

SK TELECOM CO., LTD. AND SUBSIDIARIES

Condensed Consolidated Interim Financial Statements

(Unaudited)

June 30, 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 June 30, 2019, the condensed consolidated statements of income and comprehensive income for the three and six-month periods ended June 30, 2019 and 2018, the condensed consolidated statements of changes in equity and cash flows for the six-month periods ended June 30, 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 and six-month periods ended June 30, 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
August 12, 2019

This report is effective as of August 12, 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.

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

As of June 30, 2019 and December 31, 2018

(In millions of won)

| | <u>Note</u> | <u>June 30, 2019</u> | <u>December 31, 2018</u> |
|--|-----------------|--------------------------|--------------------------|
| Assets | | | |
| Current Assets: | | | |
| Cash and cash equivalents | 26,27 ₩ | 1,451,596 | 1,506,699 |
| Short-term financial instruments | 26,27 | 748,222 | 1,045,676 |
| Short-term investment securities | 9,26,27 | 79,194 | 195,080 |
| Accounts receivable – trade, net | 5,26,27,28 | 2,179,038 | 2,008,640 |
| Short-term loans, net | 5,26,27,28 | 74,775 | 59,094 |
| Accounts receivable – other, net | 3,5,26,27,28,29 | 886,100 | 937,837 |
| Prepaid expenses | 3,6 | 1,752,891 | 1,769,559 |
| Contract assets | 7 | 104,465 | 90,072 |
| Inventories, net | 8 | 223,876 | 288,053 |
| Derivative financial assets | 26,27 | 21,339 | 13 |
| Advanced payments and others | 5,26,27,28 | 64,498 | 58,116 |
| | | <u>7,585,994</u> | <u>7,958,839</u> |
| Non-Current Assets: | | | |
| Long-term financial instruments | 26,27 | 1,221 | 1,221 |
| Long-term investment securities | 9,26,27 | 531,153 | 664,726 |
| Investments in associates and joint ventures | 10 | 13,156,751 | 12,811,771 |
| Property and equipment, net | 3,11,28,29 | 11,298,088 | 10,718,354 |
| Goodwill | | 2,970,771 | 2,938,563 |
| Intangible assets, net | 3,12 | 5,117,368 | 5,513,510 |
| Long-term contract assets | 7 | 48,722 | 43,821 |
| Long-term loans, net | 5,26,27,28 | 33,416 | 29,034 |
| Long-term accounts receivable – other | 3,5,26,27,29 | 306,712 | 274,053 |
| Long-term prepaid expenses | 3,6 | 977,607 | 895,272 |
| Guarantee deposits | 5,26,27,28 | 305,503 | 313,140 |
| Long-term derivative financial assets | 26,27 | 111,385 | 55,444 |
| Deferred tax assets | 24 | 105,209 | 92,465 |
| Defined benefit assets | 16 | 11,926 | 31,926 |
| Other non-current assets | 5,26,27 | 28,727 | 26,972 |
| | | <u>35,004,559</u> | <u>34,410,272</u> |
| Total Assets | ₩ | <u>42,590,553</u> | <u>42,369,111</u> |

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 June 30, 2019 and December 31, 2018

(In millions of won)

| | <u>Note</u> | <u>June 30, 2019</u> | <u>December 31, 2018</u> |
|--|-------------|----------------------|--------------------------|
| Liabilities and Shareholders' Equity | | | |
| Current Liabilities: | | | |
| Short-term borrowings | 13,26,27 ₩ | 50,000 | 80,000 |
| Current installments of long-term debt, net | 13,26,27 | 1,168,970 | 984,272 |
| Current installments of long-term payables – other | 14,26,27 | 420,411 | 424,243 |
| Lease liabilities | 3,26,27,28 | 270,136 | - |
| Accounts payable – trade | 26,27,28 | 378,051 | 381,302 |
| Accounts payable – other | 26,27,28 | 1,786,418 | 1,913,813 |
| Withholdings | 26,27,28 | 1,215,180 | 1,353,663 |
| Accrued expenses | 26,27 | 1,216,157 | 1,299,217 |
| Income tax payable | 24 | 178,101 | 182,343 |
| Provisions | 15,29 | 87,969 | 87,993 |
| Contract liabilities | 7 | 169,206 | 140,711 |
| Other current liabilities | | 239 | - |
| | | <u>6,940,838</u> | <u>6,847,557</u> |
| Non-Current Liabilities: | | | |
| Debentures, excluding current portion, net | 13,26,27 | 6,617,458 | 6,572,211 |
| Long-term borrowings, excluding current installments, net | 13,26,27,29 | 1,994,317 | 2,015,365 |
| Long-term payables – other | 14,26,27 | 1,553,901 | 1,968,784 |
| Long-term contract liabilities | 7 | 29,933 | 43,102 |
| Defined benefit liabilities | 16 | 187,219 | 141,529 |
| Long-term derivative financial liabilities | 26,27 | 1,050 | 4,184 |
| Long-term lease liabilities | 3,26,27,28 | 388,433 | - |
| Long-term provisions | 15,29 | 70,433 | 99,215 |
| Deferred tax liabilities | 3,24 | 2,309,225 | 2,269,792 |
| Other non-current liabilities | 26,27 | 67,945 | 58,122 |
| | | <u>13,219,914</u> | <u>13,172,304</u> |
| Total Liabilities | | <u>20,160,752</u> | <u>20,019,861</u> |
| Shareholders' Equity: | | | |
| Share capital | 1,17 | 44,639 | 44,639 |
| Capital surplus and others | 17,18 | 655,002 | 655,084 |
| Retained earnings | 3,19 | 22,125,686 | 22,144,541 |
| Reserves | 20 | (297,192) | (373,442) |
| Equity attributable to owners of the Parent Company | | <u>22,528,135</u> | <u>22,470,822</u> |
| Non-controlling interests | 3 | (98,334) | (121,572) |
| Total Shareholders' Equity | | <u>22,429,801</u> | <u>22,349,250</u> |
| Total Liabilities and Shareholders' Equity | ₩ | <u>42,590,553</u> | <u>42,369,111</u> |

See accompanying notes to the condensed consolidated interim financial statements.

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

For the three and six-month periods ended June 30, 2019 and 2018

(In millions of won)

| | Note | 2019 | | 2018 | |
|--|--------|----------------------------------|--------------------------------|----------------------------------|--------------------------------|
| | | Three-month period ended June 30 | Six-month period ended June 30 | Three-month period ended June 30 | Six-month period ended June 30 |
| Operating revenue: | 4,28 | | | | |
| Revenue | ₩ | 4,437,029 | 8,771,935 | 4,154,324 | 8,335,861 |
| Operating expenses: | 28 | | | | |
| Labor | | 699,323 | 1,390,280 | 535,556 | 1,085,527 |
| Commissions | | 1,256,343 | 2,530,069 | 1,216,856 | 2,478,955 |
| Depreciation and amortization | 3,4 | 930,351 | 1,821,501 | 767,722 | 1,553,701 |
| Network interconnection | | 187,744 | 377,111 | 218,829 | 433,789 |
| Leased line | | 66,223 | 137,021 | 76,484 | 157,145 |
| Advertising | | 104,706 | 190,516 | 110,475 | 210,592 |
| Rent | 3 | 58,999 | 117,416 | 131,144 | 262,757 |
| Cost of goods sold | 8 | 440,124 | 817,364 | 398,961 | 809,820 |
| Others | 21 | 370,386 | 745,255 | 351,403 | 671,205 |
| | | <u>4,114,199</u> | <u>8,126,533</u> | <u>3,807,430</u> | <u>7,663,491</u> |
| Operating profit | 4 | 322,830 | 645,402 | 346,894 | 672,370 |
| Finance income | 4,23 | 27,089 | 64,657 | 34,563 | 84,360 |
| Finance costs | 3,4,23 | (107,520) | (213,027) | (93,172) | (178,051) |
| Other non-operating income | 4,22 | 8,553 | 16,488 | 5,425 | 22,345 |
| Other non-operating expenses | 4,22 | (33,809) | (51,914) | (46,265) | (73,232) |
| Gain relating to investments in subsidiaries, associates and joint ventures, net | 4,10 | 136,076 | 359,421 | 915,597 | 1,542,240 |
| Profit before income tax | 4 | 353,219 | 821,027 | 1,163,042 | 2,070,032 |
| Income tax expense | 24 | 94,163 | 188,340 | 248,741 | 462,359 |
| Profit for the period | ₩ | 259,056 | 632,687 | 914,301 | 1,607,673 |
| Attributable to: | | | | | |
| Owners of the Parent Company | ₩ | 263,397 | 642,586 | 916,652 | 1,611,611 |
| Non-controlling interests | | (4,341) | (9,899) | (2,351) | (3,938) |
| Earnings per share: | 25 | | | | |
| Basic and diluted earnings per share (in won) | ₩ | <u>3,613</u> | <u>8,838</u> | <u>12,863</u> | <u>22,705</u> |

See accompanying notes to the condensed consolidated interim financial statements.

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

For the three and six-month periods ended June 30, 2019 and 2018

(In millions of won)

| | Note | 2019 | | 2018 | |
|--|-------|----------------------------------|--------------------------------|----------------------------------|--------------------------------|
| | | Three-month period ended June 30 | Six-month period ended June 30 | Three-month period ended June 30 | Six-month period ended June 30 |
| Profit for the period | ₩ | 259,056 | 632,687 | 914,301 | 1,607,673 |
| Other comprehensive income (loss): | | | | | |
| Items that will never be reclassified to profit or loss, net of taxes: | | | | | |
| Remeasurement of defined benefit liabilities | 16 | (1,182) | (10,749) | 2,412 | (10,738) |
| Valuation loss on financial assets at fair value through other comprehensive income | 20 | (9,229) | (6,206) | (21,971) | (41,892) |
| 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 | 5,339 | 71,194 | 9,524 | 48,085 |
| Net change in unrealized fair value of derivatives | 20 | 16,518 | 29,143 | 717 | (8,961) |
| Foreign currency translation differences for foreign operations | 20 | 7,198 | 11,188 | 22,306 | 24,406 |
| Other comprehensive income for the period, net of taxes | | 18,644 | 94,570 | 12,988 | 10,900 |
| Total comprehensive income | ₩ | 277,700 | 727,257 | 927,289 | 1,618,573 |
| Total comprehensive income (loss) attributable to: | | | | | |
| Owners of the Parent Company | ₩ | 281,418 | 736,562 | 929,650 | 1,622,244 |
| Non-controlling interests | | (3,718) | (9,305) | (2,361) | (3,671) |

See accompanying notes to the condensed consolidated interim financial statements.

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

For the six-month periods June 30, 2019 and 2018

(In millions of won)

| | Note | Controlling Interest | | | | Sub-total | Non-controlling interests | Total equity |
|--|----------|----------------------|----------------------------|-------------------|------------------|-------------------|---------------------------|-------------------|
| | | Share capital | Capital surplus and others | Retained earnings | Reserves | | | |
| 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 | | - | - | 1,611,611 | - | 1,611,611 | (3,938) | 1,607,673 |
| Other comprehensive income (loss) | 10.16.20 | - | - | (9,022) | 19,655 | 10,633 | 267 | 10,900 |
| | | - | - | 1,602,589 | 19,655 | 1,622,244 | (3,671) | 1,618,573 |
| Transactions with owners: | | | | | | | | |
| Annual dividends | | - | - | (635,482) | - | (635,482) | - | (635,482) |
| Interest on hybrid bonds | | - | - | (8,420) | - | (8,420) | - | (8,420) |
| Repayments of hybrid bonds | | - | (400,000) | - | - | (400,000) | - | (400,000) |
| Proceeds from issuance of hybrid bonds | | - | 398,759 | - | - | 398,759 | - | 398,759 |
| Share option | 18 | - | 289 | - | - | 289 | 52 | 341 |
| Changes in ownership in subsidiaries | | - | (5,813) | - | - | (5,813) | 20,325 | 14,512 |
| | | - | (6,765) | (643,902) | - | (650,667) | 20,377 | (630,290) |
| Balance, June 30, 2018 | | ₩ 44,639 | 189,516 | 20,754,708 | (283,876) | 20,704,987 | 203,762 | 20,908,749 |
| 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 | | - | - | 642,586 | - | 642,586 | (9,899) | 632,687 |
| Other comprehensive income | 10.16.20 | - | - | 17,726 | 76,250 | 93,976 | 594 | 94,570 |
| | | - | - | 660,312 | 76,250 | 736,562 | (9,305) | 727,257 |
| Transactions with owners: | | | | | | | | |
| Annual dividends | | - | - | (646,828) | - | (646,828) | - | (646,828) |
| Interest on hybrid bonds | | - | - | (7,383) | - | (7,383) | - | (7,383) |
| Share option | 18 | - | 157 | - | - | 157 | 279 | 436 |
| Changes in ownership in subsidiaries | | - | (239) | - | - | (239) | 32,767 | 32,528 |
| | | - | (82) | (654,211) | - | (654,293) | 33,046 | (621,247) |
| Balance, June 30, 2019 | | ₩ 44,639 | 655,002 | 22,125,686 | (297,192) | 22,528,135 | (98,334) | 22,429,801 |

See accompanying notes to the condensed consolidated interim financial statements.

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

For the six-month periods ended June 30, 2019 and 2018

(In millions of won)

| | <u>Note</u> | <u>June 30, 2019</u> | <u>June 30, 2018</u> |
|---|-------------|----------------------|----------------------|
| Cash flows from operating activities: | | | |
| Cash generated from operating activities: | | | |
| Profit for the period | ₩ | 632,687 | 1,607,673 |
| Adjustments for income and expenses | 30 | 2,020,232 | 760,145 |
| Changes in assets and liabilities related to operating activities | 30 | (550,027) | (17,014) |
| | | 2,102,892 | 2,350,804 |
| Interest received | | 23,873 | 29,900 |
| Dividends received | | 229,074 | 161,836 |
| Interest paid | | (191,361) | (129,003) |
| Income tax paid | | (164,621) | (206,160) |
| Net cash provided by operating activities | | 1,999,857 | 2,207,377 |
| Cash flows from investing activities: | | | |
| Cash inflows from investing activities: | | | |
| Decrease in short-term financial instruments, net | | 336,375 | 219,230 |
| Decrease in short-term investment securities, net | | 116,485 | 5,208 |
| Collection of short-term loans | | 54,073 | 106,727 |
| Decrease in long-term financial instruments | | - | 3 |
| Proceeds from disposals of long-term investment securities | | 229,798 | 6,162 |
| Proceeds from disposals of investments in associates and joint ventures | | 81 | 2,491 |
| Proceeds from disposals of property and equipment | | 5,260 | 8,615 |
| Proceeds from disposals of intangible assets | | 3,893 | 7,958 |
| Collection of long-term loans | | 942 | 567 |
| Decrease in deposits | | 6,354 | 5,416 |
| Proceeds from settlement of derivatives | | 288 | - |
| Collection of lease receivables | | 13,733 | - |
| Proceeds from disposals of other non-current assets | | - | 486 |
| Proceeds from disposals of subsidiaries | | 9,301 | - |
| Cash inflow from business combinations | | 4,944 | 11,107 |
| | | 781,527 | 373,970 |
| Cash outflows for investing activities: | | | |
| Increase in short-term loans | | (68,021) | (112,905) |
| Increase in long-term loans | | (4,800) | (3,626) |
| Increase of long-term financial instruments | | - | (16) |
| Increase of long-term investment securities | | (62,405) | (8,815) |
| Acquisition of investments in associates and joint ventures | | (138,124) | (31,318) |
| Acquisition of property and equipment | | (1,341,042) | (1,084,202) |
| Acquisition of intangible assets | | (24,379) | (46,570) |
| Increase in deposits | | (5,399) | (3,805) |
| Cash outflow for business combinations | | (36,900) | (48,532) |
| Cash outflow for disposals of subsidiaries | | - | (1,836) |
| | | (1,681,070) | (1,341,625) |
| Net cash used in investing activities | ₩ | (899,543) | (967,655) |

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 six-month periods ended June 30, 2019 and 2018

(In millions of won)

| | <u>Note</u> | <u>June 30, 2019</u> | <u>June 30, 2018</u> |
|--|-------------|---------------------------|-------------------------|
| Cash flows from financing activities: | | | |
| Cash inflows from financing activities: | | | |
| Proceeds from issuance of debentures | ₩ | 607,427 | 1,176,857 |
| Proceeds from issuance of hybrid bonds | | - | 398,759 |
| Cash inflows from capital contribution from non-controlling shareholders | | 3,933 | - |
| Cash inflows from settlement of derivatives | | 11,931 | - |
| | | <u>623,291</u> | <u>1,575,616</u> |
| Cash outflows for financing activities: | | | |
| Decrease in short-term borrowings, net | | (30,466) | (85,610) |
| Repayments of long-term account payables – other | | (426,696) | (304,112) |
| Repayments of debentures | | (430,000) | (996,550) |
| Repayments of long-term borrowings | | (26,983) | (21,208) |
| Cash outflows from settlement of derivatives | | - | (27,213) |
| Payments of dividends | | (646,828) | (635,482) |
| Payments of interest on hybrid bonds | | (7,383) | (8,420) |
| Repayments of hybrid bonds | | - | (400,000) |
| Repayments of lease liabilities | | (182,235) | - |
| Transactions with the non-controlling shareholders | | (26,136) | (1,198) |
| | | <u>(1,776,727)</u> | <u>(2,479,793)</u> |
| Net cash used in financing activities | | <u>(1,153,436)</u> | <u>(904,177)</u> |
| Net increase in cash and cash equivalents | | (53,122) | 335,545 |
| 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 | | (1,981) | 2,910 |
| Cash and cash equivalents at end of the period | ₩ | <u>1,451,596</u> | <u>1,796,190</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 six-month periods ended June 30, 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 June 30, 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 June 30, 2019 and December 31, 2018 is as follows:

| | <u>Subsidiary</u> | <u>Location</u> | <u>Primary business</u> | <u>Ownership (%)(*1)</u> | |
|--|--|--|---|--------------------------|----------------------|
| | | | | <u>June. 30, 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 |
| | SK O&S Co., Ltd. | Korea | Base station maintenance service | 100.0 | 100.0 |
| | (Formerly, Network O&S Co., Ltd.) | | | | |
| | 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 | |
| Incross Co., Ltd.(*5) | Korea | Media representative business | 34.6 | - | |

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

For the six-month periods ended June 30, 2019 and 2018

1. Reporting Entity, Continued

(2) List of subsidiaries, Continued

The list of subsidiaries as of June 30, 2019 and December 31, 2018 is as follows, Continued:

| | Subsidiary | Location | Primary business | Ownership %)(*1) | |
|--|---|----------------|--|------------------|---------------|
| | | | | June. 30, 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.(*5) | USA | Investment | - | 100.0 |
| | shopkick, Inc.(*5) | USA | Reward points-based in-store shopping application development | - | 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 | - |
| Subsidiary owned by Incross Co., Ltd. | Infra Communications Co., Ltd. (*5) | Korea | Service operation | 100.0 | - |
| 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 six-month periods ended June 30, 2019 and 2018

1. Reporting Entity, Continued

(2) List of subsidiaries, Continued

The list of subsidiaries as of June 30, 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. 18.2% of redeemable convertible preferred stocks issued by Eleven Street Co., Ltd. are owned by non-controlling shareholder. The Parent Company is obliged to guarantee dividend of at least 1% 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 qualifying listing period is completed, whichever occurs first. The present value of obligatory dividends amounting to ₩18,514 million are recognized as financial liabilities as of June 30, 2019.
- (*3) The ownership has changed due to the conversion of the convertible bonds issued by DREAMUS COMPANY (Formerly, IRIVER LIMITED) during the six-month period ended June 30, 2019.
- (*4) The ownership has changed due to an unequal paid-in capital increase of id Quantique SA during the six-month period ended June 30, 2019.
- (*5) Details of changes in the consolidation scope for the six-month period ended June 30, 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 six-month periods ended June 30, 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 six-month period ended June 30, 2019 is as follows:

(In millions of won)

| Subsidiary | As of June 30, 2019 | | | For the six-month period ended June 30, 2019 | |
|---|---------------------|-------------------|--------------|--|---------------|
| | Total assets | Total liabilities | Total equity | Revenue | Profit (loss) |
| SK Telink Co., Ltd. (*1) | ₩ 327,459 | 131,668 | 195,791 | 189,223 | 9,812 |
| Eleven Street Co., Ltd. | 986,970 | 450,377 | 536,593 | 302,755 | 4,066 |
| SK m&service Co., Ltd. | 107,500 | 57,851 | 49,649 | 103,908 | 2,300 |
| SK Communications Co., Ltd. | 77,051 | 31,513 | 45,538 | 20,972 | (6,032) |
| SK Broadband Co., Ltd. | 4,286,470 | 2,673,430 | 1,613,040 | 1,593,197 | 23,097 |
| K-net Culture and Contents Venture Fund | 147,689 | 20,873 | 126,816 | - | (2) |
| PS&Marketing Corporation | 379,457 | 165,926 | 213,531 | 747,104 | (2,515) |
| SERVICE ACE Co., Ltd. | 87,105 | 62,098 | 25,007 | 100,822 | 1,614 |
| SERVICE TOP Co., Ltd. | 64,231 | 48,569 | 15,662 | 93,043 | 231 |
| SK O&S Co., Ltd. | | | | | |
| (Formerly, Network O&S Co., Ltd.) | 83,177 | 45,643 | 37,534 | 116,784 | (1,975) |
| SK Planet Co., Ltd. | 677,452 | 363,266 | 314,186 | 137,779 | (3,500) |
| DREAMUS COMPANY | | | | | |
| (Formerly, IRIVER LIMITED) (*2) | 182,935 | 40,607 | 142,328 | 73,301 | (19,873) |
| SKP America LLC. | 50,312 | 1,769 | 48,543 | - | (344,350) |
| Life & Security Holdings Co., Ltd. (*3) | 2,643,487 | 2,312,050 | 331,437 | 451,921 | 7,124 |
| SK Infosec Co., Ltd. | 136,207 | 51,308 | 84,899 | 116,730 | 6,932 |
| One Store Co., Ltd. | 124,349 | 73,342 | 51,007 | 62,355 | 14 |
| Home & Service Co., Ltd. | 113,974 | 74,248 | 39,726 | 179,919 | (314) |
| SK stoa Co., Ltd. | 48,530 | 47,762 | 768 | 90,054 | (2,838) |
| Incross Co., Ltd. (*4) | 123,973 | 59,292 | 64,681 | - | - |

(*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.

(*4) The condensed financial information of Incross Co., Ltd. is consolidated financial information including Infra Communications Co., Ltd. from an effective date of acquisition to June 30, 2019.

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

For the six-month periods ended June 30, 2019 and 2018

1. Reporting Entity, Continued

(3) Condensed financial information of subsidiaries, Continued

Condensed financial information of the significant subsidiaries as of and for the year ended December 31, 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 |
| SK O&S Co., Ltd. (Formerly, 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) |
| DREAMUS COMPANY (Formerly, 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 DREAMUS COMPANY(Formerly, IRIVER LIMITED) is consolidated financial information including iriver Enterprise Ltd. and six other subsidiaries of DREAMUS COMPANY(Formerly, 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.

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

For the six-month periods ended June 30, 2019 and 2018

1. Reporting Entity, Continued

(4) Changes in subsidiaries

The list of subsidiaries that were newly included in consolidation during the six-month period ended June 30, 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. |
| Incross Co., Ltd. | Acquired by the Parent Company |
| Infra Communications Co., Ltd. | Subsidiary of Incross Co., Ltd. |

The list of subsidiaries that were excluded from consolidation during the six-month period ended June 30, 2019 is as follows:

| Subsidiary | Reason |
|-----------------------------------|---|
| groovers Inc. | Merged into DREAMUS COMPANY(Formerly, IRIVER LIMITED) |
| shopkick Management Company, Inc. | Disposed |
| shopkick, Inc. | Disposed |

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

For the six-month periods ended June 30, 2019 and 2018

1. Reporting Entity, Continued

(5) The financial information of significant non-controlling interests of the Group as of and for the six-month period ended June 30, 2019, and as of and for the year ended December 31, 2018 are as follows:

(In millions of won)

| | DREAMUS COMPANY | | | |
|---|----------------------------|-------------------------|------------------------------------|-------------------|
| | (Formerly, IRIVER LIMITED) | Eleven Street Co., Ltd. | Life & Security Holdings Co., Ltd. | Incross Co., Ltd. |
| Ownership of non-controlling interests (%) | 47.61 | 18.19 | 45.00 | 65.40 |
| As of June 30, 2019 | | | | |
| Current assets | ₩ 122,933 | 817,656 | 135,573 | 112,802 |
| Non-current assets | 60,002 | 169,314 | 2,507,914 | 11,171 |
| Current liabilities | (35,743) | (417,130) | (287,131) | (58,712) |
| Non-current liabilities | (4,864) | (33,247) | (2,024,919) | (580) |
| Net assets | 142,328 | 536,593 | 331,437 | 64,681 |
| Fair value adjustment and others | - | (18,514) | (1,229,367) | - |
| Net assets on the consolidated financial statements | 142,328 | 518,079 | (897,930) | 64,681 |
| Carrying amount of non-controlling interests | 68,227 | 94,239 | (398,723) | 40,814 |
| For the six-month period ended June 30, 2019 | | | | |
| Revenue | ₩ 73,301 | 302,755 | 451,921 | - |
| Profit (Loss) for the period | (19,873) | 4,066 | 7,124 | - |
| Depreciation of the fair value adjustment and others | - | (322) | (6,885) | - |
| Profit (Loss) for the period on the consolidated financial statements | (19,873) | 3,744 | 239 | - |
| Total comprehensive income (loss) | (18,715) | 3,732 | 239 | - |
| Profit (Loss) attributable to non-controlling interests | (9,461) | 681 | 108 | - |
| Net cash provided by (used in) operating activities | ₩ (13,518) | (20,837) | 129,388 | - |
| Net cash provided by (used in) investing activities | (354) | 84,823 | (94,638) | - |
| Net cash used in financing activities | (1,551) | (23,715) | (25,899) | - |
| Effects on exchange rate changes on cash and cash equivalents | 591 | 23 | - | - |
| Net increase (decrease) in cash and cash equivalents | (14,832) | 40,294 | 8,851 | - |
| Dividends declared to non-controlling interests during the six-month period ended June 30, 2019 | ₩ - | 17,500 | 14,394 | - |

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

For the six-month periods ended June 30, 2019 and 2018

1. Reporting Entity, Continued

(5) The financial information of significant non-controlling interests of the Group as of and for the six-month period ended June 30, 2019, and as of and for the year ended December 31, 2018 are as follows, Continued:

| | DREAMUS COMPANY (Formerly, IRIVER LIMITED) | Eleven Street Co., Ltd. | Life & Security Holdings Co., Ltd. |
|--|---|----------------------------|---------------------------------------|
| Ownership of non-controlling interests (%) | 47.36 | 18.19 | 45.00 |
| As of December 31, 2018 | | | |
| Current assets | ₩ 150,014 | 923,153 | 124,091 |
| Non-current assets | 54,465 | 122,793 | 2,487,747 |
| Current liabilities | (41,957) | (486,391) | (243,064) |
| Non-current liabilities | (2,663) | (9,516) | (2,018,392) |
| Net assets | 159,859 | 550,039 | 350,382 |
| Fair value adjustment and others | - | (23,191) | (1,216,347) |
| Net assets on the consolidated financial statements | 159,859 | 526,848 | (865,965) |
| Carrying amount of non-controlling interests | 76,204 | 95,811 | (389,684) |
| 2018 | | | |
| Revenue | ₩ 137,849 | 228,000 | 197,487 |
| Profit (Loss) for the year | (21,314) | (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 | (21,314) | (9,668) | 3,084 |
| Total comprehensive income (loss) | (21,125) | (8,897) | (991) |
| Profit (Loss) attributable to non-controlling interests | (10,094) | (1,758) | 1,387 |
| Net cash provided by (used in) operating activities | ₩ 13,635 | (69,347) | (23,451) |
| Net cash provided by (used in) investing activities | (10,169) | (470,211) | (139,430) |
| Net cash provided by (used in) financing activities | 69,267 | 494,923 | 124,076 |
| Net increase(decrease) in cash and cash equivalents | 72,733 | (44,635) | (38,805) |
| Dividend paid to non-controlling interests during the year ended December 31, 2018 | ₩ - | - | - |

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

For the six-month periods ended June 30, 2019 and 2018

2. Basis of Preparation

(1) Statement of compliance

These condensed consolidated interim financial statements were prepared in accordance with K-IFRS No. 1034, *Interim Financial Reporting*, as part of the period covered by the Group's K-IFRS annual financial statements. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since December 31, 2018. These condensed consolidated interim financial statements do not include all of the disclosures required for full annual financial statements.

The Group's applied K-IFRS No. 1116, *Leases*, effective January 1, 2019. 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 six-month periods ended June 30, 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 six-month periods ended June 30, 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 presented 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 six-month periods ended June 30, 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.

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

For the six-month periods ended June 30, 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

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.

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

For the six-month periods ended June 30, 2019 and 2018

3. Significant Accounting Policies, Continued

(1) Changes in accounting policies, Continued

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>₩ 661,211</u> |

SK TELECOM CO., LTD. and Subsidiaries
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For the six-month periods ended June 30, 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 ₩647,275 million of right-of-use assets and ₩658,569 million of lease liabilities as of June 30, 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 six-month period ended June 30, 2019, the Group recognized ₩164,494 million of depreciation charges and ₩7,423 million of interest costs from those leases. Expenses related to short-term leases and leases of low-value assets are ₩8,356 million and ₩1,772 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 six-month periods ended June 30, 2019 and 2018 are as follows:

(In millions of won)

| | For the six-month period ended June 30, 2019 | | | | | | |
|--|--|---------------------------------------|---------------------|-----------|------------|-------------|-----------|
| | Cellular Services | Fixed-line telecommunication services | E-commerce Services | Others | Sub-total | Adjustments | Total |
| Total revenue | ₩ 6,717,679 | 2,052,393 | 302,755 | 1,072,845 | 10,145,672 | (1,373,737) | 8,771,935 |
| Inter-segment revenue | 727,866 | 492,510 | 4,520 | 148,841 | 1,373,737 | (1,373,737) | - |
| External revenue | 5,989,813 | 1,559,883 | 298,235 | 924,004 | 8,771,935 | - | 8,771,935 |
| Depreciation and amortization | 1,298,643 | 367,159 | 15,609 | 140,090 | 1,821,501 | - | 1,821,501 |
| Operating profit | 591,482 | 25,428 | 4,729 | 23,763 | 645,402 | - | 645,402 |
| Finance income and costs, net | | | | | | | (148,370) |
| Gain relating to investments in associates and joint ventures, net | | | | | | | 359,421 |
| Other non-operating income and expense, net | | | | | | | (35,426) |
| Profit before income tax | | | | | | | 821,027 |

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

(1) Segment information for the six-month periods ended June 30, 2019 and 2018 are as follows, Continued:

(In millions of won)

| | For the six-month period ended June 30, 2018 | | | | | | |
|--|--|---------------------------------------|------------------------|-----------|-----------|-------------|-----------|
| | Cellular Services | Fixed-line telecommunication services | E-commerce Services(*) | Others(*) | Sub-total | Adjustments | Total |
| Total revenue | ₩ 7,039,636 | 1,880,222 | 336,755 | 497,827 | 9,754,440 | (1,418,579) | 8,335,861 |
| Inter-segment revenue | 790,793 | 472,430 | 13,857 | 141,499 | 1,418,579 | (1,418,579) | - |
| External revenue | 6,248,843 | 1,407,792 | 322,898 | 356,328 | 8,335,861 | - | 8,335,861 |
| Depreciation and amortization | 1,190,388 | 313,280 | 6,461 | 43,572 | 1,553,701 | - | 1,553,701 |
| Operating profit (loss) | 713,895 | 72,351 | (30,995) | (82,881) | 672,370 | - | 672,370 |
| Finance income and costs, net | | | | | | | (93,691) |
| Gain relating to investments in associates and joint ventures, net | | | | | | | 1,542,240 |
| Other non-operating income and expense, net | | | | | | | (50,887) |
| Profit before income tax | | | | | | | 2,070,032 |

(*) Segment information for the six-month period ended June 30, 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 six-month periods ended June 30, 2019 and 2018.

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

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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 six-month period ended | |
|--|--|--------------------------------|------------------|
| | | June 30, 2019 | June 30, 2018 |
| Products transferred at a point in time: | | | |
| Cellular revenue | Goods(*1) | ₩ 549,000 | 595,040 |
| Fixed-line telecommunication revenue | Goods | 83,055 | 41,427 |
| Other revenue | Goods | 63,943 | 46,360 |
| | Products | 12,766 | 15,522 |
| | | <u>708,764</u> | <u>698,349</u> |
| Services transferred over time: | | | |
| Cellular revenue | Wireless service(*2) | 4,755,303 | 4,943,327 |
| | Cellular interconnection | 249,104 | 289,355 |
| | Other(*3) | 436,406 | 421,121 |
| Fixed-line telecommunication revenue | Fixed-line telephone service | 137,308 | 147,429 |
| | Fixed-line interconnection | 46,431 | 54,299 |
| | Internet Protocol Television(*4) | 626,467 | 543,232 |
| | International calls | 36,812 | 40,820 |
| | Internet service and miscellaneous(*5) | 629,810 | 580,585 |
| E-commerce services revenue | E-commerce service | 298,235 | 322,898 |
| Other revenue | Miscellaneous(*6) | 847,295 | 294,446 |
| | | <u>8,063,171</u> | <u>7,637,512</u> |
| | | <u>₩ 8,771,935</u> | <u>8,335,861</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.

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

For the six-month periods ended June 30, 2019 and 2018

5. Trade and Other Receivables

(1) Details of trade and other receivables as of June 30, 2019 and December 31, 2018 are as follows:

(In millions of won)

| | June 30, 2019 | | |
|---|--------------------|------------------|------------------|
| | Gross amount | Loss allowance | Carrying amount |
| Current assets: | | | |
| Accounts receivable – trade | ₩ 2,425,639 | (246,601) | 2,179,038 |
| Short-term loans | 75,467 | (692) | 74,775 |
| Accounts receivable – other(*) | 941,348 | (55,248) | 886,100 |
| Accrued income | 6,630 | (166) | 6,464 |
| Guarantee deposits (Other current assets) | 2,492 | - | 2,492 |
| | <u>3,451,576</u> | <u>(302,707)</u> | <u>3,148,869</u> |
| Non-current assets: | | | |
| Long-term loans | 80,584 | (47,168) | 33,416 |
| Long-term accounts receivable – other(*) | 306,712 | - | 306,712 |
| Guarantee deposits | 305,503 | - | 305,503 |
| Long-term accounts receivable – trade (Other non-current assets) | 16,291 | (110) | 16,181 |
| | <u>709,090</u> | <u>(47,278)</u> | <u>661,812</u> |
| | <u>₩ 4,160,666</u> | <u>(349,985)</u> | <u>3,810,681</u> |

(*) Gross and carrying amounts of accounts receivable – other as of June 30, 2019 include ₩456,966 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 six-month periods ended June 30, 2019 and 2018 are as follows:

(In millions of won)

| | January 1, 2019 | Impairment | Write-offs(*) | Collection of receivables previously written-off | Business Combination | June 30, 2019 |
|-----------------------------|-----------------|------------|---------------|--|----------------------|---------------|
| Accounts receivable – trade | ₩ 260,157 | 15,253 | (35,679) | 5,493 | 1,487 | 246,711 |
| Accounts receivable – other | 115,887 | 2,095 | (21,724) | 6,481 | 535 | 103,274 |
| | ₩ 376,044 | 17,348 | (57,403) | 11,974 | 2,022 | 349,985 |

(In millions of won)

| | January 1, 2018 | Impact of adopting K-IFRS No. 1109 | Impairment | Write-offs(*) | Collection of receivables previously written-off | June 30, 2018 |
|-----------------------------|-----------------|------------------------------------|------------|---------------|--|---------------|
| Accounts receivable – trade | ₩ 239,448 | 12,950 | 20,211 | (20,098) | 6,832 | 259,343 |
| Accounts receivable – other | 122,723 | 99 | 4,546 | (12,012) | 3,284 | 118,640 |
| | ₩ 362,171 | 13,049 | 24,757 | (32,110) | 10,116 | 377,983 |

(*) 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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6. Prepaid expenses

(1) Details of prepaid expenses as of June 30, 2019 and December 31, 2018 are as follows:

(In millions of won)

| | <u>June 30, 2019</u> | <u>December 31, 2018</u> |
|--|----------------------|--------------------------|
| Current assets: | | |
| Incremental costs of obtaining contracts | ₩ 1,602,393 | 1,577,992 |
| Others | 150,498 | 191,567 |
| | <u>₩ 1,752,891</u> | <u>1,769,559</u> |
| Non-current assets: | | |
| Incremental costs of obtaining contracts | ₩ 890,199 | 799,607 |
| Others | 87,408 | 95,665 |
| | <u>₩ 977,607</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 and six-month periods ended June 30, 2019 and 2018 are as follows:

(In millions of won)

| | <u>2019</u> | | <u>2018</u> | |
|--|---|---|---|---|
| | <u>Three-month period ended June 30</u> | <u>Six-month period ended June 30</u> | <u>Three-month period ended June 30</u> | <u>Six-month period ended June 30</u> |
| Amortization recognized as commissions | ₩ 512,230 | 1,034,612 | 503,050 | 1,019,727 |

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 June 30, 2019 and December 31, 2018 are as follows:

(In millions of won)

| | <u>June 30, 2019</u> | <u>December 31, 2018</u> |
|---|----------------------|--------------------------|
| Contract assets: | | |
| Allocation of consideration between performance obligations | ₩ 153,187 | 133,893 |
| Contract liabilities: | | |
| Wireless service contracts | 17,342 | 18,425 |
| Customer loyalty programs | 23,440 | 17,113 |
| Fixed-line service contracts | 61,728 | 57,327 |
| Commerce service | 55 | 10 |
| Security service | 34,682 | 38,109 |
| Others | 61,892 | 52,829 |
| | <u>₩ 199,139</u> | <u>183,813</u> |

SK TELECOM CO., LTD. and Subsidiaries
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7. Contract assets and liabilities, Continued

- (2) The amount of revenue recognized for the six-month period ended June 30, 2019 related to the contract liabilities carried forward from the prior period is ₩72,161 million.

8. Inventories

- (1) Details of inventories as of June 30, 2019 and December 31, 2018 are as follows:

(In millions of won)

| | June 30, 2019 | | | December 31, 2018 | | |
|-----------------|------------------|------------|-----------------|-------------------|------------|-----------------|
| | Acquisition cost | Write-down | Carrying amount | Acquisition cost | Write-down | Carrying amount |
| Merchandise | ₩ 212,107 | (10,975) | 201,132 | 268,366 | (8,842) | 259,524 |
| Finished goods | 3,339 | (1,960) | 1,379 | 1,260 | (251) | 1,009 |
| Work in process | 3,367 | (517) | 2,850 | 3,985 | (338) | 3,647 |
| Raw materials | 11,883 | (7,232) | 4,651 | 11,729 | (2,706) | 9,023 |
| Supplies | 13,864 | - | 13,864 | 14,850 | - | 14,850 |
| | ₩ 244,560 | (20,684) | 223,876 | 300,190 | (12,137) | 288,053 |

- (2) Inventories recognized as operating expenses for the six-month periods ended June 30, 2019 and 2018 are ₩652,069 million and ₩682,718 million, respectively, which are included in the cost of goods sold.

9. Investment Securities

- (1) Details of short-term investment securities as of June 30, 2019 and December 31, 2018 are as follows:

(In millions of won)

| | Category | June 30, 2019 | December 31, 2018 |
|--------------------------|----------|---------------|-------------------|
| Beneficiary certificates | FVTPL | ₩ 79,194 | 195,080 |

- (2) Details of long-term investment securities as of June 30, 2019 and December 31, 2018 are as follows:

(In millions of won)

| | Category | June 30, 2019 | December 31, 2018 |
|--------------------|----------|---------------|-------------------|
| Equity instruments | FVOCI(*) | ₩ 397,038 | 542,496 |
| | FVTPL | 2,209 | - |
| | | 399,247 | 542,496 |
| Debt instruments | FVOCI | 1,153 | 2,147 |
| | FVTPL | 130,753 | 120,083 |
| | | 131,906 | 122,230 |
| | | ₩ 531,153 | 664,726 |

- (*) The Group designated ₩397,038 million of equity instruments that are not held for trading as financial assets at FVOCI. During the six-month period ended June 30, 2019, the Group disposed 6,109,000 shares of the common shares issued by Hana Financial Group Inc. in exchange for ₩221,146 million in cash. The valuation gain on financial assets at FVOCI of ₩30,073 million was reclassified from reserves to retained earnings.

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10. Investments in Associates and Joint Ventures

(1) Investments in associates and joint ventures accounted for using the equity method as of June 30, 2019 and December 31, 2018 are as follows:

(In millions of won)

| | Country | June 30, 2019 | | December 31, 2018 | |
|---|----------------|---------------|---------------------|-------------------|---------------------|
| | | Ownership (%) | Carrying amount | Ownership (%) | Carrying amount |
| Investments in associates: | | | | | |
| SK China Company Ltd. | China | 27.3 | ₩ 567,333 | 27.3 | ₩ 551,548 |
| Korea IT Fund(*1) | Korea | 63.3 | 285,358 | 63.3 | 281,684 |
| KEB HanaCard Co., Ltd.(*2) | Korea | 15.0 | 292,783 | 15.0 | 288,457 |
| NanoEnTek, Inc. | Korea | 28.9 | 41,352 | 28.9 | 40,974 |
| SK Technology Innovation Company | Cayman Islands | 49.0 | 44,007 | 49.0 | 42,469 |
| SK hynix Inc. | Korea | 20.1 | 11,383,720 | 20.1 | 11,208,315 |
| SK MENA Investment B.V. | Netherlands | 32.1 | 14,917 | 32.1 | 14,420 |
| S.M. Culture & Contents Co., Ltd. | Korea | 23.4 | 63,055 | 23.4 | 63,801 |
| Hello Nature., Ltd. | Korea | 49.9 | 25,592 | 49.9 | 28,549 |
| 12CM Japan, Inc. | Japan | 28.2 | 7,951 | 28.2 | 7,734 |
| MAKEUS Corp.(*2) | Korea | 8.9 | 8,982 | 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 | 38,410 | 15.0 | 37,075 |
| Health Connect Co., Ltd. and others | - | - | 130,719 | - | 106,394 |
| | | | <u>13,128,649</u> | | <u>12,791,613</u> |
| Investments in joint ventures: | | | | | |
| Dogus Planet, Inc.(*3) | Turkey | 50.0 | 14,816 | 50.0 | 12,487 |
| Finnq Co. Ltd.(*3) | Korea | 49.0 | 3,453 | 49.0 | 7,671 |
| NEXTGEN BROADCAST SERVICES CO, LLC(*3) | USA | 50.0 | 8,098 | - | - |
| NEXTGEN ORCHESTRATION, LLC(*3) | USA | 50.0 | 1,735 | - | - |
| Celcom Planet (*4) | Malaysia | - | - | 44.7 | - |
| | | | <u>28,102</u> | | <u>20,158</u> |
| Total | | | <u>₩ 13,156,751</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.

(*4) Investment in Celcom Planet was disposed during the six-month period ended June 30, 2019.

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10. Investments in Associates and Joint Ventures, Continued

(2) The market value of investments in listed associates as of June 30, 2019 and December 31, 2018 are as follows:

(In millions of won, except for share data)

| | June 30, 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. | ₩ 4,715 | 7,600,649 | 35,837 | 4,235 | 7,600,649 | 32,189 |
| SK hynix Inc. | 69,500 | 146,100,000 | 10,153,950 | 60,500 | 146,100,000 | 8,839,050 |
| S.M.Culture & Contents Co.,Ltd. | 1,710 | 22,033,898 | 37,678 | 2,020 | 22,033,898 | 44,508 |

(3) The condensed financial information of significant associates as of and for the six-month period ended June 30, 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 June 30, 2019 | | | | |
| Current assets | ₩ 14,242,750 | 7,744,120 | 91,555 | 625,018 |
| Non-current assets | 48,789,514 | 202,579 | 359,011 | 1,352,791 |
| Current liabilities | 7,512,771 | 1,109,715 | - | 50,832 |
| Non-current liabilities | 7,808,706 | 5,227,334 | - | 157,622 |
| For the six-month period ended June 30, 2019 | | | | |
| Revenue | 13,224,856 | 605,326 | 32,185 | 45,874 |
| Profit for the period | 1,639,155 | 33,679 | 15,949 | 4,113 |
| Other comprehensive income (loss) | 252,856 | (390) | - | (1,221) |
| Total comprehensive income | 1,892,011 | 33,289 | 15,949 | 2,892 |
| 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 six-month period ended June 30, 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 June 30, 2019</u> | |
| Current assets | ₩ | 54,577 | 7,121 |
| Cash and cash equivalents | | 52,323 | 4,963 |
| Non-current assets | | 20,847 | 13,564 |
| Current liabilities | | 44,969 | 8,062 |
| Accounts payable, other payables and provision | | 38,050 | 1,193 |
| Non-current liabilities | | 823 | 6,460 |
| | | <u>For the six-month period ended June 30, 2019</u> | |
| Revenue | | 57,312 | 430 |
| Depreciation and amortization | | (2,612) | (2,395) |
| Interest income | | 1,112 | 7 |
| Interest expense | | (436) | (128) |
| Profit (Loss) for the period | | 6,030 | (8,454) |
| Total comprehensive income (loss) | | 6,030 | (8,454) |

(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) |

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

(5) Reconciliations of financial information of significant associates to carrying amounts of investments in associates in the consolidated financial statements as of June 30, 2019 and December 31, 2018 are as follows:

(In millions of won)

| | | June 30, 2019 | | | | |
|----------------------------|---|---------------|-------------------------|--|-------------------------------|-----------------|
| | | Net assets | Ownership interests (%) | Net assets attributable to the ownership interests | Cost-book value differentials | Carrying amount |
| Associates: | | | | | | |
| SK hynix Inc. (*1,2) | ₩ | 47,697,466 | 20.1 | 10,187,985 | 1,195,735 | 11,383,720 |
| KEB HanaCard Co., Ltd. | | 1,609,650 | 15.0 | 241,447 | 51,336 | 292,783 |
| Korea IT Fund | | 450,566 | 63.3 | 285,358 | - | 285,358 |
| SK China Company Ltd. (*1) | | 1,767,691 | 27.3 | 482,071 | 85,262 | 567,333 |

(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%.

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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 six-month periods ended June 30, 2019 and 2018 are as follows:

(In millions of won)

| | For the six-month period ended June 30, 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 | - | (15) | 15,800 | - | 567,333 |
| Korea IT Fund(*1) | 281,684 | - | 10,101 | 1,705 | (8,132) | 285,358 |
| KEB HanaCard Co., Ltd. | 288,457 | - | 4,244 | 82 | - | 292,783 |
| NanoEnTek, Inc. | 40,974 | - | 410 | (32) | - | 41,352 |
| SK Technology Innovation Company | 42,469 | - | 67 | 1,471 | - | 44,007 |
| SK hynix Inc.(*1) | 11,208,315 | - | 342,999 | 51,557 | (219,151) | 11,383,720 |
| SK MENA Investment B.V. | 14,420 | - | 7 | 490 | - | 14,917 |
| S.M.Culture & Contents Co., Ltd. | 63,801 | - | (263) | (483) | - | 63,055 |
| Health Connect Co., Ltd. and others(*2) | 299,945 | 151,166 | (2,285) | 3,408 | (16,110) | 436,124 |
| | 12,791,613 | 151,166 | 355,265 | 73,998 | (243,393) | 13,128,649 |
| Investments in joint ventures: | | | | | | |
| Dogus Planet, Inc. | 12,487 | (81) | 2,918 | (508) | - | 14,816 |
| Finnq Co., Ltd. | 7,671 | - | (4,215) | (3) | - | 3,453 |
| NEXTGEN BROADCAST SERVICES CO, LLC | - | 8,022 | - | - | 76 | 8,098 |
| NEXTGEN ORCHESTRATION, LLC | - | 1,719 | - | - | 16 | 1,735 |
| Celcom Planet(*3) | - | 6,055 | (6,055) | - | - | - |
| | 20,158 | 15,715 | (7,352) | (511) | 92 | 28,102 |
| ₩ | 12,811,771 | 166,881 | 347,913 | 73,487 | (243,301) | 13,156,751 |

(*1) Dividends declared by the associates are deducted from the carrying amount during the six-month period ended June 30, 2018.

(*2) The acquisition for the six-month period ended June 30, 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.

(*3) Investment in Celcom Planet was disposed during the six-month period ended June 30, 2019.

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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 six-month periods ended June 30, 2019 and 2018 are as follows, Continued:

(In millions of won)

| | For the six-month period ended June 30, 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 | - | 1,627 | 14,645 | - | 542,371 |
| Korea IT Fund(*) | 257,003 | - | 26,396 | (7,496) | (1,460) | 274,443 |
| KEB HanaCard Co., Ltd. | 280,988 | - | 7,735 | (6,549) | - | 282,174 |
| NanoEnTek, Inc. | 38,718 | - | (541) | (609) | - | 37,568 |
| SK Technology Innovation Company | 42,511 | - | 18 | 2,013 | - | 44,542 |
| HappyNarae Co., Ltd. | 21,873 | - | 837 | - | - | 22,710 |
| SK hynix Inc.(*) | 8,130,000 | - | 1,534,928 | 44,642 | (146,100) | 9,563,470 |
| SK MENA Investment B.V. | 13,853 | - | (7) | 637 | - | 14,483 |
| S.M.Culture & Contents Co., Ltd. | 64,966 | - | (572) | (50) | - | 64,344 |
| Xian Tianlong Science and Technology Co., Ltd. | 25,891 | - | (337) | - | (25,554) | - |
| Hello Nature., Ltd. | - | - | - | - | 29,880 | 29,880 |
| 12CM Japan, Inc. | - | 7,697 | - | - | - | 7,697 |
| MAKEUS Corp. | - | 9,773 | - | - | - | 9,773 |
| Daehan Kanggun BcN Co., Ltd. and others(*) | 96,479 | 148 | (3,591) | 643 | (8,502) | 85,177 |
| | 9,498,381 | 17,618 | 1,566,493 | 47,876 | (151,736) | 10,978,632 |
| Investments in joint ventures: | | | | | | |
| Dogus Planet, Inc. | 13,991 | (76) | 1,126 | (1,239) | - | 13,802 |
| Finnq Co., Ltd. | 16,474 | - | (4,100) | (46) | - | 12,328 |
| 12CM GLOBAL PTE. LTD. | 9,592 | (2,414) | 42 | (3) | (7,217) | - |
| Celcom Planet and others | - | 12,932 | (12,932) | - | - | - |
| | 40,057 | 10,442 | (15,864) | (1,288) | (7,217) | 26,130 |
| ₩ | 9,538,438 | 28,060 | 1,550,629 | 46,588 | (158,953) | 11,004,762 |

(*) Dividends received from the associates are deducted from the carrying amount during the six-month period ended June 30, 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 June 30, 2019 are as follows:

(In millions of won)

| | Unrecognized loss | | Unrecognized change in equity | |
|---|--|-----------------|--|-----------------|
| | For the six-month period ended June 30, 2019 | Cumulative loss | For the six-month period ended June 30, 2019 | Cumulative loss |
| Wave City Development Co., Ltd. | ₩ (1,205) | 5,329 | - | - |
| Daehan Kanggun BcN Co., Ltd. and others | (3,384) | 12,026 | - | 365 |
| ₩ | (4,589) | 17,355 | - | 365 |

SK TELECOM CO., LTD. and Subsidiaries
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For the six-month periods ended June 30, 2019 and 2018

11. Property and Equipment

(1) Details of the changes in property and equipment for the six-month periods ended June 30, 2019 and 2018 are as follows:

(In millions of won)

| For the six-month period ended June 30, 2019 | | | | | | | | | | |
|--|-------------------|------------------------------------|-------------|-----------|-----------|--------------|------------|----------------------|----------------|--|
| | Beginning balance | Impact of adopting K-IFRS No. 1116 | Acquisition | Disposal | Transfer | Depreciation | Impairment | Business Combination | Ending balance | |
| Land | ₩ 938,344 | - | 968 | - | 27,153 | - | - | 569 | 967,034 | |
| Buildings | 863,294 | - | 1,221 | (447) | 25,760 | (26,786) | - | 658 | 863,700 | |
| Structures | 356,039 | - | 1,554 | - | 2,803 | (17,885) | - | - | 342,511 | |
| Machinery | 7,146,724 | - | 247,490 | (10,299) | 1,107,434 | (1,128,260) | - | - | 7,363,089 | |
| Other | 848,596 | (934) | 640,150 | (1,289) | (730,670) | (99,713) | (140) | 214 | 656,214 | |
| Right-of-use assets | - | 653,695 | 245,746 | (88,752) | - | (164,494) | - | 1,080 | 647,275 | |
| Construction in progress | 565,357 | - | 390,879 | (9,617) | (488,354) | - | - | - | 458,265 | |
| ₩ | 10,718,354 | 652,761 | 1,528,008 | (110,404) | (55,874) | (1,437,138) | (140) | 2,521 | 11,298,088 | |

(In millions of won)

| For the six-month period ended June 30, 2018 | | | | | | | | | | |
|--|-------------------|-------------|----------|-----------|--------------|---------------|----------------------|--------------------------|----------------|--|
| | Beginning balance | Acquisition | Disposal | Transfer | Depreciation | Held for sale | Business Combination | Disposal of subsidiaries | Ending balance | |
| Land | ₩ 862,861 | 1,069 | (29) | 4,228 | - | (7,122) | - | - | 861,007 | |
| Buildings | 882,650 | 523 | (1,330) | 24,661 | (26,062) | (2,818) | - | - | 877,624 | |
| Structures | 378,575 | 279 | - | 2,328 | (18,010) | - | - | - | 363,172 | |
| Machinery | 7,079,798 | 216,318 | (17,594) | 484,029 | (1,109,219) | - | 20 | - | 6,653,352 | |
| Other | 531,057 | 264,409 | (2,538) | (234,506) | (68,655) | - | 994 | (3,079) | 487,682 | |
| Construction in progress | 409,941 | 253,306 | (3,313) | (367,919) | - | - | - | - | 292,015 | |
| ₩ | 10,144,882 | 735,904 | (24,804) | (87,179) | (1,221,946) | (9,940) | 1,014 | (3,079) | 9,534,852 | |

(2) Details of the right-of-use assets as of June 30, 2019 and January 1, 2019 are as follows:

(In millions of won)

| | June 30, 2019 | January 1, 2019 |
|--------------------------------|---------------|-----------------|
| Buildings, Land and Structures | ₩ 567,731 | 546,474 |
| Other | 79,544 | 107,221 |
| ₩ | 647,275 | 653,695 |

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12. Intangible Assets

(1) Details of the changes in intangible assets for the six-month periods ended June 30, 2019 and 2018 are as follows:

(In millions of won)

| | For the six-month period ended June 30, 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 | - | - | - | - | (231,488) | - | - | 2,908,490 |
| Land usage rights | 10,511 | - | 1,246 | (389) | - | (2,720) | - | - | 8,648 |
| Industrial rights | 83,627 | - | 1,021 | (526) | 1,826 | (2,358) | - | (14,467) | 69,123 |
| Development costs | 8,990 | - | 1,240 | - | 1,542 | (2,694) | (661) | 4,790 | 13,207 |
| Facility usage rights | 31,027 | - | 823 | (10) | 172 | (3,819) | - | - | 28,193 |
| Customer relations | 625,091 | - | 128 | (143) | - | (16,889) | - | - | 608,187 |
| Club memberships | 80,475 | - | 1,599 | (831) | (1,199) | - | (63) | 1,188 | 81,169 |
| Brand | 374,096 | - | - | - | - | - | - | - | 374,096 |
| Other | 1,159,715 | (2,274) | 16,991 | (2,211) | 71,089 | (206,713) | (473) | (9,869) | 1,026,255 |
| | ₩ 5,513,510 | (2,274) | 23,048 | (4,110) | 73,430 | (466,681) | (1,197) | (18,358) | 5,117,368 |

(In millions of won)

| | For the six-month period ended June 30, 2018 | | | | | | | |
|------------------------|--|-------------|----------|----------|--------------|------------|----------------------|----------------|
| | Beginning balance | Acquisition | Disposal | Transfer | Amortization | Impairment | Business Combination | Ending balance |
| Frequency usage rights | ₩ 2,176,940 | - | - | - | (201,944) | - | - | 1,974,996 |
| Land usage rights | 15,750 | 1,822 | (357) | - | (3,890) | - | - | 13,325 |
| Industrial rights | 111,347 | 3,211 | (24) | 2,082 | (3,470) | - | 55 | 113,201 |
| Development costs | 4,103 | 1,878 | - | (48) | (1,135) | - | 5,994 | 10,792 |
| Facility usage rights | 36,451 | 844 | (22) | 90 | (3,870) | - | - | 33,493 |
| Customer relations | 4,035 | 213 | - | 127 | (1,162) | - | - | 3,213 |
| Club memberships | 73,614 | 3,699 | (1,302) | - | - | (173) | - | 75,838 |
| Other | 1,164,725 | 33,464 | (5,474) | 107,278 | (193,078) | (904) | 10,825 | 1,116,836 |
| | ₩ 3,586,965 | 45,131 | (7,179) | 109,529 | (408,549) | (1,077) | 16,874 | 3,341,694 |

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12. Intangible Assets, Continued

(2) Details of frequency usage rights as of June 30, 2019 are as follows:

(In millions of won)

| | Amount | Description | Commencement of amortization | Completion of amortization |
|-------------------|--------------------|------------------------|---------------------------------|-------------------------------|
| 800MHz license | ₩ 81,088 | CDMA and LTE service | Jul. 2011 | Jun. 2021 |
| 1.8GHz license | 314,050 | LTE service | Sept. 2013 | Dec. 2021 |
| 2.6GHz license | 910,640 | LTE service | Sept. 2016 | Dec. 2026 |
| 2.1GHz license | 265,896 | W-CDMA and LTE service | Dec. 2016 | Dec. 2021 |
| 3.5GHz license(*) | 1,134,133 | 5G service | Apr. 2019 | Nov. 2028 |
| 28GHz license(*) | 202,683 | 5G service | - | Nov. 2023 |
| | <u>₩ 2,908,490</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 began amortization for 3.5GHz license in April 2019. The amortization for 28GHz license will be begun when it is in the condition necessary for it to be capable of operating in the manner intended by management.

13. Borrowings and Debentures

(1) Short-term borrowings as of June 30, 2019 and December 31, 2018 are as follows:

(In millions of won)

| | Lender | Annual interest rate(%) | June 30, 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 |
| | | | <u>₩ 50,000</u> | <u>80,000</u> |

SK TELECOM CO., LTD. and Subsidiaries
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For the six-month periods ended June 30, 2019 and 2018

13. Borrowings and Debentures, Continued

(2) Changes in the long-term borrowings for the six-month period ended June 30, 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 | | | | 2,015,365 |
| As of January 1, 2019 | | | | <u>2,104,996</u> |
| Repayments of long-term borrowings: | | | | |
| | Korea Development Bank | 2.20 | Jul. 30, 2019 | (6,500) |
| | Korea Development Bank | 2.20 | Jul. 30, 2019 | (1,667) |
| | Korea Development Bank | 2.32 | Dec. 20, 2021 | (6,125) |
| | Korea Development Bank | 2.78 | Dec. 21, 2022 | (6,250) |
| | Export Kreditnamnden | 1.70 | Apr. 29, 2022 | (6,441) |
| | | | | <u>(26,983)</u> |
| Other changes(*) | | | | <u>4,477</u> |
| Current | | | | 88,173 |
| Non-current | | | | 1,994,317 |
| As of June 30, 2019 | | | | ₩ <u><u>2,082,490</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 six-month period ended June 30, 2019.

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Notes to the Condensed Consolidated Interim Financial Statements

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13. Borrowings and Debentures, Continued

(3) Changes in debentures for the six-month period ended June 30, 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 | 179,234 |
| | | 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 |
| Private placement corporate bonds | Operating fund | - | Oct. 1, 2023 | | 5,758 | 5,178 |
| | | | | ₩ | <u>615,758</u> | <u>612,604</u> |
| Debentures repaid: | | | | | | |
| Unsecured corporate bonds | Operating fund | 3.30 | May. 14, 2019 | ₩ | (50,000) | (50,000) |
| | | 4.72 | May. 14, 2029 | | (61,757) | (61,757) |
| | | 1.65 | Mar. 4, 2019 | | (70,000) | (70,000) |
| | | 1.62 | June. 3, 2019 | | (50,000) | (50,000) |
| Corporate bonds | Operating fund(*1) | 3.49 | Apr. 2, 2019 | | (210,000) | (210,000) |
| | | | | ₩ | <u>(441,757)</u> | <u>(441,757)</u> |
| Other changes(*2) | | | | | <u>56,267</u> | <u>60,556</u> |
| Current(*3) | | | | | 1,080,792 | 1,080,797 |
| Non-current(*3) | | | | | 6,643,918 | 6,617,458 |
| As of June 30, 2019 | | | | ₩ | <u>7,724,710</u> | <u>7,698,255</u> |

(*1) Debentures 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 six-month period ended June 30, 2019.

(*3) ₩566,697 million were transferred from non-current to current for the six-month period ended June 30, 2019.

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14. Long-term Payables – other

(1) Long-term payables – other as of June 30, 2019 and December 31, 2018 are as follows:

(In millions of won)

| | <u>June 30, 2019</u> | <u>December 31, 2018</u> |
|---|----------------------|--------------------------|
| Payables related to acquisition of frequency usage rights | ₩ 1,533,219 | 1,939,082 |
| Other(*) | 20,682 | 29,702 |
| | <u>₩ 1,553,901</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 June 30, 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>June 30, 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 | (97,759) | (113,772) |
| Current installments of long-term payables – other | (420,411) | (423,884) |
| Carrying amount at period end | <u>₩ 1,533,219</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 six-month period ended June 30, 2019. The repayment schedule of the principal amount of long-term payables – other as of June 30, 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 six-month periods ended June 30, 2019 and 2018 are as follows:

(In millions of won)

| | For the six-month period ended June 30, 2019 | | | | | | As of June 30, 2019 | | |
|---------------------------|--|----------|-------------|----------|----------|----------------------|---------------------|---------|-------------|
| | Beginning balance | Increase | Utilization | Reversal | Other | Business Combination | Ending balance | Current | Non-current |
| Provision for restoration | ₩ 77,741 | 1,899 | (2,000) | (915) | 67 | 40 | 76,832 | 45,528 | 31,304 |
| Emission allowance | 2,238 | 2,208 | - | - | - | - | 4,446 | 4,446 | - |
| Other provisions(*) | 107,229 | 422 | (19,178) | (61) | (11,288) | - | 77,124 | 37,995 | 39,129 |
| | ₩ 187,208 | 4,529 | (21,178) | (976) | (11,221) | 40 | 158,402 | 87,969 | 70,433 |

(*) ₩37,657 million of current provisions and ₩39,129 million of non-current provisions are included in the other provisions relating to SK Planet Co., Ltd.'s onerous contracts. (See note 29)

(In millions of won)

| | For the six-month period ended June 30, 2018 | | | | | | As of June 30, 2018 | | |
|--|--|------------------------------------|----------|-------------|----------|-------|---------------------|---------|-------------|
| | Beginning balance | Impact of adopting K-IFRS No. 1115 | Increase | Utilization | Reversal | Other | Ending balance | Current | Non-current |
| Provision for installment of handset subsidy | ₩ 3,874 | - | - | (1,059) | (2,702) | - | 113 | 113 | - |
| Provision for restoration | 73,267 | - | 2,326 | (423) | (548) | 92 | 74,714 | 42,293 | 32,421 |
| Emission allowance | 4,650 | - | 1,726 | (1,334) | (3,306) | - | 1,736 | 1,736 | - |
| Other provisions | 2,935 | (215) | 178 | (132) | (32) | - | 2,734 | 2,734 | - |
| | ₩ 84,726 | (215) | 4,230 | (2,948) | (6,588) | 92 | 79,297 | 46,876 | 32,421 |

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16. Defined Benefit Liabilities (Assets)

(1) Details of defined benefit liabilities (assets) as of June 30, 2019 and December 31, 2018 are as follows:

(In millions of won)

| | <u>June 30, 2019</u> | <u>December 31, 2018</u> |
|--|----------------------|--------------------------|
| Present value of defined benefit obligations | ₩ 994,470 | 926,302 |
| Fair value of plan assets | (819,177) | (816,699) |
| Defined benefit assets(*) | <u>(11,926)</u> | <u>(31,926)</u> |
| Defined benefit liabilities | <u>187,219</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 six-month periods ended June 30, 2019 and 2018 are as follows:

(In millions of won)

| | <u>For the six-month period ended</u> | |
|----------------------------------|---------------------------------------|----------------------|
| | <u>June 30, 2019</u> | <u>June 30, 2018</u> |
| Beginning balance | ₩ 926,302 | 679,625 |
| Business combination | 3,653 | - |
| Current service cost | 85,485 | 67,045 |
| Interest cost | 10,472 | 10,117 |
| Remeasurement: | | |
| - Adjustment based on experience | 10,992 | 10,284 |
| Benefit paid | (46,225) | (25,166) |
| Others | 3,791 | 2,052 |
| Ending balance | <u>₩ 994,470</u> | <u>743,957</u> |

(3) Changes in plan assets for the six-month periods ended June 30, 2019 and 2018 are as follows:

(In millions of won)

| | <u>For the six-month period ended</u> | |
|----------------------|---------------------------------------|----------------------|
| | <u>June 30, 2019</u> | <u>June 30, 2018</u> |
| Beginning balance | ₩ 816,699 | 663,617 |
| Business combination | 3,207 | - |
| Interest income | 9,846 | 9,631 |
| Remeasurement | (806) | (3,971) |
| Contribution | 42,617 | 26,790 |
| Benefit paid | (53,589) | (33,696) |
| Others | 1,203 | 5,887 |
| Ending balance | <u>₩ 819,177</u> | <u>668,258</u> |

(4) Total cost of benefit plan, which is recognized in profit and loss (included in labor in the statement of income) and capitalized into construction-in-progress, for the six-month periods ended June 30, 2019 and 2018 are as follows:

(In millions of won)

| | <u>For the six-month period ended</u> | |
|----------------------|---------------------------------------|----------------------|
| | <u>June 30, 2019</u> | <u>June 30, 2018</u> |
| Current service cost | ₩ 85,485 | 67,045 |
| Net interest cost | 626 | 486 |
| | <u>₩ 86,111</u> | <u>67,531</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 June 30, 2019 and December 31, 2018 are as follows:

(In millions of won, except for share data)

| | <u>June 30, 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) | 1,164 | 1,007 |
| Others(*2) | (681,333) | (681,094) |
| | <u>₩ 655,002</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 six-month periods ended June 30, 2019 and 2018 and details of shares outstanding as of June 30, 2019 and 2018 are as follows:

(In shares)

| | <u>June 30, 2019</u> | | | <u>June 30, 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 | | | | | |
| 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 |

| | One Store Co., Ltd. | DREAMUS COMPANY(Formerly, IRIVER LIMITED) | | |
|---------------------------------|--------------------------------------|---|--------------------------------------|--------------------------------------|
| | | 1-1 | 1-2 | 1-3 |
| Grant date | April 27, 2018 | March 28, 2019 | March 28, 2019 | March 28, 2019 |
| 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)(*) | 997,750 | 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 six-month period ended June 30, 2019 and during the year ended December 31, 2018.

(2) Share compensation expense recognized during the six-month period ended June 30, 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 six-month period ended June 30, 2019 | 436 |
| In subsequent periods | 2,055 |
| | ₩ 3,694 |

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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 June 30, 2019 and December 31, 2018 are as follows:

(In millions of won)

| | <u>June 30, 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 | 6,306,928 | 8,269,783 |
| | <u>₩ 22,125,686</u> | <u>22,144,541</u> |

20. Reserves

(1) Details of reserves, net of taxes, as of June 30, 2019 and December 31, 2018 are as follows:

(In millions of won)

| | <u>June 30, 2019</u> | <u>December 31, 2018</u> |
|---|----------------------|--------------------------|
| Valuation loss on financial assets at FVOCI | ₩ (34,819) | (124) |
| Other comprehensive loss of investments in associates | (263,427) | (334,637) |
| Valuation loss on derivatives | (12,458) | (41,601) |
| Foreign currency translation differences for foreign operations | 13,512 | 2,920 |
| | <u>₩ (297,192)</u> | <u>(373,442)</u> |

(2) Changes in reserves for the six-month periods ended June 30, 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 | (43,526) | - | 48,105 | (8,948) | 24,024 | 19,655 |
| Balance at June 30, 2018 | 55,881 | - | (271,955) | (82,776) | 14,974 | (283,876) |
| Balance at January 1, 2019 | (124) | - | (334,637) | (41,601) | 2,920 | (373,442) |
| Changes, net of taxes | (34,695) | - | 71,210 | 29,143 | 10,592 | 76,250 |
| Balance at June 30, 2019 | <u>₩ (34,819)</u> | <u>-</u> | <u>(263,427)</u> | <u>(12,458)</u> | <u>13,512</u> | <u>(297,192)</u> |

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21. Other Operating Expenses

Details of other operating expenses for the three and six-month periods ended June 30, 2019 and 2018 are as follows:

(In millions of won)

| | 2019 | | 2018 | |
|--|-----------------------------|---------------------------|-----------------------------|---------------------------|
| | Three-month period ended | Six-month period ended | Three-month period ended | Six-month period ended |
| | June 30 | June 30 | June 30 | June 30 |
| Communication | ₩ 10,945 | 20,875 | 8,451 | 16,623 |
| Utilities | 70,246 | 147,265 | 64,382 | 139,463 |
| Taxes and dues | 16,600 | 26,758 | 14,820 | 23,454 |
| Repair | 92,172 | 181,310 | 91,165 | 170,323 |
| Research and development | 96,232 | 195,988 | 98,273 | 187,698 |
| Training | 6,905 | 15,801 | 7,225 | 15,669 |
| Bad debt for accounts receivable – trade | 5,264 | 15,253 | 10,391 | 20,211 |
| Travel | 6,826 | 14,886 | 6,633 | 13,329 |
| Supplies and others | 65,196 | 127,119 | 50,063 | 84,435 |
| | ₩ <u>370,386</u> | <u>745,255</u> | <u>351,403</u> | <u>671,205</u> |

22. Other Non-operating Income and Expenses

Details of other non-operating income and expenses for the three and six-month periods ended June 30, 2019 and 2018 are as follows:

(In millions of won)

| | 2019 | | 2018 | |
|--|-----------------------------|---------------------------|-----------------------------|---------------------------|
| | Three-month period ended | Six-month period ended | Three-month period ended | Six-month period ended |
| | June 30 | June 30 | June 30 | June 30 |
| Other Non-operating Income: | | | | |
| Gain on disposal of property and equipment and intangible assets | ₩ 4,589 | 7,493 | 1,383 | 3,540 |
| Others | 3,964 | 8,995 | 4,042 | 18,805 |
| | ₩ <u>8,553</u> | <u>16,488</u> | <u>5,425</u> | <u>22,345</u> |
| Other Non-operating Expenses: | | | | |
| Loss on impairment of property and equipment and intangible assets | ₩ 1,274 | 1,337 | 174 | 1,077 |
| Loss on disposal of property and equipment and intangible assets | 16,491 | 26,028 | 16,689 | 19,756 |
| Donations | 9,806 | 12,456 | 16,028 | 31,999 |
| Bad debt for accounts receivable – other | 994 | 2,095 | 832 | 4,546 |
| Loss on impairment of investment assets | 1,090 | 1,398 | 2,279 | 2,734 |
| Others | 4,154 | 8,600 | 10,263 | 13,120 |
| | ₩ <u>33,809</u> | <u>51,914</u> | <u>46,265</u> | <u>73,232</u> |

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23. Finance Income and Costs

- (1) Details of finance income and costs for the three and six-month periods ended June 30, 2019 and 2018 are as follows:

(In millions of won)

| | 2019 | | 2018 | |
|---|-----------------------------|---------------------------|-----------------------------|---------------------------|
| | Three-month period ended | Six-month period ended | Three-month period ended | Six-month period ended |
| | June 30 | June 30 | June 30 | June 30 |
| Finance Income: | | | | |
| Interest income | ₩ 14,048 | 29,095 | 18,300 | 35,220 |
| Gain on sale of accounts receivable – other | 4,045 | 11,987 | 4,390 | 8,139 |
| Dividends | - | 9,924 | - | 15,142 |
| Gain on foreign currency transactions | 3,971 | 5,645 | 5,853 | 9,460 |
| Gain on foreign currency translations | 2,613 | 5,013 | 5,005 | 5,563 |
| Gain relating to financial assets at FVTPL | 1,739 | 2,083 | 437 | 9,939 |
| Gain relating to financial liabilities at FVTPL | 265 | 56 | - | - |
| Gain on valuation of derivatives | 19 | 465 | 578 | 897 |
| Gain on settlement of derivatives | 389 | 389 | - | - |
| | ₩ 27,089 | 64,657 | 34,563 | 84,360 |

(In millions of won)

| | 2019 | | 2018 | |
|---|-----------------------------|---------------------------|-----------------------------|---------------------------|
| | Three-month period ended | Six-month period ended | Three-month period ended | Six-month period ended |
| | June 30 | June 30 | June 30 | June 30 |
| Finance Costs: | | | | |
| Interest expenses | ₩ 99,520 | 201,774 | 71,861 | 146,976 |
| Loss on sale of accounts receivable – other | 561 | 561 | 1,922 | 4,380 |
| Loss on foreign currency transactions | 4,012 | 5,625 | 3,719 | 9,857 |
| Loss on foreign currency translations | 2,883 | 4,340 | 2,644 | 3,124 |
| Loss relating to financial liabilities at FVTPL | - | 43 | 492 | 780 |
| Loss relating to financial assets at FVTPL | 227 | 367 | 378 | 778 |
| Gain on settlement of derivatives | 317 | 317 | 12,156 | 12,156 |
| | ₩ 107,520 | 213,027 | 93,172 | 178,051 |

- (2) Details of interest income included in finance income for the three and six-month periods ended June 30, 2019 and 2018 are as follows:

(In millions of won)

| | 2019 | | 2018 | |
|--|-----------------------------|---------------------------|-----------------------------|---------------------------|
| | Three-month period ended | Six-month period ended | Three-month period ended | Six-month period ended |
| | June 30 | June 30 | June 30 | June 30 |
| Interest income on cash equivalents and short-term financial instruments | ₩ 7,326 | 15,149 | 7,852 | 14,619 |
| Interest income on installment receivables and others | 6,722 | 13,946 | 10,448 | 20,601 |
| | ₩ 14,048 | 29,095 | 18,300 | 35,220 |

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23. Finance Income and Costs, Continued

- (3) Details of interest expenses included in finance costs for the three and six-month periods ended June 30, 2019 and 2018 are as follows:

(In millions of won)

| | 2019 | | 2018 | |
|---------------------------------|--|--------------------------------------|--|--------------------------------------|
| | Three-month period ended June 30 | Six-month period ended June 30 | Three-month period ended June 30 | Six-month period ended June 30 |
| Interest expenses on borrowings | ₩ 26,234 | 51,628 | 2,770 | 6,332 |
| Interest expenses on debentures | 56,044 | 111,876 | 57,614 | 115,584 |
| Others | 17,242 | 38,270 | 11,477 | 25,060 |
| | ₩ <u>99,520</u> | <u>201,774</u> | <u>71,861</u> | <u>146,976</u> |

- (4) Details of impairment losses on financial assets for the three and six-month periods ended June 30, 2019 and 2018 are as follows:

(In millions of won)

| | 2019 | | 2018 | |
|-----------------------------|--|--------------------------------------|--|--------------------------------------|
| | Three-month period ended June 30 | Six-month period ended June 30 | Three-month period ended June 30 | Six-month period ended June 30 |
| Accounts receivable – trade | ₩ 5,264 | 15,253 | 10,391 | 20,211 |
| Other receivables | 994 | 2,095 | 832 | 4,546 |
| | ₩ <u>6,258</u> | <u>17,348</u> | <u>11,223</u> | <u>24,757</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.

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25. Earnings per Share

(1) Basic earnings per share

1) Basic earnings per share for the three and six-month periods ended June 30, 2019 and 2018 are calculated as follows:

(In millions of won, except for share data)

| | 2019 | | 2018 | |
|--|----------------------------------|--------------------------------|----------------------------------|--------------------------------|
| | Three-month period ended June 30 | Six-month period ended June 30 | Three-month period ended June 30 | Six-month period ended June 30 |
| Profit attributable to owners of the Parent Company on common shares | ₩ 263,397 | 642,586 | 916,652 | 1,611,611 |
| Interest on hybrid bonds | (3,691) | (7,383) | (8,420) | (8,420) |
| Profit for the period available for common shares | 259,706 | 635,203 | 908,232 | 1,603,191 |
| Weighted average number of common shares outstanding | 71,869,828 | 71,869,828 | 70,609,160 | 70,609,160 |
| Basic earnings per share (in won) | ₩ 3,613 | 8,838 | 12,863 | 22,705 |

2) The weighted average number of common shares outstanding for the three and six-month periods ended June 30, 2019 and 2018 are calculated as follows:

(In shares)

| | Number of shares | Weighted number of shares | |
|---|------------------|----------------------------------|--------------------------------|
| | | Three-month period ended June 30 | Six-month period ended June 30 |
| Issued common shares at January 1, 2019 | 80,745,711 | 80,745,711 | 80,745,711 |
| Treasury shares at January 1, 2019 | (8,875,883) | (8,875,883) | (8,875,883) |
| Weighted average number of common shares outstanding at June 30, 2019 | 71,869,828 | 71,869,828 | 71,869,828 |

(In shares)

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

(2) Diluted earnings per share

For the six-month periods ended June 30, 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 June 30, 2019 and December 31, 2018 are as follows:

(In millions of won)

| | June 30, 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 | ₩ - | - | - | 1,451,596 | - | 1,451,596 |
| Financial instruments | - | - | - | 749,443 | - | 749,443 |
| Short-term investment securities | 79,194 | - | - | - | - | 79,194 |
| Long-term investment securities(*) | 132,962 | 397,038 | 1,153 | - | - | 531,153 |
| Accounts receivable - trade | - | - | - | 2,195,219 | - | 2,195,219 |
| Loans and other receivables | 456,966 | - | - | 1,158,496 | - | 1,615,462 |
| Derivative financial assets | 4,352 | - | - | - | 128,372 | 132,724 |
| | ₩ 673,474 | 397,038 | 1,153 | 5,554,754 | 128,372 | 6,754,791 |

(*) The Group designated ₩397,038 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.

SK TELECOM CO., LTD. and Subsidiaries
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26. Categories of Financial Instruments, Continued

(2) Financial liabilities by category as of June 30, 2019 and December 31, 2018 are as follows:

(In millions of won)

| | | June 30, 2019 | | |
|-------------------------------------|---|--|--|-------------------|
| | | Financial liabilities at amortized cost | Derivatives- hedging instrument | Total |
| Accounts payable – trade | ₩ | 378,051 | - | 378,051 |
| Derivative financial liabilities | | - | 1,050 | 1,050 |
| Borrowings | | 2,132,490 | - | 2,132,490 |
| Debentures | | 7,698,255 | - | 7,698,255 |
| Lease liabilities | | 658,569 | - | 658,569 |
| Accounts payable – other and others | | 5,896,680 | - | 5,896,680 |
| | ₩ | <u>16,764,045</u> | <u>1,050</u> | <u>16,765,095</u> |

(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 |
| | ₩ | <u>61,813</u> | <u>16,734,119</u> | <u>4,184</u> | <u>16,800,116</u> |

(*) 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 June 30, 2019 are as follows:

(In millions of won, thousands of foreign currencies)

| | Assets | | Liabilities | |
|--------|--------------------|----------------|--------------------|------------------|
| | Foreign currencies | Won equivalent | Foreign currencies | Won equivalent |
| USD | 178,284 ₩ | 206,238 | 1,603,901 ₩ | 1,855,393 |
| EUR | 17,528 | 23,051 | 34 | 44 |
| JPY | 1,232,894 | 13,233 | 280,934 | 3,016 |
| Others | - | 35,053 | - | 17,371 |
| | ₩ | <u>277,575</u> | ₩ | <u>1,875,824</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 June 30, 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 | ₩ 11,271 | (11,271) |
| EUR | 2,301 | (2,301) |
| JPY | 1,021 | (1,021) |
| Others | 1,768 | (1,768) |
| | ₩ <u>16,361</u> | <u>(16,361)</u> |

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

For the six-month periods ended June 30, 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 June 30, 2019, the floating-rate borrowings and debenture of the Group are ₩218,442 million and ₩347,040 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 six-month period ended June 30, 2019, would change by ₩770 million in relation to floating-rate borrowings that are exposed to interest rate risk.

As of June 30, 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 six-month ended June 30, 2019, would change by ₩10,257 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 June 30, 2019 and December 31, 2018 are as follows:

(In millions of won)

| | <u>June 30, 2019</u> | <u>December 31, 2018</u> |
|-----------------------------|----------------------|--------------------------|
| Cash and cash equivalents | ₩ 1,451,307 | 1,506,432 |
| Financial instruments | 749,443 | 1,046,897 |
| Investment securities | 8,074 | 11,672 |
| Accounts receivable – trade | 2,195,219 | 2,019,933 |
| Loans and other receivables | 1,615,462 | 1,621,938 |
| Derivative financial assets | 132,724 | 55,457 |
| | <u>₩ 6,152,229</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.

SK TELECOM CO., LTD. and Subsidiaries
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27. Financial Risk Management, Continued

(1) Financial risk management, Continued

2) Credit risk, Continued

The Group establishes a loss allowance in respect of accounts receivable – trade. 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 June 30, 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 June 30, 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 | ₩ 378,051 | 378,051 | 378,051 | - | - |
| Borrowings(*) | 2,132,490 | 2,552,759 | 233,430 | 2,319,329 | - |
| Debentures(*) | 7,698,255 | 8,941,902 | 1,296,421 | 4,772,815 | 2,872,666 |
| Lease liabilities | 658,569 | 688,818 | 275,096 | 334,600 | 79,122 |
| Accounts payable – other and others(*) | 5,896,680 | 6,094,272 | 4,352,796 | 1,161,259 | 580,217 |
| | ₩ <u>16,764,045</u> | <u>18,655,802</u> | <u>6,535,794</u> | <u>8,588,003</u> | <u>3,532,005</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 June 30, 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 | ₩ 128,372 | 129,535 | 39,506 | 98,318 | (8,289) |
| Liabilities | (1,050) | (1,050) | (1,050) | - | - |
| | ₩ <u>127,322</u> | <u>128,485</u> | <u>38,456</u> | <u>98,318</u> | <u>(8,289)</u> |

SK TELECOM CO., LTD. and Subsidiaries
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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 June 30, 2019 and December 31, 2018 are as follows:

(In millions of won)

| | | <u>June 30, 2019</u> | <u>December 31, 2018</u> |
|--------------------|---|----------------------|--------------------------|
| Total liabilities | ₩ | 20,160,752 | 20,019,861 |
| Total equity | | 22,429,801 | 22,349,250 |
| Debt-equity ratios | | 89.88% | 89.58% |

(3) Fair value

1) Fair value and carrying amount of financial assets and liabilities including fair value hierarchy as of June 30, 2019 are as follows:

(In millions of won)

| | | <u>June 30, 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 | ₩ | 673,474 | - | 540,512 | 132,962 | 673,474 |
| Derivatives hedging instruments | | 128,372 | - | 128,372 | - | 128,372 |
| FVOCI | | 398,191 | 62,713 | - | 335,478 | 398,191 |
| | ₩ | <u>1,200,037</u> | <u>62,713</u> | <u>668,884</u> | <u>468,440</u> | <u>1,200,037</u> |
| Financial liabilities that are measured at fair value: | | | | | | |
| Derivatives hedging instruments | ₩ | <u>1,050</u> | - | <u>1,050</u> | - | <u>1,050</u> |
| Financial liabilities that are not measured at fair value: | | | | | | |
| Borrowings | ₩ | 2,132,490 | - | 2,295,561 | - | 2,295,561 |
| Debentures | | 7,698,255 | - | 8,265,384 | - | 8,265,384 |
| Long-term payables – other | | 1,974,312 | - | 2,053,489 | - | 2,053,489 |
| | ₩ | <u>11,805,057</u> | - | <u>12,614,434</u> | - | <u>12,614,434</u> |

SK TELECOM CO., LTD. and Subsidiaries
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For the six-month periods ended June 30, 2019 and 2018

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 |
| | ₩ 1,404,880 | 293,925 | 735,863 | 375,092 | 1,404,880 |
| Financial liabilities that are measured at fair value: | | | | | |
| FVTPL | ₩ 61,813 | - | 61,813 | - | 61,813 |
| Derivative financial liabilities | 4,184 | - | 4,184 | - | 4,184 |
| | ₩ 65,997 | - | 65,997 | - | 65,997 |
| 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 |
| | ₩ 11,983,062 | - | 12,716,968 | - | 12,716,968 |

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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For the six-month periods ended June 30, 2019 and 2018

27. Financial Risk Management, Continued

(3) Fair value, Continued

Interest rates used by the Group for the fair value measurement as of June 30, 2019 are as follows:

| | <u>Interest rate</u> |
|----------------------------|----------------------|
| Derivative instruments | 1.09% ~ 2.54% |
| Borrowings and debentures | 1.72% ~ 2.28% |
| Long-term payables – other | 1.68% ~ 1.82% |

3) There have been no transfers between Level 2 and Level 1 for the six-month period ended June 30, 2019. The changes of financial assets classified as Level 3 for the six-month period ended June 30, 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 June 30, 2019</u> |
|-------|---------------------------------------|--------------------------------|--------------|--------------------|-----------------|-------------------------------------|
| FVTPL | ₩ 124,374 | 1,355 | 1,101 | 11,467 | (5,335) | 132,962 |
| FVOCI | 250,718 | - | 4,189 | 86,787 | (6,216) | 335,478 |
| | <u>₩ 375,092</u> | <u>1,355</u> | <u>5,290</u> | <u>98,254</u> | <u>(11,551)</u> | <u>468,440</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 June 30, 2019 and December 31, 2018 are as follows

(In millions of won)

| | | June 30, 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: | | | | | | |
| Accounts receivable – trade and others | ₩ | 99,015 | (97,916) | 1,099 | - | 1,099 |
| Financial liabilities: | | | | | | |
| Accounts payable – trade and others | ₩ | 97,916 | (97,916) | - | - | - |

(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 |
| | ₩ | 97,857 | (95,920) | 1,937 | (1,107) | 830 |
| Financial liabilities: | | | | | | |
| Derivatives(*) | ₩ | 1,107 | - | 1,107 | (1,107) | - |
| Accounts payable – trade and others | | 95,920 | (95,920) | - | - | - |
| | ₩ | 97,027 | (95,920) | 1,107 | (1,107) | - |

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

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For the six-month periods ended June 30, 2019 and 2018

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 3 others |
| Associates | SK hynix Inc. and 43 others |
| Others | The Ultimate Controlling Entity's subsidiaries and associates, etc. |

As of June 30, 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 and six-month periods ended June 30, 2019 and 2018 are as follows:

(In millions of won)

| | 2019 | | 2018 | |
|--------------------------------|--|--------------------------------------|--|--------------------------------------|
| | Three-month period ended June 30 | Six-month period ended June 30 | Three-month period ended June 30 | Six-month period ended June 30 |
| Salaries | ₩ 547 | 4,875 | 479 | 3,216 |
| Defined benefits plan expenses | 142 | 953 | 121 | 678 |
| Share option | 64 | 194 | 137 | 271 |
| | <u>₩ 753</u> | <u>6,022</u> | <u>737</u> | <u>4,165</u> |

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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28. Transactions with Related Parties, Continued

(3) Transactions with related parties for the three and six-month periods ended June 30, 2019 and 2018 are as follows:

(In millions of won)

| Scope | Company | 2019 | | | | | |
|-----------------------------|---|------------------------------|-----------|----------------------------------|-----------|---------------------------------------|-----------|
| | | For the period ended June 30 | | | | | |
| | | Operating revenue and others | | Operating expense and others(*1) | | Acquisition of property and equipment | |
| | | Three-month | Six-month | Three-month | Six-month | Three-month | Six-month |
| Ultimate Controlling Entity | SK Holdings Co., Ltd.(*2) | ₩ 9,181 | 16,803 | 95,678 | 390,258 | 6,991 | 10,708 |
| Associates | F&U Credit information Co., Ltd. | 606 | 1,214 | 12,526 | 26,092 | - | - |
| | SK hynix Inc.(*3) | 10,287 | 241,148 | 217 | 369 | - | - |
| | KEB HanaCard Co., Ltd. | 181 | 594 | 673 | 1,066 | - | - |
| | SK Wyverns Co., Ltd. | 318 | 635 | 228 | 15,253 | - | - |
| | Others(*4) | 8,205 | 8,330 | 3,141 | 6,260 | - | 37 |
| | | | 19,597 | 251,921 | 16,785 | 49,040 | - |
| Other | SK Engineering & Construction Co., Ltd. | 3,514 | 5,063 | 238 | 478 | 2,600 | 5,000 |
| | SK Innovation Co., Ltd. | 6,318 | 11,409 | 38 | 393 | - | - |
| | SK Networks Co., Ltd.(*5) | 15,255 | 18,719 | 225,497 | 472,356 | - | 443 |
| | SK Networks Service Co., Ltd. | 311 | 530 | 16,287 | 33,768 | 20 | 26 |
| | SK Telesys Co., Ltd. | 104 | 236 | 2,470 | 4,557 | 13,342 | 15,413 |
| | SK TNS Co., Ltd. | 59 | 117 | 11,496 | 11,902 | 147,155 | 162,336 |
| | SK Energy Co., Ltd | 5,097 | 8,189 | 252 | 351 | - | - |
| | SK hynix Semiconductor (China) Ltd. | 22,873 | 45,445 | - | - | - | - |
| | SK Global Chemical International Trading (Shanghai) Co., Ltd. | 3,419 | 6,395 | 31 | 69 | - | - |
| | Others | 21,184 | 38,758 | 15,378 | 31,332 | 18,538 | 20,663 |
| | | 78,134 | 134,861 | 271,687 | 555,206 | 181,655 | 203,881 |
| | | ₩ 106,912 | 403,585 | 384,150 | 994,504 | 188,646 | 214,626 |

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

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

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

(*4) Operating revenue and others include ₩8,131 million of dividends declared by Korea IT Fund which was deducted from the investment in associates.

(*5) Operating expenses and others include costs for handset purchases amounting to ₩438,876 million.

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28. Transactions with Related Parties, Continued

(3) Transactions with related parties for the three and six-month periods ended June 30, 2019 and 2018 are as follows, Continued:

(In millions of won)

| Scope | Company | 2018 | | | | | |
|-----------------------------|---|----------------------------------|--------------------------------|----------------------------------|--------------------------------|---------------------------------------|--------------------------------|
| | | Operating revenue and others | | Operating expense and others | | Acquisition of property and equipment | |
| | | Three-month period ended June 30 | Six-month period ended June 30 | Three-month period ended June 30 | Six-month period ended June 30 | Three-month period ended June 30 | Six-month period ended June 30 |
| Ultimate Controlling Entity | SK Holdings Co., Ltd.(*1) | ₩ 5,748 | 11,294 | 93,045 | 375,207 | 15,616 | 19,244 |
| Associates | F&U Credit information Co., Ltd. | 678 | 1,350 | 13,959 | 27,606 | - | - |
| | HappyNarae Co., Ltd. | 1,632 | 1,766 | 3,636 | 7,461 | 18,478 | 24,162 |
| | SK hynix Inc.(*2) | 6,298 | 159,403 | 178 | 206 | - | - |
| | KEB HanaCard Co., Ltd. | 4,906 | 8,938 | 8,286 | 12,317 | - | - |
| | Others(*3) | 1,991 | 2,305 | 3,457 | 18,477 | 543 | 543 |
| | | 15,505 | 173,762 | 29,516 | 66,067 | 19,021 | 24,705 |
| | Other | | | | | | |
| | SK Engineering & Construction Co., Ltd. | 1,970 | 2,767 | 351 | 572 | - | - |
| | SK Innovation Co., Ltd. | 1,267 | 4,413 | 338 | 519 | - | - |
| | SK Networks Co., Ltd. | 6,329 | 10,216 | 268,662 | 553,329 | 84 | 84 |
| | SK Networks Service Co., Ltd. | 198 | 382 | 22,808 | 45,846 | 1,778 | 2,033 |
| | SK Telesys Co., Ltd. | 108 | 194 | 3,720 | 5,927 | 31,286 | 38,909 |
| | SK TNS Co., Ltd | 39 | 72 | 7,744 | 8,851 | 101,888 | 123,242 |
| | SK Energy Co., Ltd. | 2,029 | 3,269 | 269 | 405 | - | - |
| | SKC Infra Services Co., Ltd | 35 | 41 | 10,998 | 21,862 | 7,320 | 12,658 |
| | SK infosec Co., Ltd. | 296 | 503 | 15,797 | 27,225 | 2,464 | 2,550 |
| | Others | 27,242 | 34,901 | 2,636 | 8,393 | - | - |
| | | 39,513 | 56,758 | 333,323 | 672,929 | 144,820 | 179,476 |
| | | ₩ 60,766 | 241,814 | 455,884 | 1,114,203 | 179,457 | 223,425 |

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

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

(*3) Operating revenue and others include ₩1,676 million of dividends declared by Korea IT Fund and UniSK which was deducted from the investment in associates.

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28. Transactions with Related Parties, Continued

(4) Account balances with related parties as of June 30, 2019 and December 31, 2018 are as follows:

(In millions of won)

| | | June 30, 2019 | | |
|--|---|-----------------|---|-----------------------------------|
| | | Receivables | | Payables |
| Scope | Company | Loans | Accounts receivable – trade, etc. | Accounts payable – other, etc. |
| Ultimate Controlling Entity Associates | SK Holdings Co., Ltd. | ₩ - | 7,234 | 50,702 |
| | F&U Credit information Co., Ltd. | - | 78 | 3,231 |
| | SK hynix Inc. | - | 10,117 | 137 |
| | Wave City Development Co., Ltd. | - | 31,523 | - |
| | Daehan Kanggun BcN Co., Ltd.(*) | 22,147 | - | - |
| | KEB HanaCard Co., Ltd. | - | 565 | 7,010 |
| | Others | 408 | 15 | 1,552 |
| | | | <u>22,555</u> | <u>42,298</u> |
| Other | SK Engineering & Construction Co., Ltd. | - | 2,051 | 112 |
| | SK Innovation Co., Ltd. | - | 5,279 | 2,272 |
| | SK Networks. Co., Ltd. | - | 15,466 | 140,941 |
| | SK Networks Services Co., Ltd. | - | 9 | 4,972 |
| | SK Telesys Co., Ltd. | - | 42 | 9,900 |
| | SK Energy Co., Ltd. | - | 2,386 | 1,400 |
| | SK hystec Co., Ltd. | - | 2,514 | 81 |
| | SK hynix Semiconductor (China) Ltd. | - | 16,664 | - |
| | Others | - | 13,965 | 55,813 |
| | | | <u>-</u> | <u>58,376</u> |
| | | <u>₩ 22,555</u> | <u>107,908</u> | <u>278,123</u> |

(*) As of June 30, 2019, the Parent Company recognized the entire balance of loans to Daehan Kanggun BcN Co., Ltd. as loss allowances.

SK TELECOM CO., LTD. and Subsidiaries
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For the six-month periods ended June 30, 2019 and 2018

28. Transactions with Related Parties, Continued

(4) Account balances with related parties as of June 30, 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> | <u>18,965</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>₩ 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. and SK Telink Co., Ltd., subsidiaries 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 six-month period ended June 30, 2019 as presented in note 10.

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Notes to the Condensed Consolidated Interim Financial Statements

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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 ₩3,968 million as of June 30, 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 June 30, 2019.

(2) Legal claims and litigations

As of June 30, 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, ₩37,657 million and ₩39,129 million are recognized as current provisions and non-current provisions, respectively as of June 30, 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 ₩570,601 million as of June 30, 2019 which the Parent Company purchased according to the relevant comprehensive agreement are recognized as accounts receivable – other and long-term accounts receivable – other.

(4) 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.

30. Statements of Cash Flows

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

For the six-month periods ended June 30, 2019 and 2018

- (1) Adjustments for income and expenses from operating activities for the six-month periods ended June 30, 2019 and 2018 are as follows:

(In millions of won)

| | For the six--month period ended | |
|--|---------------------------------|---------------|
| | June 30, 2019 | June 30, 2018 |
| Interest income | ₩ (29,095) | (35,220) |
| Dividends | (9,924) | (15,142) |
| Gain on foreign currency translations | (5,013) | (5,563) |
| Gain on valuation of derivatives | (465) | (897) |
| Gain on settlement of derivatives | (389) | - |
| Gain on sale of accounts receivable – other | (11,987) | (8,139) |
| Gain relating to investments in associates and joint ventures, net | (359,421) | (1,542,240) |
| Gain on disposal of property and equipment and intangible assets | (7,493) | (3,540) |
| Gain relating to financial assets at FVTPL | (2,083) | (9,939) |
| Gain relating to financial liabilities at FVTPL | (56) | - |
| Other income | (157) | (282) |
| Interest expense | 201,774 | 146,976 |
| Loss on foreign currency translations | 4,340 | 3,124 |
| Loss on sale of accounts receivable – other | 561 | 4,380 |
| Income tax expense | 188,340 | 462,359 |
| Expense related to defined benefit plan | 86,111 | 67,531 |
| Share option | 436 | 341 |
| Depreciation and amortization | 1,903,819 | 1,630,495 |
| Bad debt for accounts receivable – trade | 15,253 | 20,211 |
| Loss on disposal of property and equipment and intangible assets | 26,028 | 19,756 |
| Loss on impairment of property and equipment and intangible assets | 1,337 | 1,077 |
| Bad debt for accounts receivable – other | 2,095 | 4,546 |
| Loss on settlement of derivatives | 317 | 12,156 |
| Loss relating to financial assets at FVTPL | 367 | 778 |
| Loss relating to financial liabilities at FVTPL | 43 | 780 |
| Loss on impairment of investment assets | 1,398 | 2,734 |
| Other expenses | 14,096 | 3,863 |
| | ₩ 2,020,232 | 760,145 |

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

For the six-month periods ended June 30, 2019 and 2018

30. Statements of Cash Flows, Continued

(2) Changes in assets and liabilities from operating activities for the six-month periods ended June 30, 2019 and 2018 are as follows:

(In millions of won)

| | For the six-month period ended | |
|---------------------------------------|--------------------------------|-----------------|
| | June 30, 2019 | June 30, 2018 |
| Accounts receivable – trade | ₩ (133,548) | 120,360 |
| Accounts receivable – other | 88,102 | 165,696 |
| Accrued income | - | (528) |
| Advance payments | (23,145) | 11,753 |
| Prepaid expenses | (125,452) | 15,077 |
| Value-Added Tax refundable | 10,387 | 8,135 |
| Inventories | (9,683) | 15,086 |
| Long-term accounts receivable – other | (16,518) | 37,042 |
| Contract assets | (18,180) | 15,571 |
| Guarantee deposits | 11,298 | (6,271) |
| Accounts payable – trade | (79,452) | (97,991) |
| Accounts payable – other | 1,340 | (200,492) |
| Withholdings | (169,220) | 42,728 |
| Contract liabilities | 6,537 | (18,305) |
| Deposits received | 49 | (976) |
| Accrued expenses | (65,365) | (109,246) |
| Value-Added Tax payable | 22,466 | 13,377 |
| Provisions | (18,657) | (4,496) |
| Long-term provisions | (2,215) | 2,101 |
| Plan assets | 10,972 | 6,906 |
| Retirement benefit payment | (46,225) | (25,166) |
| Others | 6,482 | (7,375) |
| | ₩ <u>(550,027)</u> | <u>(17,014)</u> |

(3) Significant non-cash transactions for the six-month periods ended June 30, 2019 and 2018 are as follows:

(In millions of won)

| | For the six-month period ended | |
|--|--------------------------------|---------------|
| | June 30, 2019 | June 30, 2018 |
| Decrease in accounts payable - other relating to the acquisition of property and equipment and intangible assets | ₩ (57,036) | (349,737) |
| Increase of right-of-use assets upon adoption of K-IFRS 1116 | 242,670 | - |

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31. Subsequent Events

The board of directors of the Parent Company resolved to pay the interim dividend at the board meeting on July 25, 2019, and the details are as follows:

| | |
|-------------------------|---|
| Interim dividend amount | ₩1,000 per share (Total amount: ₩71,870 million) |
| Dividend rate | 0.4% |
| Dividend date | June 30, 2019 |
| Date of distribution | According to Article 464 Commercial Act 2-1, the Company is to distribute dividends by August 25, 2019. |