,945	518,367	4,988,536	(653,630)	4,334,906
Inter-segment revenue	343,807	235,139	2,321	72,363	653,630	(653,630)	-
External revenue	2,965,057	769,221	154,624	446,004	4,334,906	-	4,334,906
Depreciation and amortization	632,893	180,847	7,882	69,528	891,150	-	891,150
Operating profit	297,871	10,693	4,304	9,704	322,572	-	322,572
Finance income and costs, net							(67,939)
Gain relating to investments in associates and joint ventures, net							223,345
Other non-operating income and expense, net							(10,170)
Profit before income tax							467,808

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

For the three-month periods ended March 31, 2019 and 2018

4. Operating Segments, Continued

(1) Segment information for the three-month periods ended March 31, 2019 and 2018 are as follows, Continued:

(In millions of won)

		For the three-month period ended March 31, 2018						
		Cellular Services	Fixed-line telecommu- nication services	E-commerce Services(*)	Others(*)	Sub-total	Adjustments	Total
Total revenue	₩	3,549,792	922,330	166,065	245,132	4,883,319	(701,782)	4,181,537
Inter-segment revenue		387,766	230,658	6,871	76,487	701,782	(701,782)	-
External revenue		3,162,026	691,672	159,194	168,645	4,181,537	-	4,181,537
Depreciation and amortization		605,311	155,689	3,291	21,688	785,979	-	785,979
Operating profit (loss)		345,673	38,785	(17,967)	(41,015)	325,476	-	325,476
Finance income and costs, net								(35,082)
Gain relating to investments in associates and joint ventures, net								626,643
Other non-operating income and expense, net								(10,047)
Profit before income tax								906,990

(*) Segment information for the three-month period ended March 31, 2018 was recast to reflect Eleven Street Co., Ltd. only in the E-Commerce Services segment, with all the other businesses that were previously included in the E-Commerce Services segment now presented in "others" segment.

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 amounts 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 three-month periods ended March 31, 2019 and 2018.

SK TELECOM CO., LTD. and Subsidiaries
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For the three-month periods ended March 31, 2019 and 2018

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)

		For the three-month period ended	
		March 31, 2019	March 31, 2018
Products transferred at a point in time:			
Cellular revenue	Goods(*1)	₩ 260,932	309,516
Fixed-line telecommunication revenue	Goods	30,094	16,987
Other revenue	Goods	28,749	24,530
	Products	6,585	6,229
		<u>326,360</u>	<u>357,262</u>
Services transferred over time:			
Cellular revenue	Wireless service(*2)	2,362,786	2,506,681
	Cellular interconnection	123,542	141,564
	Other(*3)	217,797	204,265
Fixed-line telecommunication revenue	Fixed-line telephone service	70,128	73,841
	Fixed-line interconnection	23,279	27,479
	Internet Protocol Television(*4)	310,106	266,040
	International calls	17,440	20,374
	Internet service and miscellaneous(*5)	318,174	286,951
E-commerce services revenue	E-commerce service	154,624	159,194
Other revenue	Miscellaneous(*6)	410,670	137,886
		<u>4,008,546</u>	<u>3,824,275</u>
		<u>₩ 4,334,906</u>	<u>4,181,537</u>

(*1) Cellular revenue includes revenue from sales of handsets and other electronic accessories.

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

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

(*6) Miscellaneous other revenue includes revenue from considerations received for the security service, 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 March 31, 2019 and December 31, 2018 are as follows:

(In millions of won)

	March 31, 2019		
	Gross amount	Loss allowance	Carrying amount
Current assets:			
Accounts receivable – trade	₩ 2,234,426	(271,515)	1,962,911
Short-term loans	72,779	(683)	72,096
Accounts receivable – other(*)	1,362,471	(69,343)	1,293,128
Accrued income	6,786	(200)	6,586
Guarantee deposits (Other current assets)	3,258	-	3,258
	<u>3,679,720</u>	<u>(341,741)</u>	<u>3,337,979</u>
Non-current assets:			
Long-term loans	77,474	(46,997)	30,477
Long-term accounts receivable – other(*)	294,859	-	294,859
Guarantee deposits	311,178	-	311,178
Long-term accounts receivable – trade (Other non-current assets)	14,905	(85)	14,820
	<u>698,416</u>	<u>(47,082)</u>	<u>651,334</u>
	<u>₩ 4,378,136</u>	<u>(388,823)</u>	<u>3,989,313</u>

(*) Gross and carrying amounts of accounts receivable – other as of March 31, 2019 include ₩496,656 million of financial instruments classified as FVTPL.

(In millions of won)

	December 31, 2018		
	Gross amount	Loss allowance	Carrying amount
Current assets:			
Accounts receivable – trade	₩ 2,268,680	(260,040)	2,008,640
Short-term loans	59,643	(549)	59,094
Accounts receivable – other(*)	1,006,183	(68,346)	937,837
Accrued income	6,232	(166)	6,066
Guarantee deposits (Other current assets)	2,714	-	2,714
	<u>3,343,452</u>	<u>(329,101)</u>	<u>3,014,351</u>
Non-current assets:			
Long-term loans	75,860	(46,826)	29,034
Long-term accounts receivable – other(*)	274,053	-	274,053
Guarantee deposits	313,140	-	313,140
Long-term accounts receivable – trade (Other non-current assets)	11,410	(117)	11,293
	<u>674,463</u>	<u>(46,943)</u>	<u>627,520</u>
	<u>₩ 4,017,915</u>	<u>(376,044)</u>	<u>3,641,871</u>

(*) Gross and carrying amounts of accounts receivable – other as of December 31, 2018 include ₩489,617 million of financial instruments classified as FVTPL.

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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 for the three-month periods ended March 31, 2019 and 2018 are as follows:

(In millions of won)

	<u>January 1, 2019</u>	<u>Impairment</u>	<u>Write-offs (*)</u>	<u>Collection of receivables previously written-off</u>	<u>March 31, 2019</u>
Accounts receivable – trade	₩ 260,157	9,989	(1,701)	3,155	271,600
Accounts receivable – other	115,887	1,101	(306)	541	117,223
	<u>₩ 376,044</u>	<u>11,090</u>	<u>(2,007)</u>	<u>3,696</u>	<u>388,823</u>

(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>March 31, 2018</u>
Accounts receivable – trade	₩ 239,448	12,950	9,820	(4,054)	3,664	261,828
Accounts receivable – other	122,723	99	3,714	(6,235)	832	121,133
	<u>₩ 362,171</u>	<u>13,049</u>	<u>13,534</u>	<u>(10,289)</u>	<u>4,496</u>	<u>382,961</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 practical expedient that allows the Group to estimate the loss allowance for accounts receivable – trade at an amount equal to the lifetime expected credit losses. The expected credit losses include the forward-looking information. To make the assessment, the Group uses its historical credit loss experience over the past three years and classified the accounts receivable – trade by their credit risk characteristics and days overdue.

As the Group is a wireless and fixed-line 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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For the three-month periods ended March 31, 2019 and 2018

6. Prepaid expenses

(1) Details of prepaid expenses as of March 31, 2019 and December 31, 2018 are as follows:

(In millions of won)

	<u>March 31, 2019</u>	<u>December 31, 2018</u>
Current assets:		
Incremental costs of obtaining contracts	₩ 1,555,388	1,577,992
Others	163,079	191,567
	<u>₩ 1,718,467</u>	<u>1,769,559</u>
Non-current assets:		
Incremental costs of obtaining contracts	₩ 793,327	799,607
Others	82,436	95,665
	<u>₩ 875,763</u>	<u>895,272</u>

(2) Incremental costs of obtaining contracts

Incremental costs of obtaining contracts that are capitalized as assets and the related amortization recognized as commissions during the three-month periods ended March 31, 2019 and 2018 are as follows:

(In millions of won)

	<u>For the three-month periods ended</u>	
	<u>March 31, 2019</u>	<u>March 31, 2018</u>
Amortization recognized as commissions	₩ 522,382	580,650

The Group pays commissions to authorized dealers or incurs costs by its direct retail stores for wireless telecommunications services for each service contract and installation contract secured. The Group capitalized certain costs associated with commissions paid to authorized dealers or incurred by its direct retail stores to obtain new and retained customer contracts as prepaid expenses. These prepaid expenses are amortized on a straight-line basis over the periods that the Group expects to maintain its customers based on the Group's historical subscriber churn rate.

7. Contract assets and liabilities

(1) Details of contract assets and liabilities as of March 31, 2019 and December 31, 2018 are as follows:

(In millions of won)

	<u>March 31, 2019</u>	<u>December 31, 2018</u>
Contract assets:		
Allocation of consideration between performance obligations	₩ 131,509	133,893
Contract liabilities:		
Wireless service contracts	18,623	18,425
Customer loyalty programs	21,879	17,113
Fixed-line service contracts	57,923	57,327
Commerce service	78	10
Security service	38,489	38,109
Others	50,975	52,829
	<u>₩ 187,967</u>	<u>183,813</u>

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For the three-month periods ended March 31, 2019 and 2018

7. Contract assets and liabilities, Continued

- (2) The amount of revenue recognized for the three-month period ended March 31, 2019 related to the contract liabilities carried forward from the prior period is ₩35,154 million.

8. Inventories

- (1) Details of inventories as of March 31, 2019 and December 31, 2018 are as follows:

(In millions of won)

	March 31, 2019			December 31, 2018		
	Acquisition cost	Write-down	Carrying amount	Acquisition cost	Write-down	Carrying amount
Merchandise	₩ 242,984	(8,716)	234,268	268,366	(8,842)	259,524
Finished goods	3,349	(348)	3,001	1,260	(251)	1,009
Work in process	2,728	(243)	2,485	3,985	(338)	3,647
Raw materials	12,179	(4,085)	8,094	11,729	(2,706)	9,023
Supplies	15,823	-	15,823	14,850	-	14,850
	₩ <u>277,063</u>	<u>(13,392)</u>	<u>263,671</u>	<u>300,190</u>	<u>(12,137)</u>	<u>288,053</u>

- (2) Inventories recognized as operating expenses for the three-month periods ended March 31, 2019 and 2018 are ₩299,163 million and ₩357,523 million, respectively, which are included in the cost of goods sold.

9. Investment Securities

- (1) Details of short-term investment securities as of March 31, 2019 and December 31, 2018 are as follows:

(In millions of won)

	Category	March 31, 2019	December 31, 2018
Beneficiary certificates	FVTPL	₩ 81,215	195,080

- (2) Details of long-term investment securities as of March 31, 2019 and December 31, 2018 are as follows:

(In millions of won)

	Category	March 31, 2019	December 31, 2018
Equity instruments	FVOCI(*)	₩ 575,203	542,496
	FVTPL	1,008	-
		576,211	542,496
Debt instruments	FVOCI	1,134	2,147
	FVTPL	121,852	120,083
		122,986	122,230
		₩ <u>699,197</u>	<u>664,726</u>

- (*) The Group designated ₩575,203 million of equity instruments that are not held for trading as financial assets at FVOCI.

10. Investments in Associates and Joint Ventures

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

For the three-month periods ended March 31, 2019 and 2018

(1) Investments in associates and joint ventures accounted for using the equity method as of March 31, 2019 and December 31, 2018 are as follows:

(In millions of won)

	Country	March 31, 2019		December 31, 2018	
		Ownership (%)	Carrying amount	Ownership (%)	Carrying amount
Investments in associates:					
SK China Company Ltd.	China	27.3	₩ 564,498	27.3	₩ 551,548
Korea IT Fund(*1)	Korea	63.3	280,902	63.3	281,684
KEB HanaCard Co., Ltd.(*2)	Korea	15.0	290,885	15.0	288,457
NanoEnTek, Inc.	Korea	28.9	40,975	28.9	40,974
SK Technology Innovation Company	Cayman Islands	49.0	43,246	49.0	42,469
SK hynix Inc.	Korea	20.1	11,271,875	20.1	11,208,315
SK MENA Investment B.V.	Netherlands	32.1	14,673	32.1	14,420
S.M. Culture & Contents Co., Ltd.	Korea	23.4	63,603	23.4	63,801
Hello Nature Ltd.,	Korea	49.9	27,393	49.9	28,549
12CM Japan, Inc.	Japan	28.2	7,856	28.2	7,734
MAKEUS Corp.(*2)	Korea	8.9	9,143	8.9	9,193
SK South East Asia Investment Pte. Ltd.	Singapore	20.0	224,470	20.0	111,000
Pacific Telecom Inc.(*2)	USA	15.0	37,478	15.0	37,075
Health Connect Co., Ltd. and others	-	-	121,659	-	106,394
			<u>12,998,656</u>		<u>12,791,613</u>
Investments in joint ventures:					
Dogus Planet, Inc.(*3)	Turkey	50.0	13,580	50.0	12,487
Finnq Co. Ltd.(*3)	Korea	49.0	5,343	49.0	7,671
Celcom Planet (*3)	Malaysia	44.7	-	44.7	-
			<u>18,923</u>		<u>20,158</u>
Total			<u>₩ 13,017,579</u>		<u>₩ 12,811,771</u>

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

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

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For the three-month periods ended March 31, 2019 and 2018

10. Investments in Associates and Joint Ventures, Continued

(2) The market value of investments in listed associates as of March 31, 2019 and December 31, 2018 are as follows:

(In millions of won, except for share data)

	March 31, 2019			December 31, 2018		
	Market price per share (in won)	Number of shares	Market value	Market price per share (in won)	Number of shares	Market value
NanoEnTek, Inc.	₩ 5,440	7,600,649	41,348	4,235	7,600,649	32,189
SK hynix Inc.	74,200	146,100,000	10,840,620	60,500	146,100,000	8,839,050
S.M.Culture & Contents Co.,Ltd.	2,000	22,033,898	44,068	2,020	22,033,898	44,508

(3) The condensed financial information of significant associates as of and for the three-month period ended March 31, 2019 and as of and for the year ended December 31, 2018 are as follows:

(In millions of won)

	SK hynix Inc.	KEB HanaCard Co., Ltd.	Korea IT Fund	SK China Company Ltd.
As of March 31, 2019				
Current assets	₩ 18,618,236	7,745,045	107,846	669,928
Non-current assets	46,513,265	212,146	335,683	1,301,737
Current liabilities	13,231,722	1,083,044	-	57,628
Non-current liabilities	4,733,772	5,279,848	-	155,649
For the three-month period ended March 31, 2019				
Revenue	6,772,655	299,427	-	22,833
Profit (loss) for the period	1,102,130	18,237	(1,235)	133
Other comprehensive income (loss)	237,231	(300)	-	5,007
Total comprehensive income (loss)	1,339,361	17,937	(1,235)	5,140
As of December 31, 2018				
Current assets	₩ 19,894,146	7,781,888	118,024	677,686
Non-current assets	43,764,189	202,251	326,740	1,221,736
Current liabilities	13,031,852	1,122,538	-	71,396
Non-current liabilities	3,774,152	5,286,179	-	117,094
2018				
Revenue	40,445,066	1,642,133	57,430	117,132
Profit for the period	15,539,984	106,675	45,110	30,274
Other comprehensive loss	(67,219)	(4,344)	(13,422)	(16,149)
Total comprehensive income	15,472,765	102,331	31,688	14,125

10. Investments in Associates and Joint Ventures, Continued

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- (4) The condensed financial information of significant joint ventures as of and for the three-month period ended March 31, 2019 and as of and for the year ended December 31, 2018 are as follows:

(In millions of won)

		<u>Dogus Planet, Inc.</u>	<u>Finnq Co., Ltd.</u>
		<u>As of March 31, 2019</u>	
Current assets	₩	50,063	9,345
Cash and cash equivalents		47,769	2,037
Non-current assets		19,155	14,654
Current liabilities		41,220	7,396
Accounts payable, other payables and provision		32,768	1,672
Non-current liabilities		839	6,581
		<u>For the three-month period ended March 31, 2019</u>	
Revenue		28,008	15
Depreciation and amortization		(1,276)	(1,206)
Interest income		251	2
Interest expense		-	(65)
Profit (Loss) for the period		2,977	(4,596)
Total comprehensive income (loss)		2,977	(4,596)

(In millions of won)

		<u>Dogus Planet, Inc.</u>	<u>Finnq Co., Ltd.</u>
		<u>As of December 31, 2018</u>	
Current assets	₩	43,127	11,985
Cash and cash equivalents		42,416	10,434
Non-current assets		20,239	15,435
Current liabilities		37,105	5,070
Accounts payable, other payables and provision		28,432	87
Non-current liabilities		1,287	7,579
		<u>2018</u>	
Revenue		99,770	232
Depreciation and amortization		(5,427)	(3,490)
Interest income		1,635	5
Interest expense		-	(301)
Profit (Loss) for the period		642	(17,995)
Total comprehensive income (loss)		642	(18,166)

10. Investments in Associates and Joint Ventures, Continued

SK TELECOM CO., LTD. and Subsidiaries
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For the three-month periods ended March 31, 2019 and 2018

- (5) Reconciliations of financial information of significant associates to carrying amounts of investments in associates in the consolidated financial statements as of March 31, 2019 and December 31, 2018 are as follows:

(In millions of won)

		March 31, 2019				
		Net assets	Ownership interests (%)	Net assets attributable to the ownership interests	Cost-book value differentials	Carrying amount
Associates:						
SK hynix Inc. (*1,2)	₩	47,157,541	20.1	10,072,651	1,199,224	11,271,875
KEB HanaCard Co., Ltd.		1,594,299	15.0	239,145	51,740	290,885
Korea IT Fund		443,529	63.3	280,902	-	280,902
SK China Company Ltd. (*1)		1,756,697	27.3	479,073	85,425	564,498

(In millions of won)

		December 31, 2018				
		Net assets	Ownership interests (%)	Net assets attributable to the ownership interests	Cost-book value differentials	Carrying amount
Associates:						
SK hynix Inc. (*1,2)	₩	46,843,742	20.1	10,005,624	1,202,691	11,208,315
KEB HanaCard Co., Ltd.		1,575,422	15.0	236,313	52,144	288,457
Korea IT Fund		444,764	63.3	281,684	-	281,684
SK China Company Ltd. (*1)		1,708,612	27.3	465,959	85,589	551,548

(*1) Net assets of these consolidated 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 applied for the equity method is 21.36%.

10. Investments in Associates and Joint Ventures, Continued

SK TELECOM CO., LTD. and Subsidiaries
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For the three-month periods ended March 31, 2019 and 2018

- (6) Details of the changes in investments in associates and joint ventures accounted for using the equity method for the three-month periods ended March 31, 2019 and 2018 are as follows:

(In millions of won)

	For the three-month period ended March 31, 2019					
	Beginning balance	Acquisition and Disposal	Share of profits (losses)	Other comprehensive income (loss)	Other increase (decrease)	Ending balance
Investments in associates:						
SK China Company Ltd. ₩	551,548	-	(923)	13,873	-	564,498
Korea IT Fund	281,684	-	(782)	-	-	280,902
KEB HanaCard Co., Ltd.	288,457	-	2,332	96	-	290,885
NanoEnTek, Inc.	40,974	-	23	(22)	-	40,975
SK Technology Innovation Company	42,469	-	28	749	-	43,246
SK hynix Inc. (*1)	11,208,315	-	232,078	50,633	(219,151)	11,271,875
SK MENA Investment B.V.	14,420	-	4	249	-	14,673
S.M.Culture & Contents Co., Ltd.	63,801	-	20	(218)	-	63,603
Health Connect Co., Ltd. and others (*2)	299,945	144,328	(2,581)	3,074	(16,767)	427,999
	<u>12,791,613</u>	<u>144,328</u>	<u>230,199</u>	<u>68,434</u>	<u>(235,918)</u>	<u>12,998,656</u>
Investments in joint ventures:						
Dogus Planet, Inc.	12,487	(81)	1,468	(296)	2	13,580
Finnq Co., Ltd.	7,671	-	(2,325)	(3)	-	5,343
Celcom Planet	-	5,997	(5,997)	-	-	-
	<u>20,158</u>	<u>5,916</u>	<u>(6,854)</u>	<u>(299)</u>	<u>2</u>	<u>18,923</u>
₩	<u><u>12,811,771</u></u>	<u><u>150,244</u></u>	<u><u>223,345</u></u>	<u><u>68,135</u></u>	<u><u>(235,916)</u></u>	<u><u>13,017,579</u></u>

(*1) Other increase (decrease) includes the dividends declared by SK Hynix Inc. during the three-month period ended March 31, 2019.

(*2) The acquisition for the three-month period ended March 31, 2019 includes ₩113,470 million of additional investments on SK South East Asia Investment Pte. Ltd. in cash and ₩11,201 million of cash and ₩19,039 million of assets for the acquisition of Grab Geo Holdings PTE. LTD. Other increase (decrease) includes the changes in book value due to the reclassification of FSK L&S Co., Ltd. as investments in subsidiary from investments in associates.

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10. 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 three-month periods ended March 31, 2019 and 2018 are as follows, Continued:

(In millions of won)

	For the three-month period ended March 31, 2018					
	Beginning balance	Acquisition and Disposal	Share of profits (losses)	Other comprehensive income (loss)	Other decrease	Ending balance
Investments in associates:						
SK China Company Ltd.	₩ 526,099	-	99	9,733	-	535,931
Korea IT Fund	257,003	-	9,068	(1,418)	-	264,653
KEB HanaCard Co., Ltd.	280,988	-	(2,734)	16	-	278,270
NanoEnTek, Inc.	38,718	-	(1,655)	244	-	37,307
SK Technology Innovation Company	42,511	-	103	(180)	-	42,434
HappyNarae Co., Ltd.	21,873	-	707	-	-	22,580
SK hynix Inc. (*)	8,130,000	-	642,394	30,233	(146,100)	8,656,527
SK MENA Investment B.V.	13,853	-	(6)	(63)	-	13,784
S.M.Culture & Contents Co., Ltd.	64,966	-	(1,077)	40	-	63,929
Xian Tianlong Science and Technology Co., Ltd.	25,891	-	(337)	-	-	25,554
Daehan Kanggun BcN Co., Ltd. and others	96,479	485	(4,558)	387	(8,050)	84,743
	9,498,381	485	642,004	38,992	(154,150)	10,025,712
Investments in joint ventures:						
Dogus Planet, Inc.	13,991	-	862	(761)	-	14,092
Finnq Co., Ltd.	16,474	-	(1,848)	(46)	-	14,580
Celcom Planet and others	9,592	-	42	(3)	-	9,631
	40,057	-	(944)	(810)	-	38,303
₩	9,538,438	485	641,060	38,182	(154,150)	10,064,015

(*) Dividends received from the associates are deducted from the carrying amount during the three-month period ended March 31, 2018.

(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 March 31, 2019 are as follows:

(In millions of won)

	Unrecognized loss		Unrecognized change in equity	
	For the three-month period ended March 31, 2019	Cumulative loss	For the three-month period ended March 31, 2019	Cumulative loss
Wave City Development Co., Ltd.	₩ (515)	6,019	-	-
Celcom Planet and others	(4,431)	10,979	-	365
₩	(4,946)	16,998	-	365

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11. Property and Equipment

(1) Details of the changes in property and equipment for the three-month periods ended March 31, 2019 and 2018 are as follows:

(In millions of won)

For the three-month period ended March 31, 2019								
	Beginning balance	Impact of adopting K-IFRS No. 1116	Acquisition	Disposal	Transfer	Depreciation	Business Combination	Ending balance
Land	₩ 938,344	-	18	-	(43)	-	-	938,319
Buildings	863,294	-	79	(433)	9,040	(13,275)	-	858,705
Structures	356,039	-	-	-	844	(8,927)	-	347,956
Machinery	7,146,724	-	61,755	(5,529)	203,094	(558,354)	-	6,847,690
Other	848,596	(934)	313,585	(1,075)	(370,185)	(49,695)	231	740,523
Right-of-use assets	-	653,695	102,062	(30,441)	-	(84,460)	223	641,079
Construction in progress	565,357	-	92,077	(3,485)	167,642	-	-	821,591
₩	10,718,354	652,761	569,576	(40,963)	10,392	(714,711)	454	11,195,863

(In millions of won)

For the three-month period ended March 31, 2018							
	Beginning balance	Acquisition	Disposal	Transfer	Depreciation	Business Combination	Ending balance
Land	₩ 862,861	74	(13)	1,823	-	-	864,745
Buildings	882,650	383	(4)	14,927	(13,011)	-	884,945
Structures	378,575	7	-	893	(9,010)	-	370,465
Machinery	7,079,798	48,505	(3,360)	203,379	(563,741)	-	6,764,581
Other	531,057	48,707	(1,042)	(91,285)	(34,673)	540	453,304
Construction in progress	409,941	60,589	-	(160,014)	-	-	310,516
₩	10,144,882	158,265	(4,419)	(30,277)	(620,435)	540	9,648,556

(2) Details of the right-of-use assets as of March 31, 2019 and January 1, 2019 are as follows:

(In millions of won)

	March 31, 2019	January 1, 2019
Buildings	₩ 549,489	546,474
Other	91,590	107,221
₩	641,079	653,695

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12. Intangible Assets

(1) Details of the changes in intangible assets for the three-month periods ended March 31, 2019 and 2018 are as follows:

(In millions of won)

		For the three-month period ended March 31, 2019							
	Beginning balance	Impact of adopting K-IFRS No. 1116	Acquisition	Disposal	Transfer	Amortization	Impairment	Business Combination	Ending balance
Frequency usage rights	₩ 3,139,978	-	-	-	-	(100,972)	-	-	3,039,006
Land usage rights	10,511	-	-	(291)	-	(1,481)	-	-	8,739
Industrial rights	83,627	-	459	(5)	2,075	(1,194)	-	-	84,962
Development costs	8,990	-	194	-	46	(1,144)	-	4,759	12,845
Facility usage rights	31,027	-	259	-	122	(1,931)	-	-	29,477
Customer relations	625,091	-	256	(52)	(128)	(8,468)	-	-	616,699
Club memberships	80,475	-	40	(202)	(730)	-	(63)	53	79,573
Brand	374,096	-	-	-	-	-	-	-	374,096
Other	1,159,715	(2,274)	7,563	(2,198)	15,846	(102,369)	-	526	1,076,809
	₩ 5,513,510	(2,274)	8,771	(2,748)	17,231	(217,559)	(63)	5,338	5,322,206

(In millions of won)

		For the three-month period ended March 31, 2018							
	Beginning balance	Acquisition	Disposal	Transfer	Amortization	Impairment	Business Combination	Ending balance	
Frequency usage rights	₩ 2,176,940	-	-	-	(100,972)	-	-	2,075,968	
Land usage rights	15,750	1,005	(170)	-	(1,952)	-	-	14,633	
Industrial rights	111,347	2,415	(12)	(189)	(1,630)	-	7	111,938	
Development costs	4,103	607	-	-	(480)	-	5,785	10,015	
Facility usage rights	36,451	282	(2)	30	(1,932)	-	-	34,829	
Customer relations	4,035	199	-	-	(929)	-	-	3,305	
Club memberships	73,614	2,185	(780)	-	-	-	-	75,019	
Other	1,164,725	25,059	(3,982)	36,514	(95,578)	(903)	909	1,126,744	
	₩ 3,586,965	31,752	(4,946)	36,355	(203,473)	(903)	6,701	3,452,451	

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12. Intangible Assets, Continued

(2) Details of frequency usage rights as of March 31, 2019 are as follows:

(In millions of won)

	Amount	Description	Commencement of amortization	Completion of amortization
800MHz license	₩ 91,245	CDMA and LTE service	Jul. 2011	Jun. 2021
1.8GHz license	345,455	LTE service	Sept. 2013	Dec. 2021
2.6GHz license	940,995	LTE service	Sept. 2016	Dec. 2026
2.1GHz license	294,385	W-CDMA and LTE service	Dec. 2016	Dec. 2021
3.5GHz license(*)	1,164,243	5G service	-	Nov. 2028
28GHz license(*)	202,683	5G service	-	Nov. 2023
	<u>₩ 3,039,006</u>			

(*) The Group participated in the frequency license allocation auction hosted by Ministry of Science and Information and Communication Technology (ICT) and was assigned the 3.5GHz and 28GHz bands of frequency licenses during the year ended December 31, 2018. The considerations payable for the bands of frequency are ₩1,218,500 million and ₩207,300 million, respectively. These bands of frequency were assigned in December 2018 and the annual payments in installment of the remaining balances will be made for the next ten and five years, respectively. The Group recognized these frequency licenses as intangible assets at the date of initial lump sum payment and starts amortization when the bands of frequency are in the condition necessary for them to be capable of operating in the manner intended by management.

13. Borrowings and Debentures

(1) Short-term borrowings as of March 31, 2019 and December 31, 2018 are as follows:

(In millions of won)

	Lender	Annual interest rate(%)	March 31, 2019	December 31, 2018
Short-term borrowings	Shinhan Bank	3.36	₩ 30,000	30,000
	Shinhan Bank	2.27	-	30,000
	Shinhan Bank	3.75	15,000	15,000
	KEB Hana Bank	3.71	5,000	5,000
Commercial paper	SK Securities.Co., LTD.	1.98	30,000	-
			<u>₩ 80,000</u>	<u>80,000</u>

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13. Borrowings and Debentures, Continued

(2) Changes in the long-term borrowings for the three-month period ended March 31, 2019 are as follows:

(In millions of won)

	<u>Lender</u>	<u>Annual interest rate(%)</u>	<u>Maturity</u>	<u>Book value</u>
Current				₩ 89,631
Non-current				<u>2,015,365</u>
As of January 1, 2019				<u>2,104,996</u>
Repayments of long-term borrowings:				
	Korea Development Bank	2.20	Jul. 30, 2019	(3,250)
	Korea Development Bank	2.20	Jul. 30, 2019	(833)
	Korea Development Bank	2.32	Dec. 20, 2021	(3,062)
	Korea Development Bank	2.78	Dec. 21, 2022	(3,126)
Other changes(*)				<u>2,368</u>
Current				88,913
Non-current				<u>2,008,180</u>
As of March 31, 2019				₩ <u><u>2,097,093</u></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 three-month period ended March 31, 2019.

13. Borrowings and Debentures, Continued

SK TELECOM CO., LTD. and Subsidiaries
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For the three-month periods ended March 31, 2019 and 2018

(3) Changes in debentures for the three-month period ended March 31, 2019 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				₩	895,479	894,641
Non-current					6,598,963	6,572,211
As of January 1, 2019					<u>7,494,442</u>	<u>7,466,852</u>
Debentures newly issued:						
Unsecured corporate bonds	Operating fund	2.03	Mar. 6, 2022		180,000	179,235
		2.09	Mar. 6, 2024		120,000	119,498
		2.19	Mar. 6, 2029		50,000	49,801
		2.23	Mar. 6, 2039		50,000	49,812
	Refinancing fund(*1)	2.00	Mar. 26, 2022		50,000	49,781
		2.09	Mar. 26, 2024		160,000	159,300
				₩	<u>610,000</u>	<u>607,427</u>
Debentures repaid:						
Unsecured corporate bonds	Operating fund	1.65	Mar. 4, 2019	₩	<u>(70,000)</u>	<u>(70,000)</u>
Other changes(*2)					<u>28,075</u>	<u>30,205</u>
Current(*3)					1,325,092	1,324,875
Non-current(*3)					6,737,425	6,709,609
As of March 31, 2019				₩	<u>8,062,517</u>	<u>8,034,484</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 three-month period ended March 31, 2019.

(*3) ₩500,984 million were transferred from non-current to current for the three-month period ended March 31, 2019.

14. Long-term Payables – other

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For the three-month periods ended March 31, 2019 and 2018

- (1) Long-term payables – other as of March 31, 2019 and December 31, 2018 are as follows:

(In millions of won)

	<u>March 31, 2019</u>	<u>December 31, 2018</u>
Payables related to acquisition of frequency usage rights	₩ 1,527,606	1,939,082
Other(*)	21,196	29,702
	<u>₩ 1,548,802</u>	<u>1,968,784</u>

- (*) Other includes accounts payable – other for the installments on the acquisition of telecommunication equipment by Life & Security Holdings Co., Ltd.

- (2) As of March 31, 2019 and December 31, 2018, details of long-term payables – other related to the acquisition of frequency usage rights are as follows (See note 12):

(In millions of won)

	<u>March 31, 2019</u>	<u>December 31, 2018</u>
Long-term payables – other	₩ 2,051,389	2,476,738
Present value discount on long-term payables – other	(105,044)	(113,772)
Current installments of long-term payables – other	(418,739)	(423,884)
Carrying amount at period end	<u>₩ 1,527,606</u>	<u>1,939,082</u>

- (3) The Group repaid ₩425,349 million of the principal amount of long-term payables – other related to the acquisition of frequency usage rights during the three-month period ended March 31, 2019. The repayment schedule of the principal amount of long-term payables – other as of March 31, 2019 is as follows:

(In millions of won)

	<u>Amount</u>
Less than 1 year	₩ 425,349
1~3 years	647,589
3~5 years	413,385
More than 5 years	565,066
	<u>₩ 2,051,389</u>

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15. Provisions

Changes in provisions for the three-month periods ended March 31, 2019 and 2018 are as follows:

(In millions of won)

	For the three-month period ended March 31, 2019						As of March 31, 2019	
	Beginning balance	Increase	Utilization	Reversal	Other	Ending balance	Current	Non-current
Provision for restoration	₩ 77,741	913	(1,350)	(870)	42	76,476	44,791	31,685
Emission allowance	2,238	1,074	-	-	-	3,312	3,312	-
Other provisions(*)	107,229	36	(9,300)	(61)	(84)	97,820	38,306	59,514
	₩ 187,208	2,023	(10,650)	(931)	(42)	177,608	86,409	91,199

(*) ₩36,685 million of current provisions and ₩48,199 million of non-current provisions are included in the other provisions relating to SK Planet Co., Ltd.'s onerous contracts. (See note 29)

	For the three-month period ended March 31, 2018						As of March 31, 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	-	-	(263)	-	-	3,611	3,611	-
Provision for restoration	73,267	-	935	(233)	(302)	52	73,719	41,310	32,409
Emission allowance	4,650	-	759	-	-	-	5,409	5,409	-
Other provisions	2,935	(215)	627	(644)	-	22	2,725	2,725	-
	₩ 84,726	(215)	2,321	(1,140)	(302)	74	85,464	53,055	32,409

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16. Defined Benefit Liabilities (Assets)

(1) Details of defined benefit liabilities (assets) as of March 31, 2019 and December 31, 2018 are as follows:

(In millions of won)

		<u>March 31, 2019</u>	<u>December 31, 2018</u>
Present value of defined benefit obligations	₩	959,821	926,302
Fair value of plan assets		(812,243)	(816,699)
Defined benefit assets(*)		<u>(22,651)</u>	<u>(31,926)</u>
Defined benefit liabilities		<u>170,229</u>	<u>141,529</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 three-month periods ended March 31, 2019 and 2018 are as follows:

(In millions of won)

		<u>For the three-month period ended</u>	
		<u>March 31, 2019</u>	<u>March 31, 2018</u>
Beginning balance	₩	926,302	679,625
Business combination		1,563	-
Current service cost		41,756	31,656
Interest cost		5,679	4,937
Remeasurement:			
- Adjustment based on experience		10,034	14,304
Benefit paid		(28,541)	(14,562)
Others		3,028	2,212
Ending balance	₩	<u>959,821</u>	<u>718,172</u>

(3) Changes in plan assets for the three-month periods ended March 31, 2019 and 2018 are as follows:

(In millions of won)

		<u>For the three-month period ended</u>	
		<u>March 31, 2019</u>	<u>March 31, 2018</u>
Beginning balance	₩	816,699	663,617
Business combination		1,434	-
Interest income		4,893	4,812
Remeasurement		(719)	(2,374)
Contribution		27,850	11,217
Benefit paid		(38,434)	(24,944)
Others		520	5,303
Ending balance	₩	<u>812,243</u>	<u>657,631</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 three-month periods ended March 31, 2019 and 2018 are as follows:

(In millions of won)

		<u>For the three-month period ended</u>	
		<u>March 31, 2019</u>	<u>March 31, 2018</u>
Current service cost	₩	41,756	31,656
Net interest cost		786	125
	₩	<u>42,542</u>	<u>31,781</u>

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17. Share Capital and Capital Surplus and Others

- (1) 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 March 31, 2019 and December 31, 2018 are as follows:

(In millions of won, except for share data)

	<u>March 31, 2019</u>	<u>December 31, 2018</u>
Number of authorized shares	220,000,000	220,000,000
Number of issued shares	80,745,711	80,745,711
Share capital:		
Common share	₩ 44,639	44,639
Capital surplus and others:		
Paid-in capital surplus	2,915,887	2,915,887
Treasury shares	(1,979,475)	(1,979,475)
Hybrid bonds(*1)	398,759	398,759
Share option(note 18)	1,094	1,007
Others(*2)	(690,088)	(681,094)
	<u>₩ 646,177</u>	<u>655,084</u>

- (*1) Hybrid bonds issued by the Parent Company are classified as equity as there is no contractual obligation for delivery of financial assets to the bond holders. These are subordinated bonds which rank before common shares in the event of a liquidation or reorganization of the Parent Company.

- (*2) Others primarily consist of the excess of the consideration paid by the Group over the carrying values of net assets acquired from entities under common control.

- (2) There were no changes in share capital during the three-month periods ended March 31, 2019 and 2018 and details of shares outstanding as of March 31, 2019 and 2018 are as follows:

(In shares)

	<u>March 31, 2019</u>			<u>March 31, 2018</u>		
	<u>Issued shares</u>	<u>Treasury shares</u>	<u>Outstanding shares</u>	<u>Issued shares</u>	<u>Treasury shares</u>	<u>Outstanding shares</u>
Shares outstanding	80,745,711	8,875,883	71,869,828	80,745,711	10,136,551	70,609,160

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18. Share option

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

	Parent Company					
	Series					
	1-1	1-2	1-3	2	3	4
Grant date		March 24, 2017		February 20, 2018	February 22, 2019	March 26, 2019
Types of shares to be issued	Registered common shares of the Parent Company					
Grant method		Reissue of treasury shares			Reissue of treasury shares, cash settlement	
Number of shares (in shares)	22,168	22,168	22,168	1,358	5,477	1,734
Exercise price (in won)	246,750	266,490	287,810	254,120	265,260	254,310
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	Feb. 23, 2021 ~ Feb. 22, 2024	Mar. 27, 2021 ~ Mar. 26, 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 years' service from the grant date

	DREAMUS COMPANY(Formerly, IRIVER LIMITED)			
	One Store Co., Ltd.	1-1	1-2	1-3
		March 28, 2019	March 28, 2019	March 28, 2019
Grant date	April 27, 2018			
Types of shares to be issued	Common shares of One Store Co., Ltd.	Common shares of DREAMUS COMPANY (Formerly, IRIVER LIMITED)		
Grant method	Issuance of new shares	Issuance of new shares, reissue of treasury shares, cash settlement		
Number of shares (in shares)(*)	1,006,100	406,681	406,672	406,647
Exercise price (in won)	5,390	9,160	9,160	9,160
Exercise period	Apr. 28, 2020~ Apr. 27, 2024	Mar. 29, 2021 ~ Mar. 28, 2024	Mar. 29, 2022 ~ Mar. 28, 2025	Mar. 29, 2023 ~ Mar. 28, 2026
Vesting conditions	2 years' service from the grant date	2 years' service from the grant date	3 years' service from the grant date	4 years' service from the grant date

(*) Parts of the grant of One Store Co., Ltd. that have not met the vesting conditions have been forfeited during the three-month period ended March 31, 2019 and during the year ended December 31, 2018.

(2) Share compensation expense recognized during the three-month period ended March 31, 2019 and the remaining share compensation expense to be recognized in subsequent periods are as follows:

(In millions of won)

	Share compensation expense	
Accumulated compensation expenses as of December 31, 2018	₩	1,203
For the three-month period ended March 31, 2019		155
In subsequent periods		2,340
	₩	<u>3,698</u>

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18. Share option, Continued

(3) The Group used binomial option pricing model or Monte-Carlo simulation in the measurement of the fair value of the share options at grant date and the inputs used in the model are as follows:

<i>(In won)</i>	Parent Company					
	Series					
	1-1	1-2	1-3	2	3	4
Risk-free interest rate	1.86%	1.95%	2.07%	2.63%	1.91 %	1.78%
Estimated option's life	5 years	6 years	7 years	5 years	5 years	5 years
Share price						
(Closing price on the preceding day)	262,500	262,500	262,500	243,500	259,000	253,000
Expected volatility	13.38%	13.38%	13.38%	16.45%	8.30%	7.70%
Expected dividends	3.80%	3.80%	3.80%	3.70%	3.80%	3.90%
Exercise price	246,750	266,490	287,810	254,120	265,260	254,310
Per share fair value of the option	27,015	20,240	15,480	23,988	8,600	8,111

<i>(In won)</i>	One Store Co., Ltd.	DREAMUS COMPANY(Formerly, IRIVER LIMITED)		
		1-1	1-2	1-3
		Risk-free interest rate	2.61%	1.73%
Estimated option's life	6 years	-	-	-
Share price				
(Closing price on the preceding day)(*)	4,925	8,950	8,950	8,950
Expected volatility	9.40%	16.17%	16.17%	16.17%
Expected dividends	0.00%	0.00%	0.00%	0.00%
Exercise price	5,390	9,160	9,160	9,160
Per share fair value of the option	566	1,132	1,372	1,542

(*) One Store Co., Ltd., a subsidiary of the Parent Company, is an unlisted stock, and the share price is calculated using the discounted cash flow model.

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19. Retained Earnings

Retained earnings as of March 31, 2019 and December 31, 2018 are as follows:

(In millions of won)

	<u>March 31, 2019</u>	<u>December 31, 2018</u>
Appropriated:		
Legal reserve	₩ 22,320	22,320
Reserve for business expansion	11,531,138	10,531,138
Reserve for technology development	4,265,300	3,321,300
	<u>15,818,758</u>	<u>13,874,758</u>
Unappropriated	6,017,008	8,269,783
	<u>₩ 21,835,766</u>	<u>22,144,541</u>

20. Reserves

(1) Details of reserves, net of taxes, as of March 31, 2019 and December 31, 2018 are as follows:

(In millions of won)

	<u>March 31, 2019</u>	<u>December 31, 2018</u>
Valuation gain (loss) on financial assets at FVOCI	₩ 5,858	(124)
Other comprehensive loss of investments in associates	(268,780)	(334,637)
Valuation loss on derivatives	(28,976)	(41,601)
Foreign currency translation differences for foreign operations	6,899	2,920
	<u>₩ (284,999)</u>	<u>(373,442)</u>

(2) Changes in reserves for the three-month periods ended March 31, 2019 and 2018 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 compre- hensive loss of investments in associates</u>	<u>Valuation loss on derivatives</u>	<u>Foreign currency translation differences for foreign operations</u>	<u>Total</u>
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	(19,921)	-	38,572	(9,680)	1,790	10,761
Balance at March 31, 2018	79,486	-	(281,488)	(83,508)	(7,260)	(292,770)
Balance at January 1, 2019	(124)	-	(334,637)	(41,601)	2,920	(373,442)
Changes, net of taxes	5,982	-	65,857	12,625	3,979	88,443
Balance at March 31, 2019	<u>₩ 5,858</u>	<u>-</u>	<u>(268,780)</u>	<u>(28,976)</u>	<u>6,899</u>	<u>(284,999)</u>

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21. Other Operating Expenses

Details of other operating expenses for the three-month periods ended March 31, 2019 and 2018 are as follows:

(In millions of won)

	For the three-month period ended	
	March 31, 2019	March 31, 2018
Communication	₩ 9,930	8,172
Utilities	77,019	75,081
Taxes and dues	10,158	8,634
Repair	89,138	79,158
Research and development	99,756	89,425
Training	8,896	8,444
Bad debt for accounts receivable – trade	9,989	9,820
Travel	8,060	6,696
Supplies and other	61,923	34,372
	₩ <u>374,869</u>	<u>319,802</u>

22. Other Non-operating Income and Expenses

Details of other non-operating income and expenses for the three-month periods ended March 31, 2019 and 2018 are as follows:

(In millions of won)

	For the three-month period ended	
	March 31, 2019	March 31, 2018
Other non-operating Income:		
Commission income	₩ 66	85
Gain on disposal of property and equipment and intangible assets	2,904	2,157
Others	4,965	14,678
	₩ <u>7,935</u>	<u>16,920</u>
Other non-operating Expenses:		
Impairment loss on property and equipment, and intangible assets	₩ 63	903
Loss on disposal of property and equipment and intangible assets	9,537	3,068
Donations	2,650	15,971
Bad debt for accounts receivable – other	1,101	3,714
Others	4,754	3,311
	₩ <u>18,105</u>	<u>26,967</u>

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23. Finance Income and Costs

(1) Details of finance income and costs for the three-month periods ended March 31, 2019 and 2018 are as follows:

(In millions of won)

	For the three-month period ended	
	March 31, 2019	March 31, 2018
Finance Income:		
Interest income	₩ 15,047	16,920
Gain on sale of accounts receivable – other	7,942	3,749
Dividends	9,924	15,142
Gain on foreign currency transactions	1,674	3,607
Gain on foreign currency translations	2,400	558
Gain relating to financial assets at FVTPL	344	9,502
Gain on valuation of derivatives	446	319
	₩ <u>37,777</u>	<u>49,797</u>
Finance Costs:		
Interest expenses	₩ 102,254	75,115
Loss on sale of accounts receivable – other	-	2,458
Loss on foreign currency transactions	1,613	6,138
Loss on foreign currency translations	1,457	480
Loss on financial liabilities at FVTPL	252	288
Loss on financial assets at FVTPL	140	400
	₩ <u>105,716</u>	<u>84,879</u>

(2) Details of interest income included in finance income for the three-month periods ended March 31, 2019 and 2018 are as follows:

(In millions of won)

	For the three-month periods ended	
	March 31, 2019	March 31, 2018
Interest income on cash equivalents and short-term financial instruments	₩ 7,823	6,767
Interest income on loans and others	7,224	10,153
	₩ <u>15,047</u>	<u>16,920</u>

(3) Details of interest expenses included in finance costs for the three-month periods ended March 31, 2019 and 2018 are as follows:

(In millions of won)

	For the three-month period ended	
	March 31, 2019	March 31, 2018
Interest expenses on borrowings	₩ 25,394	3,562
Interest expenses on debentures	55,832	57,970
Others	21,028	13,583
	₩ <u>102,254</u>	<u>75,115</u>

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23. Finance Income and Costs, Continued

(4) Details of impairment losses on financial assets for the three-month periods ended March 31, 2019 and 2018 are as follows:

(In millions of won)

	For the three-month period ended	
	March 31, 2019	March 31, 2018
Accounts receivable – trade	₩ 9,989	9,820
Other receivables	1,101	3,714
	<u>₩ 11,090</u>	<u>13,534</u>

24. 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.

25. Earnings per Share

(1) Basic earnings per share

1) Basic earnings per share for the three-month periods ended March 31, 2019 and 2018 are calculated as follows:

(In millions of won, except for share data)

	For the three-month period ended	
	March 31, 2019	March 31, 2018
Profit attributable to owners of the Parent Company on common shares	₩ 379,189	694,959
Interest on hybrid bonds	(3,692)	-
Profit for the period available for common shares	375,497	694,959
Weighted average number of common shares outstanding	71,869,828	70,609,160
Basic earnings per share (in won)	<u>₩ 5,225</u>	<u>9,842</u>

2) The weighted average number of common shares outstanding for the three-month periods ended March 31, 2019 and 2018 are calculated as follows:

(In shares)

	Number of common shares	Weighted average number of common shares
		For the three-month period ended March 31, 2019
Issued shares at January 1	80,745,711	80,745,711
Treasury shares at January 1	(8,875,883)	(8,875,883)
	<u>71,869,828</u>	<u>71,869,828</u>

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25. Earnings per Share, Continued

(1) Basic earnings per share, Continued

2) The weighted average number of common shares outstanding for the three-month periods ended March 31, 2019 and 2018 are calculated as follows, Continued:

<i>(In shares)</i>	Number of common shares	Weighted average number of common shares For the three-month period ended March 31, 2018
Issued shares at January 1	80,745,711	80,745,711
Treasury shares at January 1	(10,136,551)	(10,136,551)
	<u>70,609,160</u>	<u>70,609,160</u>

(2) Diluted earnings per share

For the three-month periods ended March 31, 2019 and 2018, diluted earnings per share are the same as basic earnings per share as there are no dilutive potential common shares.

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26. Categories of Financial Instruments

(1) Financial assets by category as of March 31, 2019 and December 31, 2018 are as follows:

(In millions of won)

	March 31, 2019					
	Financial assets at FVTPL	Equity instruments at FVOCI	Debt instruments at FVOCI	Financial assets at amortized cost	Derivatives hedging instrument	Total
Cash and cash equivalents	₩ -	-	-	2,057,080	-	2,057,080
Financial instruments	-	-	-	725,560	-	725,560
Short-term investment securities	81,215	-	-	-	-	81,215
Long-term investment securities(*)	122,860	575,203	1,134	-	-	699,197
Accounts receivable - trade	-	-	-	1,977,731	-	1,977,731
Loans and other receivables	496,656	-	-	1,514,926	-	2,011,582
Derivative financial assets	15,911	-	-	-	80,591	96,502
	₩ 716,642	575,203	1,134	6,275,297	80,591	7,648,867

(*) The Group designated ₩575,203 million of equity instruments that are not held for trading as financial assets measured at FVOCI.

(In millions of won)

	December 31, 2018					
	Financial assets at FVTPL	Equity instruments at FVOCI	Debt instruments at FVOCI	Financial assets at amortized cost	Derivatives hedging instrument	Total
Cash and cash equivalents	₩ -	-	-	1,506,699	-	1,506,699
Financial instruments	-	-	-	1,046,897	-	1,046,897
Short-term investment securities	195,080	-	-	-	-	195,080
Long-term investment securities(*)	120,083	542,496	2,147	-	-	664,726
Accounts receivable - trade	-	-	-	2,019,933	-	2,019,933
Loans and other receivables	489,617	-	-	1,132,321	-	1,621,938
Derivative financial assets	15,586	-	-	-	39,871	55,457
	₩ 820,366	542,496	2,147	5,705,850	39,871	7,110,730

(*) The Group designated ₩542,496 million of equity instruments that are not held for trading as financial assets measured at FVOCI.

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26. Categories of Financial Instruments, Continued

(2) Financial liabilities by category as of March 31, 2019 and December 31, 2018 are as follows:

(In millions of won)

	March 31, 2019			
	Financial liabilities at FVTPL	Financial liabilities at amortized cost	Derivatives-hedging instrument	Total
Accounts payable – trade	₩ -	311,739	-	311,739
Derivative financial liabilities	-	-	643	643
Borrowings	-	2,177,093	-	2,177,093
Debentures(*)	62,065	7,972,419	-	8,034,484
Lease liabilities	-	660,850	-	660,850
Accounts payable – other and others	-	6,566,882	-	6,566,882
	₩ 62,065	17,688,983	643	17,751,691

(*) Debentures classified as financial liabilities at FVTPL as of March 31, 2019 are structured bonds, and they were designated as financial liabilities at FVTPL in order to eliminate a measurement inconsistency with the related derivatives.

(In millions of won)

	December 31, 2018			
	Financial liabilities at FVTPL	Financial liabilities at amortized cost	Derivatives hedging instrument	Total
Accounts payable – trade	₩ -	381,302	-	381,302
Derivative financial liabilities	-	-	4,184	4,184
Borrowings	-	2,184,996	-	2,184,996
Debentures(*)	61,813	7,405,039	-	7,466,852
Accounts payable – other and others	-	6,762,782	-	6,762,782
	₩ 61,813	16,734,119	4,184	16,800,116

(*) Debentures classified as financial liabilities at FVTPL as of December 31, 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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27. 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 – other and others, borrowings, debentures and lease liabilities.

1) Market risk

(i) Currency risk

The Group incurs exchange position due to revenue and expenses from its global 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.

Monetary assets and liabilities denominated in foreign currencies as of March 31, 2019 are as follows:

(In millions of won, thousands of foreign currencies)

	Assets		Liabilities	
	Foreign currencies	Won equivalent	Foreign currencies	Won equivalent
USD	169,632 ₩	193,007	1,596,216 ₩	1,816,174
EUR	17,049	21,779	10	13
JPY	963,068	9,903	89,085	916
Others	-	30,257	-	15,793
	₩	<u>254,946</u>	₩	<u>1,832,896</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 March 31, 2019, a hypothetical change in exchange rates by 10% would have increase (reduce) the Group's income before income tax as follows:

(In millions of won)

	If increased by 10%	If decreased by 10%
USD	₩ 11,562	(11,562)
EUR	2,177	(2,177)
JPY	899	(899)
Others	1,446	(1,446)
	₩ <u>16,084</u>	<u>(16,084)</u>

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For the three-month periods ended March 31, 2019 and 2018

27. Financial Risk Management, Continued

(1) Financial risk management, Continued

1) Market risk, Continued

(ii) Interest rate risk

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

The Group performs various analysis 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 March 31, 2019, the floating-rate borrowings and debenture of the Group are ₩228,730 million and ₩341,340 million, respectively, and the Group has entered into interest rate swap agreements for most 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 three-month period ended March 31, 2019, would change by ₩350 million in relation to floating-rate borrowings that are exposed to interest rate risk.

As of March 31, 2019, the floating-rate long-term payables – other are ₩2,051,389 million. If the interest rate increases (decreases) 1%p with all other variables held constant, income before income taxes for the three-month ended March 31, 2019, would change by ₩5,129 million in relation to floating-rate long-term payables – other that are exposed to interest rate risk.

2) Credit risk

The maximum credit exposure as of March 31, 2019 and December 31, 2018 are as follows:

(In millions of won)

	<u>March 31, 2019</u>	<u>December 31, 2018</u>
Cash and cash equivalents	₩ 2,056,769	1,506,432
Financial instruments	725,560	1,046,897
Investment securities	7,884	11,672
Accounts receivable – trade	1,977,731	2,019,933
Loans and other receivables	2,011,582	1,621,938
Derivative financial assets	96,502	55,457
	<u>₩ 6,876,028</u>	<u>6,262,329</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.

27. Financial Risk Management, Continued

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(1) Financial risk management, Continued

2) Credit risk, Continued

The Group establishes loss allowance in respect of accounts receivable – trade and contract assets. 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 collection 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 March 31, 2019.

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 active operating activities.

Contractual maturities of financial liabilities as of March 31, 2019 are as follows:

(In millions of won)

	Carrying amount	Contractual cash flows	Less than 1 year	1 - 5 years	More than 5 years
Accounts payable – trade	₩ 311,739	311,739	311,739	-	-
Borrowings(*)	2,177,093	2,627,088	258,086	2,369,002	-
Debentures(*)	8,034,484	9,351,508	1,549,421	4,688,618	3,113,469
Lease liabilities	660,850	696,299	283,529	330,236	82,534
Accounts payable – other and others(*)	6,566,882	6,778,791	5,022,722	1,168,057	588,012
	₩ <u>17,751,048</u>	<u>19,765,425</u>	<u>7,425,497</u>	<u>8,555,913</u>	<u>3,784,015</u>

(*) Includes interest payables.

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

As of March 31, 2019, periods in which cash flows from cash flow hedge derivatives are expected to occur are as follows:

(In millions of won)

	Carrying amount	Contractual cash flows	Less than 1 year	1 - 5 years	More than 5 years
Assets	₩ 80,591	80,770	38,787	66,011	(24,028)
Liabilities	(643)	(650)	(449)	(201)	-
	₩ <u>79,948</u>	<u>80,120</u>	<u>38,338</u>	<u>65,810</u>	<u>(24,028)</u>

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27. Financial Risk Management, Continued

(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 strategy of the Group is the same as that of the Group as of and for the year ended December 31, 2018.

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 March 31, 2019 and December 31, 2018 are as follows:

(In millions of won)

		<u>March 31, 2019</u>	<u>December 31, 2018</u>
Total liabilities	₩	21,227,364	20,019,861
Total equity		22,119,117	22,349,250
Debt-equity ratios		95.97%	89.58%

(3) Fair value

1) Fair value and carrying amount of financial assets and liabilities including fair value hierarchy as of March 31, 2019 are as follows:

(In millions of won)

		<u>March 31, 2019</u>				
		<u>Carrying amount</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets that are measured at fair value:						
FVTPL	₩	716,642	-	592,344	124,298	716,642
Derivatives hedging instruments		80,591	-	80,591	-	80,591
FVOCI		576,337	296,855	-	279,482	576,337
	₩	<u>1,373,570</u>	<u>296,855</u>	<u>672,935</u>	<u>403,780</u>	<u>1,373,570</u>
Financial liabilities that are measured at fair value:						
FVTPL	₩	62,065	-	62,065	-	62,065
Derivative financial liabilities		643	-	643	-	643
	₩	<u>62,708</u>	<u>-</u>	<u>62,708</u>	<u>-</u>	<u>62,708</u>
Financial liabilities that are not measured at fair value:						
Borrowings	₩	2,177,093	-	2,343,589	-	2,343,589
Debentures		7,972,419	-	8,461,676	-	8,461,676
Long-term payables – other		1,967,541	-	2,028,674	-	2,028,674
	₩	<u>12,117,053</u>	<u>-</u>	<u>12,833,939</u>	<u>-</u>	<u>12,833,939</u>

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27. 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, 2018 are as follows:

(In millions of won)

	Carrying amount	December 31, 2018			Total
		Level 1	Level 2	Level 3	
Financial assets that are measured at fair value:					
FVTPL	₩ 820,366	-	695,992	124,374	820,366
Derivatives hedging instruments	₩ 39,871	-	39,871	-	39,871
FVOCI	₩ 544,643	293,925	-	250,718	544,643
	₩ <u>1,404,880</u>	<u>293,925</u>	<u>735,863</u>	<u>375,092</u>	<u>1,404,880</u>
Financial liabilities that are measured at fair value:					
FVTPL	₩ 61,813	-	61,813	-	61,813
Derivative financial liabilities	₩ 4,184	-	4,184	-	4,184
	₩ <u>65,997</u>	<u>-</u>	<u>65,997</u>	<u>-</u>	<u>65,997</u>
Financial liabilities that are not measured at fair value:					
Borrowings	₩ 2,184,996	-	2,378,843	-	2,378,843
Debentures	₩ 7,405,039	-	7,868,472	-	7,868,472
Long-term payables – other	₩ 2,393,027	-	2,469,653	-	2,469,653
	₩ <u>11,983,062</u>	<u>-</u>	<u>12,716,968</u>	<u>-</u>	<u>12,716,968</u>

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.

Fair value of the financial instruments that are traded in an active market (financial assets at FVOCI) 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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27. Financial Risk Management, Continued

(3) Fair value, Continued

Interest rates used by the Group for the fair value measurement as of March 31, 2019 are as follows:

	<u>Interest rate</u>
Derivative instruments	1.59% ~ 2.81%
Borrowings and debentures	1.94% ~ 2.07%
Long-term payables - other	1.87% ~ 2.09%

3) There have been no transfers between Level 2 and Level 1 for the three-month period ended March 31, 2019. The changes of financial assets classified as Level 3 for the three-month period ended March 31, 2019 are as follows:

(In millions of won)

	<u>Balance at January 1, 2019</u>	<u>Gain for the period</u>	<u>OCI</u>	<u>Acquisition</u>	<u>Disposal</u>	<u>Balance at March 31, 2019</u>
FVTPL	₩ 124,374	(312)	602	2,576	(2,942)	124,298
FVOCI	250,718	-	1,151	27,655	(42)	279,482
	<u>₩ 375,092</u>	<u>(312)</u>	<u>1,753</u>	<u>30,231</u>	<u>(2,984)</u>	<u>403,780</u>

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27. Financial Risk Management, Continued

(4) Enforceable master netting agreement or similar agreement

1) Carrying amount of financial instruments recognized of which offset agreements are applicable as of March 31, 2019 and December 31, 2018 are as follows

(In millions of won)

		March 31, 2019				
		Gross financial instruments recognized	Amount offset	Net financial instruments presented on the statement of financial position	Relevant financial instruments not offset	Net amount
Financial assets:						
Derivatives(*)	₩	3,762	-	3,762	(24)	3,738
Accounts receivable – trade and others		77,147	(76,301)	846	-	846
	₩	<u>80,909</u>	<u>(76,301)</u>	<u>4,608</u>	<u>(24)</u>	<u>4,584</u>
Financial liabilities:						
Derivatives(*)	₩	24	-	24	(24)	-
Accounts payable – trade and others		76,621	(76,301)	320	-	320
	₩	<u>76,645</u>	<u>(76,301)</u>	<u>344</u>	<u>(24)</u>	<u>320</u>

(In millions of won)

		December 31, 2018				
		Gross financial instruments recognized	Amount offset	Net financial instruments presented on the statement of financial position	Relevant financial instruments not offset	Net amount
Financial assets:						
Derivatives(*)	₩	1,867	-	1,867	(1,107)	760
Accounts receivable – trade and others		95,990	(95,920)	70	-	70
	₩	<u>97,857</u>	<u>(95,920)</u>	<u>1,937</u>	<u>(1,107)</u>	<u>830</u>
Financial liabilities:						
Derivatives(*)	₩	1,107	-	1,107	(1,107)	-
Accounts payable – trade and others		95,920	(95,920)	-	-	-
	₩	<u>97,027</u>	<u>(95,920)</u>	<u>1,107</u>	<u>(1,107)</u>	<u>-</u>

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

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28. 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 subsidiaries and associates, etc.

As of March 31, 2019, 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.

(2) Compensation for the key management

The Parent Company considers registered directors (3 executive and 5 non-executive directors) who have substantial role and responsibility in planning, operations, and relevant controls of the business as key management. The compensation given to such key management for the three-month periods ended March 31, 2019 and 2018 are as follows:

(In millions of won)

	For the three-month period ended	
	March 31, 2019	March 31, 2018
Salaries	₩ 4,328	2,737
Defined benefits plan expenses	811	557
Share option	130	139
	₩ 5,269	3,433

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

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For the three-month periods ended March 31, 2019 and 2018

28. Transactions with Related Parties, Continued

(3) Transactions with related parties for the three-month periods ended March 31, 2019 and 2018 are as follows:

(In millions of won)

Scope	Company	For the three-month period ended March 31, 2019		
		Operating revenue and others	Operating expense and others(*1)	Acquisition of property and equipment
Ultimate Controlling Entity	SK Holdings Co., Ltd.(*2)	₩ 7,622	294,580	3,717
Associates	F&U Credit information Co., Ltd.	608	13,566	-
	SK hynix Inc.(*3)	230,861	152	-
	KEB HanaCard Co., Ltd.	413	393	-
	SK Wyverns Co., Ltd.	317	15,025	-
	Others	125	3,119	37
			232,324	32,255
Others	SK Engineering & Construction Co., Ltd.	1,549	2,640	-
	SK Innovation Co., Ltd.	5,091	355	-
	SK Networks Co., Ltd.(*4)	3,464	246,859	443
	SK Networks Services Co., Ltd.	219	17,481	6
	SK Telesys Co., Ltd.	132	2,087	2,071
	SK TNS Co., Ltd.	58	406	15,181
	SK Energy Co., Ltd.	3,092	99	-
	SK hynix Semiconductor (China) Ltd.	22,572	-	-
	SK Global Chemical International Trading (Shanghai) Co., Ltd.	2,976	38	-
	Others	17,574	15,954	2,125
		56,727	285,919	19,826
		₩ 296,673	612,754	23,580

(*1) Operating expense and others include lease payments by the Group.

(*2) Operating expense and others include ₩194,617 million of dividends declared by the Parent Company.

(*3) Operating revenue and others include ₩219,151 million of dividends declared by SK hynix Inc. which was deducted from the investment in associates.

(*4) Operating expenses and others include costs for handset purchases amounting to ₩223,305 million.

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28. Transactions with Related Parties, Continued

(3) Transactions with related parties for the three-month periods ended March 31, 2019 and 2018 are as follows, Continued:

(In millions of won)

Scope	Company	For the three-month period ended March 31, 2018		
		Operating revenue and others	Operating expense and others	Acquisition of property and equipment
Ultimate Controlling Entity	SK Holdings Co., Ltd.(*1)	₩ 5,546	282,162	3,628
Associates	F&U Credit information Co., Ltd.	672	13,647	-
	HappyNarae Co., Ltd.	134	3,825	5,684
	SK hynix Inc.(*2)	153,104	28	-
	KEB HanaCard Co., Ltd.	4,032	4,031	-
	Others	314	15,020	-
			158,256	36,551
Others	SK Engineering & Construction Co., Ltd.	797	221	-
	SK Innovation Co., Ltd.	3,146	181	-
	SK Networks Co., Ltd.	3,887	284,667	-
	SK Networks Services Co., Ltd.	184	23,038	255
	SK Telesys Co., Ltd.	86	2,207	7,623
	SK TNS Co., Ltd.	33	1,107	21,354
	Others	9,113	28,185	5,424
		17,246	339,606	34,656
		₩ 181,048	658,319	43,968

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

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

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

For the three-month periods ended March 31, 2019 and 2018

28. Transactions with Related Parties, Continued

(4) Account balances with related parties as of March 31, 2019 and December 31, 2018 are as follows:

(In millions of won)

		March 31, 2019			
		Receivables		Payables	
Scope	Company	Loans	Accounts receivable - trade, etc.	Accounts payable - other, etc.	
Ultimate Controlling Entity	SK Holdings Co., Ltd.	₩ -	7,329	245,604	
	Associates	F&U Credit information Co., Ltd.	-	79	4,871
		SK hynix Inc.	-	227,530	1
		Wave City Development Co., Ltd.	-	37,263	-
		Daehan Kanggun BcN Co., Ltd.(*)	22,147	-	-
		KEB HanaCard Co., Ltd.	-	453	7,948
		Others	408	17	1,692
		22,555	265,342	14,512	
Other	SK Engineering & Construction Co., Ltd.	-	1,751	2,640	
	SK Innovation Co., Ltd.	-	3,952	1,859	
	SK Networks Co., Ltd.	-	4,163	167,110	
	SK Networks Services Co., Ltd.	-	13	8,557	
	SK Telesys Co., Ltd.	-	49	3,000	
	SK Energy Co., Ltd.	-	1,832	1,027	
	SK hystec Co., Ltd.	-	3,879	76	
	SK hynix Semiconductor (China) Ltd.	-	10,393	-	
	Others	-	11,935	8,524	
			-	37,967	192,793
		₩ 22,555	310,638	452,909	

(*) As of March 31, 2019, the Parent Company recognized the entire balance of loans to Daehan Kanggun BcN Co., Ltd. as loss allowances.

28. Transactions with Related Parties, Continued

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Notes to the Condensed Consolidated Interim Financial Statements

For the three-month periods ended March 31, 2019 and 2018

(4) Account balances with related parties as of March 31, 2019 and December 31, 2018 are as follows, Continued:

(In millions of won)

		December 31, 2018		
		Receivables		Payables
Scope	Company	Loans	Accounts receivable – trade, etc.	Accounts payable – other, etc.
Ultimate Controlling Entity	SK Holdings Co., Ltd.	₩ -	5,987	139,260
Associates	F&U Credit information Co., Ltd.	-	98	5,801
	SK hynix Inc.	-	14,766	89
	Wave City Development Co., Ltd.	-	37,263	-
	Daehan Kanggun BcN Co., Ltd.(*)	22,147	-	-
	KEB HanaCard Co., Ltd.	-	541	11,311
	Others	407	130	1,764
			<u>22,554</u>	<u>52,798</u>
Other	SK Engineering & Construction Co., Ltd.	-	1,561	760
	SK Networks Co., Ltd.	-	2,647	167,433
	SK Networks Services Co., Ltd.	-	54	8,946
	SK Telesys Co., Ltd.	-	154	39,188
	SK TNS Co., Ltd.	-	-	89,017
	SK Innovation Co., Ltd.	-	4,696	1,019
	SK Energy Co., Ltd.	-	5,511	887
	SK Gas Co., Ltd.	-	2,225	60
	SK hystec Co., Ltd.	-	2,661	75
	Others	-	8,958	8,066
		<u>-</u>	<u>28,467</u>	<u>315,451</u>
		<u>₩ 22,554</u>	<u>87,252</u>	<u>473,676</u>

(*) As of December 31, 2018, 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. In addition, SK Infosec Co., Ltd., a subsidiary of the Parent Company, also provided a blank note to SK Holdings Co., Ltd. with regard to performance guarantee.

(6) The details of additional investments and disposal of associates and joint ventures for the three-month period ended March 31, 2019 as presented in note 10.

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

For the three-month periods ended March 31, 2019 and 2018

29. 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 ₩3,868 million as of March 31, 2019.

In addition, Life & Security Holdings Co., Ltd., a subsidiary of the Parent Company, has pledged its shares of ADT CAPS Co., Ltd., CAPSTEC Co., Ltd., and ADT SECURITY Co., Ltd. for the long-term borrowings with a face value of ₩1,900,000 million as of March 31, 2019.

(2) Legal claims and litigations

As of March 31, 2019 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.

Meanwhile, the pending litigation over the validity of partnership contract that the Group was involved as the defendant (Plaintiff: Nonghyup Bank) was settled by the agreement between the parties during the year ended December 31, 2018. As a result of the settlement, the credit card business partnership between the Group and Nonghyup Bank will be maintained until April 2021, and the Group is obligated to pay the commission fees based on the customers' credit card usage until September 2021, the expiration date of the credit cards. The Group determined that the contract and the subsidiary agreements meet the definition of an onerous contract according to K-IFRS No.1037, for which the Group recognized provisions with the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. In this regard, ₩36,685 million and ₩48,199 million are recognized as current provisions and non-current provisions, respectively as of March 31, 2019.

(3) Accounts receivables from sale of handsets

The sales agents of the Parent Company sell handsets to the Parent Company's subscribers on an installment basis. The Parent Company entered into comprehensive agreements to purchase accounts receivables from handset sales with retail stores and authorized dealers 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 ₩615,132 million as of March 31, 2019 which the Parent Company purchased according to the relevant comprehensive agreement are recognized as accounts receivable – other and long-term accounts receivable – other.

30. Statements of Cash Flows

SK TELECOM CO., LTD. and Subsidiaries
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For the three-month periods ended March 31, 2019 and 2018

- (1) Adjustments for income and expenses from operating activities for the three-month periods ended March 31, 2019 and 2018 are as follows:

(In millions of won)

	For the three-month period ended	
	March 31, 2019	March 31, 2018
Interest income	₩ (15,047)	(16,920)
Dividends	(9,924)	(15,142)
Gain on foreign currency translations	(2,400)	(558)
Gain on valuation of derivatives	(446)	(319)
Gain on sale of accounts receivable – other	(7,942)	(3,749)
Gain relating to investments in associates and joint ventures, net	(223,345)	(626,643)
Gain on disposal of property and equipment and intangible assets	(2,904)	(2,157)
Gain relating to financial assets at FVTPL	(344)	(9,502)
Other income	(5)	(204)
Interest expense	102,254	75,115
Loss on foreign currency translations	1,457	480
Loss on sale of accounts receivable – other	-	2,458
Income tax expense	94,177	213,618
Expense related to defined benefit plan	42,542	31,781
Share option	155	139
Depreciation and amortization	932,270	823,908
Bad debt expense	9,989	9,820
Loss on disposal of property and equipment and intangible assets	9,537	3,068
Loss on impairment of property and equipment and intangible assets	63	903
Bad debt for accounts receivable – other	1,101	3,714
Loss relating to financial assets at FVTPL	140	400
Loss relating to financial liabilities at FVTPL	252	288
Loss on impairment of investment assets	1,090	455
Other expenses	4,053	4,648
	₩ 936,723	495,601

SK TELECOM CO., LTD. and Subsidiaries
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For the three-month periods ended March 31, 2019 and 2018

- (2) Changes in assets and liabilities from operating activities for the three-month periods ended March 31, 2019 and 2018 are as follows:

(In millions of won)

	For the three-month period ended	
	March 31, 2019	March 31, 2018
Accounts receivable – trade	₩ 59,026	29,989
Accounts receivable – other	(104,353)	(89,187)
Accrued income	(64)	(677)
Advance payments	(37,781)	9,643
Prepaid expenses	17,396	3,261
Value-Added Tax refundable	8,183	5,667
Inventories	25,992	18,103
Long-term accounts receivable – other	(2,118)	154,185
Contract assets	1,410	17,891
Guarantee deposits	202	5,908
Accounts payable – trade	(55,817)	(112,866)
Accounts payable – other	110,189	(221,714)
Withholdings	(69,089)	181,981
Contract liabilities	3,975	3,042
Deposits received	(1,882)	(1,176)
Accrued expenses	(237,267)	(161,782)
Value-Added Tax payable	25,822	23,236
Provisions	(10,132)	(279)
Long-term provisions	(1,164)	724
Plan assets	10,584	13,727
Retirement benefit payment	(28,541)	(14,562)
Others	6,579	(3,519)
	₩ <u>(278,850)</u>	<u>(138,405)</u>

- (3) Significant non-cash transactions for the three-month periods ended March 31, 2019 and 2018 are as follows:

(In millions of won)

	For the three-month period ended	
	March 31, 2019	March 31, 2018
Decrease in accounts payable - other relating to the acquisition of property and equipment and intangible assets	₩ (222,570)	(471,595)
Acquisition of right-of-use assets	101,187	-

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31. Subsequent Events

On April 26, 2019, the board of directors of SK Broadband Co., Ltd., a subsidiary of the Parent Company resolved to approve SK Broadband Co., Ltd.'s merger with Tbroad Co., Ltd., Tbroad Dongdaemun Broadcasting Co., Ltd. and Korea Digital Cable Media Center Co., Ltd. in order to strengthen the competitiveness and enhance the synergy as a comprehensive media company. SK Broadband Co., Ltd. will merge Tbroad Co., Ltd., Tbroad Dongdaemun Broadcasting Co., Ltd. and Korea Digital Cable Media Center Co., Ltd. which are planned to be merged and dissolved by the date of merger expected to be on January 1, 2020. This transaction is conditional upon receipt of regulatory approval from relevant authorities and may be subject to change by the licensing process and related laws and regulations.