

SK TELECOM CO., LTD.

Condensed Separate Interim Financial Statements

(Unaudited)

March 31, 2018 and 2017

(With Independent Auditors' Review Report Thereon)

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Independent Auditors' Review Report

Based on a report originally issued in Korean

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

Reviewed financial statements

We have reviewed the accompanying condensed separate interim financial statements of SK Telecom Co., Ltd. (the "Company"), which comprise the condensed separate statement of financial position as of March 31, 2018, the related condensed separate statements of income, comprehensive income, changes in equity and cash flows for the three-month periods ended March 31, 2018 and 2017, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility

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

Auditors' responsibility

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

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

Conclusion

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

Emphasis of matter

As a matter that does not have an impact on our review conclusion, we highlight the attention of the users of the above-mentioned financial statements of the Company for the following matter described in Note 3 to the condensed separate financial statements. The Company has initially adopted K-IFRS No. 1109 and 1115 for the year beginning on January 1, 2018, and the Company has taken an exemption not to restate the condensed separate financial statements as of December 31, 2017 or for the three-month period ended March 31, 2017, presented for comparative purposes, in accordance with transition requirements. The financial impacts of applying K-IFRS No. 1109 and 1115 are discussed in Note 3.

Other matters

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

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

KPMG Samjong Accounting Corp.
Seoul, Korea
May 11, 2018

<p>This report is effective as of May 11, 2018, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying condensed separate interim financial statements and notes thereto. Accordingly, the readers of the review report should understand that the above review report has not been updated to reflect the impact of such subsequent events or circumstances, if any.</p>

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

As of March 31, 2018 and December 31, 2017

(In millions of won)

	<u>Note</u>	<u>March 31, 2018</u>	<u>December 31, 2017</u>
Assets			
Current Assets:			
Cash and cash equivalents	3,25,26 ₩	1,296,107	880,583
Short-term financial instruments	3,25,26	84,500	94,000
Short-term investment securities	3,6,25,26	47,407	47,383
Accounts receivable - trade, net	3,4,25,26,27	1,518,649	1,520,209
Short-term loans, net	3,4,25,26,27	69,706	54,403
Accounts receivable - other, net	3,4,25,26,27,28	1,250,604	1,003,509
Prepaid expenses	3,5	1,779,288	121,121
Inventories, net		21,548	29,837
Advance payments and other	3,4,25,26	19,269	17,053
Total Current Assets		<u>6,087,078</u>	<u>3,768,098</u>
Non-Current Assets:			
Long-term financial instruments	25,26	382	382
Long-term investment securities	6,25,26	698,010	724,603
Investments in subsidiaries, associates and joint ventures	7	9,186,013	9,152,321
Property and equipment, net	8,27	6,521,269	6,923,133
Goodwill		1,306,236	1,306,236
Intangible assets, net	9	2,947,021	3,089,545
Long-term loans, net	3,4,25,26,27	7,368	7,512
Long-term accounts receivable - other	3,4,25,26,27,28	130,932	285,118
Long-term prepaid expenses	3,5	696,138	25,169
Guarantee deposits	3,4,25,26,27	172,063	173,513
Long-term derivative financial assets	3,25,26	12,142	30,608
Deferred tax assets	3,23	-	30,953
Defined benefit assets	13	22,433	40,082
Other non-current assets		249	249
Total Non-Current Assets		<u>21,700,256</u>	<u>21,789,424</u>
Total Assets	₩	<u>27,787,334</u>	<u>25,557,522</u>

See accompanying notes to the condensed separate interim financial statements.

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

As of March 31, 2018 and December 31, 2017

(In millions of won)

	<u>Note</u>	<u>March 31, 2018</u>	<u>December 31, 2017</u>
Liabilities and Shareholders' Equity			
Current Liabilities:			
Accounts payable - other	25,26,27	1,723,983	1,664,054
Current installments of long-term debt, net	10,25,26 ₩	998,278	1,131,047
Current installments of long-term payables - other	11,25,26	297,838	301,751
Receipts in advance	3	-	76,126
Contract liabilities	3,14	49,705	-
Withholdings	3,25,26	743,327	517,991
Accrued expenses	25,26	650,848	790,368
Income tax payable	23	295,918	206,060
Unearned revenue	3	-	3,705
Derivative financial liabilities	25,26	30,988	27,791
Provisions	12	49,717	48,508
Total Current Liabilities		<u>4,840,602</u>	<u>4,767,401</u>
Non-Current Liabilities:			
Debentures, excluding current installments, net	10,25,26	4,760,460	4,334,848
Long-term borrowings, excluding current installments, net	10,25,26	42,292	42,486
Long-term payables - other, excluding current installments, net	11,25,26	1,036,400	1,328,630
Long-term contract liabilities	3,14	6,334	-
Long-term unearned revenue	3	-	7,033
Long-term derivative financial liabilities	25,26	10,890	10,719
Long-term provisions	12	16,085	16,178
Deferred tax liabilities	3,23	614,618	-
Other non-current liabilities	25,26	44,203	42,836
Total Non-Current Liabilities		<u>6,531,282</u>	<u>5,782,730</u>
Total Liabilities		<u>11,371,884</u>	<u>10,550,131</u>
Shareholders' Equity:			
Share capital	1,15	44,639	44,639
Capital surplus and others	15,16	372,034	371,895
Retained earnings	17	16,008,029	14,512,556
Reserves	18	(9,252)	78,301
Total Shareholders' Equity		<u>16,415,450</u>	<u>15,007,391</u>
Total Liabilities and Shareholders' Equity	₩	<u>27,787,334</u>	<u>25,557,522</u>

See accompanying notes to the condensed separate interim financial statements.

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

For the three-month periods ended March 31, 2018 and 2017

(In millions of won except for per share data)

	<i>Note</i>	<u>March 31, 2018</u>	<u>March 31, 2017</u>
Operating revenue:	<i>3,19,27</i>		
Revenue		₩ 2,988,538	3,087,956
Operating expenses:	<i>27</i>		
Labor		175,027	156,878
Commissions	<i>3</i>	1,132,942	1,197,517
Depreciation and amortization		600,719	585,471
Network interconnection		162,603	156,734
Leased line		70,539	75,898
Advertising		25,998	22,444
Rent		111,406	111,521
Cost of goods that have been resold		123,168	135,435
Others	<i>20</i>	216,879	206,662
		<u>2,619,281</u>	<u>2,648,560</u>
Operating profit	<i>3</i>	369,257	439,396
Finance income	<i>22</i>	181,288	128,068
Finance costs	<i>22</i>	(67,016)	(66,879)
Other non-operating income	<i>21</i>	12,125	7,176
Other non-operating expenses	<i>21</i>	(18,178)	(18,128)
Profit before income tax	<i>3</i>	477,476	489,633
Income tax expense	<i>3,23</i>	113,049	101,427
Profit for the period	<i>3</i>	₩ 364,427	388,206
Earnings per share:			
Basic and diluted earnings per share (in won)	<i>24</i>	₩ 5,161	5,498

See accompanying notes to the condensed separate interim financial statements.

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

For the three-month periods ended March 31, 2018 and 2017

(In millions of won)

	<i>Note</i>	<u>March 31, 2018</u>	<u>March 31, 2017</u>
Profit for the period	₩	364,427	388,206
Other comprehensive income (loss):			
Items that will never be reclassified to profit or loss, net of taxes:			
Remeasurement of defined benefit liabilities	13	(7,068)	(6,778)
Valuation loss on financial assets at fair value through other comprehensive income	18	(20,139)	-
Items that are or may be reclassified subsequently to profit or loss, net of taxes:			
Net change in unrealized fair value of available-for-sale financial assets	18	-	43,337
Net change in unrealized fair value of derivatives	18	(9,025)	(7,729)
Other comprehensive income(loss) for the period, net of taxes		(36,232)	28,830
Total comprehensive income	₩	<u>328,195</u>	<u>417,036</u>

See accompanying notes to the condensed separate interim financial statements.

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

For the three-month periods ended March 31, 2018 and 2017

(In millions of won)

	Note	Capital surplus and others						Sub-total	Retained earnings	Reserves	Total equity
		Share capital	Paid-in surplus	Treasury share	Hybrid bonds	Share Option	Other				
Balance, January 1, 2017		₩ 44,639	2,915,887	(2,260,626)	398,518	-	(682,298)	371,481	13,902,627	(61,793)	14,256,954
Total comprehensive income:											
Profit for the period		-	-	-	-	-	-	-	388,206	-	388,206
Other comprehensive income (loss)	13,18	-	-	-	-	-	-	-	(6,778)	35,608	28,830
		-	-	-	-	-	-	-	381,428	35,608	417,036
Transactions with owners:											
Annual dividends		-	-	-	-	-	-	-	(635,482)	-	(635,482)
Share option		-	-	-	-	12	-	12	-	-	12
		-	-	-	-	12	-	12	(635,482)	-	(635,470)
Balance, March 31, 2017		₩ 44,639	2,915,887	(2,260,626)	398,518	12	(682,298)	371,493	13,648,573	(26,185)	14,038,520
Balance, December 31, 2017		₩ 44,639	2,915,887	(2,260,626)	398,518	414	(682,298)	371,895	14,512,556	78,301	15,007,391
Impact of adopting K-IFRS No. 1115	3	-	-	-	-	-	-	-	1,723,985	-	1,723,985
Impact of adopting K-IFRS No. 1109	3	-	-	-	-	-	-	-	49,611	(58,389)	(8,778)
Balance, January 1, 2018		₩ 44,639	2,915,887	(2,260,626)	398,518	414	(682,298)	371,895	16,286,152	19,912	16,722,598
Total comprehensive income:											
Profit for the period		-	-	-	-	-	-	-	364,427	-	364,427
Other comprehensive income (loss)	13,18	-	-	-	-	-	-	-	(7,068)	(29,164)	(36,232)
		-	-	-	-	-	-	-	357,359	(29,164)	328,195
Transactions with owners:											
Annual dividends		-	-	-	-	-	-	-	(635,482)	-	(635,482)
Share option		-	-	-	-	139	-	139	-	-	139
		-	-	-	-	139	-	139	(635,482)	-	(635,343)
Balance, March 31, 2018		₩ 44,639	2,915,887	(2,260,626)	398,518	553	(682,298)	372,034	16,008,029	(9,252)	16,415,450

See accompanying notes to the condensed separate interim financial statements.

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

For the three-month periods ended March 31, 2018 and 2017

(In millions of won)

	<u>Note</u>	<u>March 31, 2018</u>	<u>March 31, 2017</u>
Cash flows from operating activities:			
Cash generated from operating activities:			
Profit for the period		₩ 364,427	388,206
Adjustments for income and expenses	29	650,734	664,564
Changes in assets and liabilities related to operating activities	29	(27,161)	(56,740)
Sub-total		988,000	996,030
Interest received		9,674	18,186
Dividends received		7,766	-
Interest paid		(56,360)	(45,751)
Income tax paid		(13,719)	(72,439)
Net cash provided by operating activities		935,361	896,026
Cash flows from investing activities:			
Cash inflows from investing activities:			
Decrease in short-term investment securities, net		-	50,000
Decrease in short-term financial instruments, net		9,500	1,000
Collection of short-term loans		49,889	47,248
Decrease in long-term financial instruments		-	1
Proceeds from disposal of long-term investment securities		3,051	4,111
Proceeds from disposal of property and equipment		630	7,095
Proceeds from disposal of intangible assets		23	672
Sub-total		63,093	110,127
Cash outflows for investing activities:			
Increase in short-term loans		(65,201)	(53,844)
Acquisition of long-term investment securities		-	(16)
Acquisition of investments in subsidiaries and associates		(33,692)	(45,139)
Acquisitions of property and equipment		(474,765)	(473,587)
Acquisitions of intangible assets		(4,359)	(4,750)
Sub-total		(578,017)	(577,336)
Net cash used in investing activities		₩ (514,924)	(467,209)

See accompanying notes to the condensed separate interim financial statements.

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

For the three-month periods ended March 31, 2018 and 2017

(In millions of won)

	<u>Note</u>	<u>March 31, 2018</u>	<u>March 31, 2017</u>
Cash flows from financing activities:			
Cash inflows from financing activities:			
Proceeds from issuance of debentures	₩	497,975	-
Sub-total		<u>497,975</u>	<u>-</u>
Cash outflows for financing activities:			
Repayments of long-term accounts payable-other		(302,867)	(302,867)
Repayments of debentures		<u>(200,000)</u>	<u>-</u>
Sub-total		<u>(502,867)</u>	<u>(302,867)</u>
Net cash used in financing activities		<u>(4,892)</u>	<u>(302,867)</u>
Net increase in cash and cash equivalents		415,545	125,950
Cash and cash equivalents at beginning of the period		880,583	874,350
Effects of exchange rate changes on cash and cash equivalents		<u>(21)</u>	<u>(126)</u>
Cash and cash equivalents at end of the period	₩	<u>1,296,107</u>	<u>1,000,174</u>

See accompanying notes to the condensed separate interim financial statements.

SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

For the three-month periods ended March 31, 2018 and 2017

1. Reporting Entity

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

The Company’s common shares and depositary receipts (DRs) are listed on the Stock Market of Korea Exchange, the New York Stock Exchange and the London Stock Exchange. As of March 31, 2018, the Company’s total issued shares are held by the following shareholders:

	<u>Number of shares</u>	<u>Percentage of total shares issued (%)</u>
SK Holdings Co., Ltd.	20,363,452	25.22
National Pension Service, other institutional investors and other minority shareholders	50,245,708	62.23
Treasury shares	<u>10,136,551</u>	<u>12.55</u>
	<u>80,745,711</u>	<u>100.00</u>

2. Basis of Preparation

(1) Statement of compliance

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

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

(2) Use of estimates and judgments

1) Critical judgments, assumptions and estimation uncertainties

The preparation of the condensed separate interim financial statements in conformity with K-IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these condensed separate interim financial statements, the significant judgments made by management in applying the Company’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements as of and for the year ended December 31, 2017 except significant judgments and key sources of estimation uncertainty related to the K-IFRS 1115 and 1109 that are described in Note 3.

SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

For the three-month periods ended March 31, 2018 and 2017

2. Basis of Preparation, Continued

(2) Use of estimates and judgments, Continued

2) Fair value measurement

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. The Company has an established policies and processes with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the finance executives.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, are used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of K-IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

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

Information about assumptions used for fair value measurements are included in Note 26.

SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

For the three-month periods ended March 31, 2018 and 2017

3. Significant Accounting Policies

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

(1) Changes in accounting policies

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

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

K-IFRS No. 1115, *Revenue from contracts with customers*, establishes a comprehensive framework for determining whether, how much and when revenue is recognized. K-IFRS No. 1115 replaced the revenue recognition guidance, including K-IFRS No. 1018 *Revenue*, K-IFRS No. 1011, *Construction Contracts*, K-IFRS No. 2031, *Revenue: Barter Transactions Involving Advertising Services*, K-IFRS No. 2113, *Customer Loyalty Programs*, K-IFRS No. 2115, *Agreements for the Construction of Real Estate*, and K-IFRS No. 2118, *Transfers of Assets from Customers*.

The Company has adopted K-IFRS No. 1115, *Revenue from contracts with customers*, from January 1, 2018 using the cumulative effect method with the effect of initially applying this standard as an adjustment to the opening balance of retained earnings as at January 1, 2018. The Company applied K-IFRS No. 1115 retrospectively only to contracts that are not completed contracts at the date of initial application, which is January 1, 2018 using the practical expedient permitted by K-IFRS No. 1115.

i) Incremental costs to acquire a contract

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

ii) Contract liability

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

SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

For the three-month periods ended March 31, 2018 and 2017

3. Significant Accounting Policies, Continued

(1) Changes in accounting policies, Continued

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

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

If K-IFRS No. 1018 were applied on the Company's condensed separate statements of financial position as of March 31, 2018, prepaid expenses and long-term prepaid expenses would be decreased by ₩1,657,821 million and ₩671,574 million, respectively, while deferred tax assets would be increased by ₩10,328 million. As a result, total assets would be decreased by ₩2,319,067 million. In addition, total liabilities would be decreased by ₩614,618 million, with decrease of contract liabilities, long-term contract liabilities and deferred tax liabilities by ₩49,705 million, ₩6,334 million and ₩614,618 million, respectively, while other liabilities such as receipts in advance would be increased by ₩56,039 million. In relation to these changes in assets and liabilities, retained earnings would be decreased by ₩1,704,449 million.

If K-IFRS No. 1018 were applied on the Company's condensed separate statements of income for the three-month period ended March 31, 2018, revenues would be increased by ₩4,357 million, while commissions would be decreased by ₩22,384 million. Operating profit and profit before income tax would be increased by ₩26,741 million. As a result, profit for the period would be increased by ₩19,536 million with increase in income tax expense of ₩7,205 million.

When compared to K-IFRS No. 1018, the adoption of K-IFRS No. 1115 did not have material impact on the Company's condensed separate statement of cash flows for the three-month period ended March 31, 2018.

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

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

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

(In millions of won)

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

SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

For the three-month periods ended March 31, 2018 and 2017

3. Significant Accounting Policies, Continued

(1) Changes in accounting policies, Continued

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

i) Classification of financial assets and financial liabilities

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

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

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

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

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

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

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

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

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

SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

For the three-month periods ended March 31, 2018 and 2017

3. Significant Accounting Policies, Continued

(1) Changes in accounting policies, Continued

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

i) Classification of financial assets and financial liabilities, Continued

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

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

SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

For the three-month periods ended March 31, 2018 and 2017

3. Significant Accounting Policies, Continued

(1) Changes in accounting policies, Continued

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

i) Classification of financial assets and financial liabilities, Continued

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

(In millions of won)

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

SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

For the three-month periods ended March 31, 2018 and 2017

3. Significant Accounting Policies, Continued

(1) Changes in accounting policies, Continued

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

i) Classification of financial assets and financial liabilities, Continued

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

(*1) As of January 1, 2018, available-for-sale financial assets such as beneficiary certificates and equity investments amounting to ₩122,910 million were reclassified to financial assets measured at FVTPL. As the contractual terms of these assets do not give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, these assets were not qualified to be designated as financial assets measured at amortized cost. As a result of this reclassification, as at January 1, 2018, accumulated OCI of ₩ (-)106 million was reclassified to retained earnings and, due to its new classification to financial assets measured at FVTPL, retained earnings was decreased by ₩4,389 million. In addition, change in the fair value of these financial assets of ₩181 million was recognized in loss before income tax during the three month period ended March 31, 2018.

(*2) As of January 1, 2018, available-for-sale financial assets such as marketable equity instruments amounting to ₩649,076 million were reclassified to equity investments at FVOCI. As a result of this reclassification, as at January 1, 2018, accumulated OCI of ₩85,349 million was reclassified to retained earnings and accumulated OCI was increased by ₩5,441 million due to the fair value measurement of financial assets which were stated at cost under K-IFRS No. 1039. The Company designated equity instruments that are not held for trading as FVOCI on initial application of K-IFRS No. 1109 with no recycling of amounts from OCI to profit and loss.

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

ii) Impairment of financial assets

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

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

SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

For the three-month periods ended March 31, 2018 and 2017

3. Significant Accounting Policies, Continued

(1) Changes in accounting policies, Continued

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

ii) Impairment of financial assets, Continued

At each reporting date, the Company assesses whether financial assets carried at amortized cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

As a result of applying K-IFRS No. 1109, as of January 1, 2018, the Company recognized the impairment loss on debt instruments at an amount equal to the lifetime expected credit losses. Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. For debt instruments at FVOCI, the loss allowance is recognized in OCI, instead of reducing the carrying amount of the asset.

iii) Hedge accounting

When initially applying K-IFRS No. 1109, the Company elected as its accounting policy to apply hedge accounting requirements under K-IFRS No. 1109. The Company designates derivatives such as currency swaps as hedging instruments to hedge the risk of variability in cash flows associated with the foreign currency debentures and borrowings. As the Company's hedging instruments as of January 1, 2018 satisfy the hedge requirements of retrospective testing (80~125%) under K-IFRS No. 1039, there is no material effect of applying K-IFRS No. 1109.

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Notes to the Condensed Separate Interim Financial Statements

For the three-month periods ended March 31, 2018 and 2017

3. Significant Accounting Policies, Continued

(1) Changes in accounting policies, Continued

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

(In millions of won)

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

SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

For the three-month periods ended March 31, 2018 and 2017

3. Significant Accounting Policies, Continued

(2) Standards issued but not yet effective

The following new standard is effective for annual periods beginning after January 1, 2019 and earlier application is permitted; however, the Company has not early adopted the following new standard in preparing the accompanying condensed separate interim financial statements as of and for the three-month period ended March 31, 2018.

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

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

4. Trade and Other Receivables

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

(In millions of won)

		March 31, 2018		
		Gross amount	Loss allowance	Carrying amount
Current assets:				
Accounts receivable – trade	₩	1,646,691	(128,042)	1,518,649
Short-term loans		70,410	(704)	69,706
Accounts receivable - other(*)		1,307,541	(56,937)	1,250,604
Accrued income		1,067	-	1,067
		<u>3,025,709</u>	<u>(185,683)</u>	<u>2,840,026</u>
Non-current assets:				
Long-term loans		48,477	(41,109)	7,368
Long-term accounts receivable - other(*)		130,932	-	130,932
Guarantee deposits		172,063	-	172,063
		<u>351,472</u>	<u>(41,109)</u>	<u>310,363</u>
	₩	<u><u>3,377,181</u></u>	<u><u>(226,792)</u></u>	<u><u>3,150,389</u></u>

SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

For the three-month periods ended March 31, 2018 and 2017

4. Trade and Other Receivables, Continued

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

(In millions of won)

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

(*) Gross and carrying amounts of accounts receivable - other as of March 31, 2018 include ₩948,801 million of financial instruments classified at FVTPL.

(2) Changes in the loss allowance on trade and other receivables measured at amortized costs during the three-month periods ended March 31, 2018 and 2017 are as follows:

(In millions of won)

	January 1, 2018	Impact of adopting K-IFRS No. 1109	Impairment	Write-offs(*)	Collection of receivables previously written-off	March 31, 2018
Accounts receivable - trade	₩ 107,827	12,950	4,486	(203)	2,982	128,042
Accounts receivable - other	97,547	99	723	(558)	939	98,750
	<u>₩ 205,374</u>	<u>13,049</u>	<u>5,209</u>	<u>(761)</u>	<u>3,921</u>	<u>226,792</u>

(In millions of won)

	January 1, 2017	Impairment	Write-offs(*)	Collection of receivables previously written-off	March 31, 2017
Accounts receivable - trade	₩ 119,027	1,245	(180)	3,686	123,778
Accounts receivable - other	99,800	2,697	(5,449)	6,050	103,098
	<u>₩ 218,827</u>	<u>3,942</u>	<u>(5,629)</u>	<u>9,736</u>	<u>226,876</u>

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

SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

For the three-month periods ended March 31, 2018 and 2017

4. Trade and Other Receivables, Continued

- (3) The Company applies the simplified approach that allows the Company to estimate the loss allowance for accounts receivables - trade at an amount equal to the lifetime expected credit losses. Assessing expected credit losses under K-IFRS 1109 incorporate the analysis of forward-looking information. To make that assessment, the Company used its historical credit loss experience and classified the accounts receivable - trade by their credit risk characteristics and days overdue.

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

5. Prepaid expenses

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

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

(In millions of won)

		<u>March 31, 2018</u>	<u>December 31, 2017</u>
Current assets:			
Incremental costs of obtaining a contract	₩	1,657,821	-
Others		121,467	121,121
		<u>1,779,288</u>	<u>121,121</u>
Non-current assets:			
Incremental costs of obtaining a contract	₩	671,574	-
Others		24,564	25,169
		<u>696,138</u>	<u>25,169</u>

- (2) Incremental costs of obtaining a contract

Incremental costs of obtaining a contract that are capitalized as of March 31, 2018 and the related amortization recognized as commissions during the three-month period ended March 31, 2018 are as follows:

(In millions of won)

		<u>March 31, 2018</u>
Incremental costs of obtaining a contract	₩	2,329,395
Commissions		537,969

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

SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

For the three-month periods ended March 31, 2018 and 2017

6. Investment Securities

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

(In millions of won)

	<u>Category</u>		<u>March 31, 2018</u>	<u>December 31, 2017</u>
Beneficiary certificates	Available-for-sale financial assets	₩	-	47,383
	FVTPL		47,707	-
		₩	<u>47,707</u>	<u>47,383</u>

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

(In millions of won)

	<u>Category</u>		<u>March 31, 2018</u>	<u>December 31, 2017</u>
Equity instruments	Available-for-sale financial assets	₩	-	723,703
	FVOCI(*)		629,074	-
			629,074	723,703
Debt instruments	Available-for-sale financial assets		-	900
	FVTPL		68,936	-
			68,936	900
		₩	<u>698,010</u>	<u>724,603</u>

(*) Upon adoption of K-IFRS 1109, the Company designated ₩629,074 million of equity instruments that are not held for trading as financial assets at FVOCI.

7. Investments in Subsidiaries, Associates and Joint Ventures

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

(In millions of won)

		<u>March 31, 2018</u>	<u>December 31, 2017</u>
Investments in subsidiaries	₩	4,434,829	4,391,693
Investments in associates and joint ventures		4,751,184	4,760,628
	₩	<u>9,186,013</u>	<u>9,152,321</u>

SK TELECOM CO., LTD.

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For the three-month periods ended March 31, 2018 and 2017

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

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

(In millions of won, except for share data)

	March 31, 2018			December 31, 2017
	Number of shares	Ownership (%)	Carrying amount	Carrying amount
SK Telink Co., Ltd.	1,432,627	100.0	₩ 243,988	243,988
SK Broadband Co., Ltd.	298,460,212	100.0	1,870,582	1,870,582
SK Communications Co., Ltd.	43,427,530	100.0	69,668	69,668
PS&Marketing Corporation	66,000,000	100.0	313,934	313,934
SERVICEACE Co., Ltd.	4,385,400	100.0	21,927	21,927
SERVICE TOP Co., Ltd.	2,856,200	100.0	14,281	14,281
Network O&S Co., Ltd.	3,000,000	100.0	15,000	15,000
SK Planet Co., Ltd.	57,338,266	98.1	1,298,237	1,298,237
IRIVER LIMITED(*1)	21,826,296	45.9	91,642	91,642
SK Telecom China Holdings Co., Ltd.	-	100.0	48,096	38,652
SKT Vietnam PTE. Ltd.	180,476,700	73.3	2,364	2,364
SKT Americas, Inc.	122	100.0	45,701	45,701
YTK Investment Ltd.	-	100.0	3,388	3,388
Atlas Investment(*2)	-	100.0	89,824	84,495
SK Global Healthcare Business Group, Ltd.	-	100.0	39,649	39,649
SK techx Co., Ltd.	6,713,838	100.0	155,999	155,999
One Store Co., Ltd.	10,409,600	65.5	82,186	82,186
FSK L&S Co., Ltd.(*3)	2,415,750	60.0	18,047	-
SK Telecom Japan Inc.(*4)	1,000,000	100.0	10,316	-
			₩ 4,434,829	4,391,693

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

(*2) The Company contributed ₩5,329 million in cash during the three-month period ended March 31, 2018.

(*3) The Company acquired the 2,415,750 common shares of FSK L&S Co., Ltd. in exchange for ₩18,047 million in cash from SK Holdings Co., Ltd., the ultimate controlling entity of the Company, during the three-month period ended March 31, 2018.

(*4) SK Telecom Japan Inc. was newly established during the three-month period ended March 31, 2018.

SK TELECOM CO., LTD.

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For the three-month periods ended March 31, 2018 and 2017

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

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

(In millions of won, except for share data)

	March 31, 2018			December 31,
	Number of shares	Ownership (%)	Carrying amount	2017 Carrying amount
Investments in associates:				
SK China Company Ltd.	10,928,921	27.3	₩ 601,192	601,192
HappyNarae Co., Ltd.	720,000	45.0	12,939	12,939
Korea IT Fund(*1)	190	63.3	220,957	220,957
Wave City Development Co., Ltd.(*2)	393,460	19.1	1,532	1,532
KEB HanaCard Co., Ltd.(*2)	39,902,323	15.0	253,739	253,739
Daehan Kanggun BeN Co., Ltd.	1,675,124	29.0	353	353
NanoEnTek, Inc.	6,960,445	27.1	47,958	47,958
SK Technology Innovation Company	14,700	49.0	45,864	45,864
SK hynix Inc.	146,100,000	20.1	3,374,725	3,374,725
SK MENA Investment B.V.	9,772,686	32.1	14,485	14,485
SK Latin America Investment S.A.	9,448,937	32.1	14,243	14,243
S.M.Culture & Contents Co., Ltd.	22,033,898	23.4	65,341	65,341
SK USA, Inc. and others	-	-	62,380	71,824
			₩ 4,715,708	4,725,152
Investment in joint venture:				
Finnq Co., Ltd.(*3)	4,900,000	49.0	₩ 24,580	24,580
12CM GLOBAL PTE. LTD.(*3)	1,007,143	62.7	10,896	10,896
			35,476	35,476
			₩ 4,751,184	4,760,628

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

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

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

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Notes to the Condensed Separate Interim Financial Statements

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

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

(In millions of won, except for share data)

		March 31, 2018			December 31, 2017		
		Market value per share	Number of shares	Fair value	Market value per share	Number of shares	Fair value
		(in won)			(in won)		
IRIVER LIMITED	₩	7,830	21,826,296	170,900	5,580	21,826,296	121,790

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

(In millions of won, except for share data)

		March 31, 2018			December 31, 2017		
		Market value per share	Number of shares	Fair value	Market value per share	Number of shares	Fair value
		(in won)			(in won)		
NanoEnTek, Inc.	₩	5,620	6,960,445	39,118	5,950	6,960,445	41,415
SK hynix Inc.		81,300	146,100,000	11,877,930	76,500	146,100,000	11,176,650
S.M.Culture & Contents Co.,Ltd.		3,380	22,033,898	74,475	2,700	22,033,898	59,492

8. Property and Equipment

Details of the changes in property and equipment for the three-month periods ended March 31, 2018 and 2017 are as follows:

(In millions of won)

		For the three-month period ended March 31, 2018					
		Beginning balance	Acquisition	Disposal	Transfer	Depreciation	Ending balance
Land	₩	525,572	74	(13)	1,823	-	527,456
Buildings		546,872	73	(4)	14,927	(9,258)	552,610
Structures		376,755	7	-	893	(8,992)	368,663
Machinery		4,648,331	1,666	(302)	186,568	(419,275)	4,416,988
Other		448,203	42,099	(583)	(91,576)	(26,040)	372,103
Construction in progress		377,400	41,521	-	(135,472)	-	283,449
	₩	<u>6,923,133</u>	<u>85,440</u>	<u>(902)</u>	<u>(22,837)</u>	<u>(463,565)</u>	<u>6,521,269</u>

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8. Property and Equipment, Continued

Details of the changes in property and equipment for the three-month periods ended March 31, 2018 and 2017 are as follows, Continued:

(In millions of won)

		For the three-month period ended March 31, 2017					
	Beginning balance	Acquisition	Disposal	Transfer	Depreciation	Ending balance	
Land	₩ 506,786	310	(3,529)	908	-	504,475	
Buildings	557,021	83	(302)	3,411	(9,095)	551,118	
Structures	357,065	1	(70)	80	(8,676)	348,400	
Machinery	4,781,985	3,231	(181)	198,321	(414,599)	4,568,757	
Other	492,410	53,432	(825)	(70,098)	(27,587)	447,332	
Construction in progress	603,272	53,578	-	(195,695)	-	461,155	
	<u>₩ 7,298,539</u>	<u>110,635</u>	<u>(4,907)</u>	<u>(63,073)</u>	<u>(459,957)</u>	<u>6,881,237</u>	

9. Intangible Assets

(1) Details of the changes in intangible assets for the three-month periods ended March 31, 2018 and 2017 are as follows:

(In millions of won)

		For the three-month period ended March 31, 2018					
	Beginning balance	Acquisition	Disposal	Transfer	Amortization	Ending balance	
Frequency usage rights	₩ 2,176,940	-	-	-	(100,972)	2,075,968	
Land usage rights	7,858	1,005	-	-	(984)	7,879	
Industrial rights	12,899	2,408	-	-	(773)	14,534	
Facility usage rights	16,456	282	(2)	30	(681)	16,085	
Club memberships	44,843	-	(25)	-	-	44,818	
Other	830,549	664	-	25,710	(69,186)	787,737	
	<u>₩ 3,089,545</u>	<u>4,359</u>	<u>(27)</u>	<u>25,740</u>	<u>(172,596)</u>	<u>2,947,021</u>	

(In millions of won)

		For the three-month period ended March 31, 2017					
	Beginning balance	Acquisition	Disposal	Transfer	Amortization	Ending balance	
Frequency usage rights	₩ 2,580,828	-	-	-	(100,972)	2,479,856	
Land usage rights	8,359	605	(46)	200	(921)	8,197	
Industrial rights	13,692	1,194	-	-	(926)	13,960	
Facility usage rights	16,259	234	-	9	(673)	15,829	
Club memberships	43,984	950	-	-	-	44,934	
Other	612,541	1,767	(562)	70,550	(50,404)	633,892	
	<u>₩ 3,275,663</u>	<u>4,750</u>	<u>(608)</u>	<u>70,759</u>	<u>(153,896)</u>	<u>3,196,668</u>	

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9. Intangible Assets, Continued

(2) Details of frequency usage rights as of March 31, 2018 are as follows:

(In millions of won)

	Amount	Description	Commencement of amortization	Completion of amortization
800MHz license	₩ 131,768	Frequency usage rights relating to CDMA and LTE service	Jul. 2011	Jun. 2021
1.8GHz license	471,075	Frequency usage rights relating to LTE service	Sept. 2013	Dec. 2021
WiBro license	2,370	WiBro service	Mar. 2012	Mar. 2019
2.6GHz license	1,062,415	Frequency usage rights relating to LTE service	Sept. 2016	Dec. 2026
2.1GHz license	408,340	Frequency usage rights relating to W-CDMA and LTE service	Dec. 2016	Dec. 2021
	<u>₩ 2,075,968</u>			

10. Borrowings and Debentures

(1) There are no changes in long-term borrowings for the three-month period ended March 31, 2018. Changes in debentures for the three-month period ended March 31, 2018 are as follows:

(In millions of won, thousands of other currencies)

	Purpose	Annual interest rate(%)	Maturity	Face value	Book value
Current				₩ 1,119,980	1,119,016
Non-current				4,350,258	4,334,848
As of January 1, 2018				<u>5,470,238</u>	<u>5,453,864</u>
Debentures newly issued:					
Unsecured corporate bonds	Refinancing	2.57	Feb. 20, 2021	110,000	109,507
		2.81	Feb. 20, 2023	100,000	99,576
		3.00	Feb. 20, 2028	200,000	199,228
		3.02	Feb. 20, 2038	90,000	89,664
			<u>500,000</u>	<u>497,975</u>	
Debentures repaid:					
Unsecured corporate bonds	Other	5.00	Mar. 3, 2018	(200,000)	(200,000)
Other changes(*):				(6,572)	(5,175)
Current				986,550	986,204
Non-current				4,777,116	4,760,460
As of March 31, 2018				<u>₩ 5,763,666</u>	<u>5,746,664</u>

(*) Other changes include the effects from translation of foreign currency-denominated debentures and changes in present value discount during the three-month period ended March 31, 2018.

11. Long-term Payables - other

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

(In millions of won)

	March 31, 2018	December 31, 2017
Long-term payables - other	₩ 1,407,388	1,710,255
Present value discount on long-term payables - other	(73,150)	(79,874)
Current installments of long-term payables - other	(297,838)	(301,751)
Carrying amount at period end	<u>₩ 1,036,400</u>	<u>1,328,630</u>

- (2) The Company repaid ₩302,867 million of the principal amount of long-term payables - other during the three-month period ended March 31, 2018. The repayment schedule of the principal amount of long-term payables - other as of March 31, 2018 is as follows:

(In millions of won)

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

12. Provisions

Changes in provisions for the three-month periods ended March 31, 2018 and 2017 are as follows:

(In millions of won)

	For the three-month period ended March 31, 2018					As of March 31, 2018	
	Beginning balance	Increase	Utilization	Reversal	Ending balance	Current	Non- current
Provision for installment of handset subsidy	₩ 3,874	-	(263)	-	3,611	3,611	-
Provision for restoration	56,162	920	(196)	(104)	56,782	40,697	16,085
Emission allowance	4,650	759	-	-	5,409	5,409	-
	<u>₩ 64,686</u>	<u>1,679</u>	<u>(459)</u>	<u>(104)</u>	<u>65,802</u>	<u>49,717</u>	<u>16,085</u>

(In millions of won)

	For the three-month period ended March 31, 2017					As of March 31, 2017	
	Beginning balance	Increase	Utilization	Reversal	Ending balance	Current	Non- current
Provision for installment of handset subsidy	₩ 24,710	-	(2,703)	-	22,007	20,445	1,562
Provision for restoration	53,022	660	(226)	(258)	53,198	36,782	16,416
Emission allowance	2,788	1,230	-	-	4,018	4,018	-
	<u>₩ 80,520</u>	<u>1,890</u>	<u>(2,929)</u>	<u>(258)</u>	<u>79,223</u>	<u>61,245</u>	<u>17,978</u>

The Company has provided handset subsidy to subscribers who purchase wireless telecommunication services from the Company and recognized a provision for subsidy amounts which the Company has obligations to pay in future periods.

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13. Defined Benefit Liabilities (Assets)

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

(In millions of won)

	<u>March 31, 2018</u>	<u>December 31, 2017</u>
Present value of defined benefit obligations	₩ 298,547	278,778
Fair value of plan assets	(320,980)	(318,860)
Defined benefit assets	₩ <u>(22,433)</u>	<u>(40,082)</u>

(2) Changes in defined benefit obligations for the three-month periods ended March 31, 2018 and 2017 are as follows:

(In millions of won)

	<u>For the three-month period ended</u>	
	<u>March 31, 2018</u>	<u>March 31, 2017</u>
Beginning balance	₩ 278,778	240,289
Current service cost	9,927	9,511
Interest cost	2,086	1,551
Remeasurement:		
- Adjustment based on experience	9,053	8,749
Benefit paid	(4,457)	(3,984)
Others	3,160	5,889
Ending balance	₩ <u>298,547</u>	<u>262,005</u>

(3) Changes in plan assets for the three-month periods ended March 31, 2018 and 2017 are as follows:

(In millions of won)

	<u>For the three-month period ended</u>	
	<u>March 31, 2018</u>	<u>March 31, 2017</u>
Beginning balance	₩ 318,860	265,076
Interest income	2,371	1,616
Remeasurement	(717)	(192)
Contribution	9,000	20,000
Benefit paid	(14,731)	(22,521)
Others	6,197	4,078
Ending balance	₩ <u>320,980</u>	<u>268,057</u>

(4) Total cost of benefit plan, which is recognized in profit and loss (included in labor in the statement of income) and capitalized into construction-in-progress, for the three-month periods ended March 31, 2018 and 2017 are as follows:

(In millions of won)

	<u>For the three-month period ended</u>	
	<u>March 31, 2018</u>	<u>March 31, 2017</u>
Current service cost	₩ 9,927	9,511
Net interest income	(285)	(65)
	₩ <u>9,642</u>	<u>9,446</u>

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14. Contract liabilities

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

Details of contract liabilities as of March 31, 2018 and January 1, 2018 are as follows:

(In millions of won)

	March 31, 2018	January 1, 2018
Contract liabilities - wireless service contracts	₩ 16,579	16,577
Contract liabilities - customer loyalty programs	10,555	10,739
Contract liabilities - others	28,905	16,729
	₩ 56,039	44,045

15. Share Capital and Capital Surplus and Others

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

(In millions of won, except for share data)

	March 31, 2018	December 31, 2017
Number of authorized shares	220,000,000	220,000,000
Number of issued shares	80,745,711	80,745,711
Share capital:		
Common stock	₩ 44,639	44,639
Capital surplus and others:		
Paid-in surplus	2,915,887	2,915,887
Treasury shares	(2,260,626)	(2,260,626)
Hybrid bonds	398,518	398,518
Share option (Note 16)	553	414
Others	(682,298)	(682,298)
	₩ 372,034	371,895

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For the three-month periods ended March 31, 2018 and 2017

15. Share Capital and Capital Surplus and Others, Continued

There were no changes in share capital for the three-month periods ended March 31, 2018 and 2017 and details of shares outstanding as of March 31, 2018 and 2017 are as follows:

<i>(In shares)</i>	March 31, 2018			March 31, 2017		
	Issued	Treasury stock	Outstanding	Issued	Treasury stock	Outstanding
Number of shares	80,745,711	10,136,551	70,609,160	80,745,711	10,136,551	70,609,160

16. Share option

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

	Series			
	1-1	1-2	1-3	2-0
Grant date		March 24, 2017		February 20, 2018
Types of shares to be issued		Registered common shares		
Grant method		Reissue of treasury shares		
Number of shares (in shares)	22,168	22,168	22,168	5,707
Exercise price (in won)	246,750	266,490	287,810	254,120
Exercise period	Mar. 25, 2019 ~ Mar. 24, 2022	Mar. 25, 2020 ~ Mar. 24, 2023	Mar. 25, 2021 ~ Mar. 24, 2024	Feb. 21, 2020 ~ Feb. 20, 2023
Vesting conditions	2 years' service from the grant date	3 years' service from the grant date	4 years' service from the grant date	2 years' service from the grant date

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

<i>(In millions of won)</i>	Share compensation expense	
During the year ended December 31, 2017	₩	414
During the three-month period ended March 31, 2018		139
In subsequent periods		975
	₩	1,528

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

	1-1	1-2	1-3	2-0
Risk-free interest rate	1.86%	1.95%	2.07%	2.63%
Estimated option's life	5 years	6 years	7 years	5 years
Share price (Closing price on the preceding day in won)	262,500	262,500	262,500	243,500
Expected volatility	13.38%	13.38%	13.38%	16.45%
Expected dividends	3.80%	3.80%	3.80%	3.70%
Exercise price (in won)	246,750	266,490	287,810	254,120
Per share fair value of the option (in won)	27,015	20,240	15,480	23,988

17. Retained Earnings

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

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For the three-month periods ended March 31, 2018 and 2017

(In millions of won)

	<u>March 31, 2018</u>	<u>December 31, 2017</u>
Appropriated:		
Legal reserve	₩ 22,320	22,320
Reserve for business expansion	10,531,138	10,171,138
Reserve for technology development	3,321,300	3,071,300
	<u>13,874,758</u>	<u>13,264,758</u>
Unappropriated	2,133,271	1,247,798
	<u>₩ 16,008,029</u>	<u>14,512,556</u>

18. Reserves

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

(In millions of won)

	<u>March 31, 2018</u>	<u>December 31, 2017</u>
Valuation gain on financial assets at FVOCI	₩ 70,345	-
Valuation gain on available-for-sale financial assets	-	148,873
Valuation loss on derivatives	(79,597)	(70,572)
	<u>₩ (9,252)</u>	<u>78,301</u>

(2) Changes in reserves for the three-month periods ended March 31, 2018 and 2017 are as follows:

(In millions of won)

	<u>Valuation gain (loss) on financial assets at FVOCI</u>	<u>Valuation gain (loss) on available-for-sale financial assets</u>	<u>Valuation loss on derivatives</u>	<u>Total</u>
Balance at January 1, 2017	₩ -	28,963	(90,756)	(61,793)
Changes, net of taxes	-	43,337	(7,729)	35,608
Balance at March 31, 2017	-	72,300	(98,485)	(26,185)
Balance at December 31, 2017	-	148,873	(70,572)	78,301
Impact of adopting K-IFRS No.1109	90,484	(148,873)	-	(58,389)
Balance at January 1, 2018	90,484	-	(70,572)	19,912
Changes, net of taxes	(20,139)	-	(9,025)	(29,164)
Balance at March 31, 2018	<u>₩ 70,345</u>	<u>-</u>	<u>(79,597)</u>	<u>(9,252)</u>

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19. Operating Revenue

Disaggregated operating revenues according to timing and uncertainty of the Company's revenue and future cash flows are as follows:

(In millions of won)

	<u>March 31, 2018</u>	<u>March 31, 2017</u>
Products transferred at a point in time:		
Product revenue	₩ 33,273	46,593
Services transferred over time:		
Wireless service revenue(*1)	2,568,880	2,662,271
Cellular interconnection revenue	150,872	172,669
Other revenue(*2)	235,513	206,423
	<u>2,955,265</u>	<u>3,041,363</u>
	₩ <u>2,988,538</u>	<u>3,087,956</u>

(*1) Considerations received from subscribers in connection with wireless voice and data transmission services is included.

(*2) Revenue from IoT solutions as well as other miscellaneous cellular services is included.

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

20. Other Operating Expenses

Details of other operating expenses for the three-month periods ended March 31, 2018 and 2017 are as follows:

(In millions of won)

	<u>For the three-month period ended</u>	
	<u>March 31, 2018</u>	<u>March 31, 2017</u>
Communication	₩ 7,033	6,367
Utilities	57,816	56,595
Taxes and dues	4,104	4,472
Repair	53,376	50,557
Research and development	71,211	71,249
Training	6,895	4,883
Bad debt for accounts receivable - trade	4,486	1,245
Other	11,958	11,294
	₩ <u>216,879</u>	<u>206,662</u>

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21. Other Non-operating Income and Expenses

Details of other non-operating income and expenses for the three-month periods ended March 31, 2018 and 2017 are as follows:

(In millions of won)

	For the three-month period ended	
	March 31, 2018	March 31, 2017
Other Non-operating Income:		
Gain on disposal of property and equipment and intangible assets	₩ 114	4,012
Others	12,011	3,164
	<u>₩ 12,125</u>	<u>7,176</u>
Other Non-operating Expenses:		
Loss on disposal of property and equipment and intangible assets	₩ 390	1,760
Donations	15,939	12,126
Bad debt for accounts receivable - other	723	2,697
Others	1,126	1,545
	<u>₩ 18,178</u>	<u>18,128</u>

22. Finance Income and Costs

(1) Details of finance income and costs for the three-month periods ended March 31, 2018 and 2017 are as follows:

(In millions of won)

	For the three-month period ended	
	March 31, 2018	March 31, 2017
Finance Income:		
Interest income	₩ 11,594	20,308
Gain on sale of accounts receivable - other	3,749	5,025
Dividends	161,242	97,811
Gain on foreign currency transactions	3,376	1,203
Gain on foreign currency translations	16	30
Gain on disposal of long-term investment securities	-	2,267
Gain on financial assets at FVTPL	992	1,069
Gain on valuation of derivatives	319	355
	<u>₩ 181,288</u>	<u>128,068</u>

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22. Finance Income and Costs, Continued

- (1) Details of finance income and costs for the three-month periods ended March 31, 2018 and 2017 are as follows, Continued:

(In millions of won)

	For the three-month period ended	
	March 31, 2018	March 31, 2017
Finance Costs:		
Interest expenses	₩ 60,933	61,651
Loss on foreign currency transactions	5,531	3,081
Loss on foreign currency translations	64	1,767
Loss on disposal of long-term investment securities	-	49
Loss on financial assets at FVTPL	200	-
Loss on financial liabilities at FVTPL	288	331
	₩ 67,016	66,879

- (2) Details of interest income included in finance income for the three-month periods ended March 31, 2018 and 2017 are as follows:

(In millions of won)

	For the three-month period ended	
	March 31, 2018	March 31, 2017
Interest income on cash equivalents and short-term financial instruments	₩ 3,394	3,008
Interest income on installment receivables and others	8,200	17,300
	₩ 11,594	20,308

- (3) Details of interest expenses included in finance costs for the three-month periods ended March 31, 2018 and 2017 are as follows:

(In millions of won)

	For the three-month period ended	
	March 31, 2018	March 31, 2017
Interest expense on borrowings	₩ 1,720	1,404
Interest expense on debentures	45,828	44,379
Others	13,385	15,868
	₩ 60,933	61,651

- (4) Details of impairment losses on financial assets for the three-month periods ended March 31, 2018 and 2017 are as follows:

(In millions of won)

	For the three-month period ended	
	March 31, 2018	March 31, 2017
Accounts receivable – trade	₩ 4,486	1,245
Other receivables	723	2,697
	₩ 5,209	3,942

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23. 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 expenses relating to origination and reversal of temporary differences.

24. Earnings per Share

(1) Basic earnings per share

1) Basic earnings per share for the three-month periods ended March 31, 2018 and 2017 are calculated as follows:

(In millions of won, except for share data)

	For the three-month period ended	
	March 31, 2018	March 31, 2017
Profit for the period	₩ 364,427	388,206
Weighted average number of common shares outstanding	70,609,160	70,609,160
Basic earnings per share (in won)	₩ 5,161	5,498

2) The weighted average number of common shares outstanding for the three-month periods ended March 31, 2018 and 2017 are calculated as follows:

(In shares)

	For the three-month period ended	
	March 31, 2018	March 31, 2017
Issued common shares at January 1	80,745,711	80,745,711
Effect of treasury shares	(10,136,551)	(10,136,551)
Weighted average number of common shares outstanding at March 31	70,609,160	70,609,160

(2) Diluted earnings per share

For the three-month periods ended March 31, 2018 and 2017, diluted earnings per share are the same as basic earnings per share as there are no dilutive potential common shares.

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25. Categories of Financial Instruments

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

(In millions of won)

	March 31, 2018				
	Financial assets at FVTPL	Equity instruments at FVOCI	Financial assets at amortized cost	Derivatives hedging instrument	Total
Cash and cash equivalents	₩ -	-	1,296,107	-	1,296,107
Financial instruments	-	-	84,882	-	84,882
Short-term investment securities	47,407	-	-	-	47,407
Long-term investment securities(*)	68,936	629,074	-	-	698,010
Accounts receivable - trade	-	-	1,518,649	-	1,518,649
Loans and other receivables	948,801	-	682,939	-	1,631,740
Derivative financial assets	9,373	-	-	2,769	12,142
	₩ 1,074,517	629,074	3,582,577	2,769	5,288,937

(*) The Company designated ₩629,074 million of equity instrument that is not held for trading as financial assets measured at FVOCI.

(In millions of won)

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

SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

For the three-month periods ended March 31, 2018 and 2017

25. Categories of Financial Instruments, Continued

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

(In millions of won)

		March 31, 2018		
	Financial liabilities at FVTPL	Financial liabilities at amortized cost	Derivatives hedging instrument	Total
Derivative financial liabilities	₩ -	-	41,878	41,878
Borrowings	-	54,366	-	54,366
Debentures(*)	60,566	5,686,098	-	5,746,664
Accounts payable - other and others	-	4,163,660	-	4,163,660
	₩ 60,566	9,904,124	41,878	10,006,568

(*) Debentures classified as financial liabilities at FVTPL as of March 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.

(In millions of won)

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

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

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26. Financial Risk Management

(1) Financial risk management

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

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

1) Market risk

(i) Currency risk

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

Monetary assets and liabilities denominated in foreign currencies as of March 31, 2018 are as follows:

(In millions of won, thousands of foreign currencies)

	Assets		Liabilities	
	Foreign currencies	Won translation	Foreign currencies	Won translation
USD	69,428 ₩	74,045	1,446,155 ₩	1,542,324
EUR	11,601	15,220	-	-
JPY	15,284	153	-	-
Others	-	598	-	35
	₩	<u>90,016</u>	₩	<u>1,542,359</u>

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

As of March 31, 2018, a hypothetical change in exchange rates by 10% would have increased (reduced) the Company's income before income taxes as follows:

(In millions of won)

	If increased by 10%	If decreased by 10%
USD	₩ 7,359	(7,359)
EUR	1,522	(1,522)
JPY	15	(15)
Others	56	(56)
	₩ <u>8,952</u>	<u>(8,952)</u>

SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

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26. Financial Risk Management, Continued

(1) Financial risk management, Continued

1) Market risk, Continued

(ii) Interest rate risk

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

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

As of March 31, 2018, the floating-rate debentures amount to ₩319,950 million and the Company has entered into interest rate swaps to hedge interest rate risk related to the floating-rate debentures. As a result, income before income taxes for the three-month period ended March 31, 2018 would not have been affected by the changes in interest rates of floating-rate borrowings and debentures.

2) Credit risk

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

(In millions of won)

	<u>March 31, 2018</u>	<u>December 31, 2017</u>
Cash and cash equivalents	₩ 1,296,063	880,541
Financial instruments	84,882	94,382
Investment securities	900	900
Accounts receivable – trade	1,518,649	1,520,209
Loans and other receivables	1,631,740	1,524,714
Derivative financial assets	12,142	30,608
	<u>₩ 4,544,376</u>	<u>4,051,354</u>

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet his/her contractual obligations.

To manage credit risk, the Company evaluates the credit worthiness of each customer or counterparty considering the party's financial information, its own trading records and other factors. Based on such information, the Company establishes credit limits for each customer or counterparty.

The Company establishes an allowance for doubtful accounts that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been expected to occur. The collective loss allowance is determined based on historical data of collection statistics for similar financial assets. Also, the Company's credit risk can arise from transactions with financial institutions related to its cash and cash equivalents, financial instruments and derivatives. To minimize such risk, the Company has a policy to deal only with financial institutions with high credit ratings. The amount of maximum exposure to credit risk of the Company is the carrying amount of financial assets as of March 31, 2018.

26. Financial Risk Management, Continued

(1) Financial risk management, Continued

SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

For the three-month periods ended March 31, 2018 and 2017

3) Liquidity risk

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

Contractual maturities of financial liabilities as of March 31, 2018 are as follows:

(In millions of won)

	Carrying amount	Contractual cash flows	Less than 1 year	1 - 5 years	More than 5 years
Borrowings(*)	₩ 54,366	58,074	13,293	44,781	-
Debentures(*)	5,746,664	6,881,307	1,146,391	2,530,803	3,204,113
Accounts payable - other and others	4,163,660	4,302,387	3,121,486	874,940	305,961
	<u>₩ 9,964,690</u>	<u>11,241,768</u>	<u>4,281,170</u>	<u>3,450,524</u>	<u>3,510,074</u>

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

(*) Includes interest payables.

As of March 31, 2018, periods in which cash flows from cash flow hedge derivatives are expected to occur are as follows:

(In millions of won)

	Carrying amount	Contractual cash flows	Less than 1 year	1 - 5 years	More than 5 years
Assets	₩ 2,769	(4,825)	7,179	25,617	(37,621)
Liabilities	(41,878)	(42,562)	(27,512)	(15,050)	-
	<u>₩ (39,109)</u>	<u>(47,387)</u>	<u>(20,333)</u>	<u>10,567</u>	<u>(37,621)</u>

(2) Capital management

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

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

SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

For the three-month periods ended March 31, 2018 and 2017

26. Financial Risk Management, Continued

(2) Capital management, Continued

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

(In millions of won)

		<u>March 31, 2018</u>	<u>December 31, 2017</u>
Total liabilities	₩	11,371,884	10,550,131
Total equity		16,415,450	15,007,391
Debt-equity ratios		69.28%	70.30%

(3) Fair value

1) Fair value and carrying amount of financial assets and liabilities including fair value hierarchy as of March 31, 2018 are as follows:

(In millions of won)

		<u>March 31, 2018</u>				
		<u>Carrying amount</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets that are measured at fair value:						
FVTPL	₩	1,074,517	-	1,005,581	68,936	1,074,517
Derivative financial assets		2,769	-	2,769	-	2,769
FVOCI		629,074	561,270	-	67,804	629,074
	₩	<u>1,706,360</u>	<u>561,270</u>	<u>1,008,350</u>	<u>136,740</u>	<u>1,706,360</u>
Financial liabilities that are measured at fair value:						
FVTPL	₩	60,566	-	60,566	-	60,566
Derivative financial liabilities		41,878	-	41,878	-	41,878
	₩	<u>102,444</u>	<u>-</u>	<u>102,444</u>	<u>-</u>	<u>102,444</u>
Financial liabilities that are not measured at fair value:						
Borrowings	₩	54,366	-	55,141	-	55,141
Debentures		5,686,098	-	5,919,232	-	5,919,232
Long-term payables - other		1,334,238	-	1,410,956	-	1,410,956
	₩	<u>7,074,702</u>	<u>-</u>	<u>7,385,329</u>	<u>-</u>	<u>7,385,329</u>

SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

For the three-month periods ended March 31, 2018 and 2017

26. Financial Risk Management, Continued

(3) Fair value, Continued

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

(In millions of won)

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

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

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

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

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Notes to the Condensed Separate Interim Financial Statements

For the three-month periods ended March 31, 2018 and 2017

26. Financial Risk Management, Continued

(3) Fair value, Continued

Interest rates used by the Company for the fair value measurement as of March 31, 2018 are as follows:

	<u>Interest rate</u>
Derivative instruments	1.51% ~ 2.36%
Borrowings and debentures	2.59% ~ 2.63%
Long-term payables - other	2.34% ~ 2.69%

3) There have been no transfers between Level 2 and Level 1 for the three-month period ended March 31, 2018 and changes of financial assets classified as Level 3 for the three-month period ended March 31, 2018 are as follows:

(In millions of won)

	<u>Balance at January 1, 2018</u>	<u>Impact of adopting K-IFRS No. 1109</u>	<u>Loss for the year</u>	<u>Acquisition</u>	<u>Disposal</u>	<u>Balance at March 31, 2018</u>
Available-for-sale financial assets	₩ 2,546	(2,546)	-	-	-	-
FVTPL	-	71,139	(125)	90	(2,168)	68,936
FVOCI	-	67,804	-	-	-	67,804
	<u>₩ 2,546</u>	<u>136,397</u>	<u>(125)</u>	<u>90</u>	<u>(2,168)</u>	<u>136,740</u>

(4) Enforceable master netting agreement or similar agreement

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

(In millions of won)

	<u>March 31, 2018</u>				
	<u>Gross financial instruments recognized</u>	<u>Amount offset</u>	<u>Net financial instruments presented on the statement of financial position</u>	<u>Relevant financial instruments not offset</u>	<u>Net amount</u>
Financial assets:					
Derivatives(*)	₩ 11,588	-	11,588	(11,588)	-
Accounts receivable – trade and others	<u>86,404</u>	<u>(86,128)</u>	<u>276</u>	<u>-</u>	<u>276</u>
	<u>₩ 97,992</u>	<u>(86,128)</u>	<u>11,864</u>	<u>(11,588)</u>	<u>276</u>
Financial liabilities:					
Derivatives(*)	₩ 22,494	-	22,494	(11,588)	10,906
Accounts payable – other and others	<u>86,128</u>	<u>(86,128)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>₩ 108,622</u>	<u>(86,128)</u>	<u>22,494</u>	<u>(11,588)</u>	<u>10,906</u>

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For the three-month periods ended March 31, 2018 and 2017

26. Financial Risk Management, Continued

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

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

(In millions of won)

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

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

27. Related Parties and Others

(1) List of related parties

Relationship	Company
Ultimate Controlling Entity	SK Holdings Co., Ltd.
Subsidiaries	SK Planet Co., Ltd. and 42 others(*)
Joint ventures	Dogus Planet, Inc. and 3 others
Associates	SK hynix Inc. and 39 others
Others	The Ultimate Controlling Entity's other subsidiaries and associates, etc.

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For the three-month periods ended March 31, 2018 and 2017

27. Related Parties and Others

(1) List of related parties

(*) As of March 31, 2018, subsidiaries of the Company are as follows:

	Company	Ownership percentage(%)(*1)	Types of business
Subsidiaries owned by the Company	SK Telink Co., Ltd.	100.0	Telecommunication and MVNO(Mobile Virtual Network Operator) service
	SK Communications Co., Ltd.	100.0	Internet website services
	SK Broadband Co., Ltd.	100.0	Telecommunication services
	PS&Marketing Corporation	100.0	Communications device retail business
	SERVICEACE Co., Ltd.	100.0	Customer center management service
	SERVICE TOP Co., Ltd.	100.0	Customer center management service
	Network O&S Co., Ltd.	100.0	Base station maintenance service
	SK Telecom China Holdings Co., Ltd.	100.0	Investment
	SK Global Healthcare Business Group Ltd.	100.0	Investment
	SKT Vietnam PTE. Ltd.	73.3	Telecommunication services
	YTK Investment Ltd.	100.0	Investment
	Atlas Investment	100.0	Investment
	SKT Americas, Inc.	100.0	Information gathering and consulting
	SK techx Co., Ltd.	100.0	System software development and supply
	One Store Co., Ltd.	65.5	Telecommunication services
	SK Planet Co., Ltd.	98.1	Telecommunication services
	IRIVER LIMITED	45.9	Manufacturing of media and audio equipment
	FSK L&S Co., Ltd.(*2)	60.0	Freight forwarding and logistics consulting
	SK Telecom Japan Inc.(*3)	100.0	Information gathering and consulting
	Subsidiaries owned by SK Planet Co., Ltd.	SK m&service Co.,Ltd.	100.0
SK Planet Japan, K. K.		79.5	Digital contents sourcing service
SK Planet Global PTE. Ltd.		100.0	Digital contents sourcing service
SKP GLOBAL HOLDINGS PTE. LTD.		100.0	Investment
SKP America LLC.		100.0	Digital contents sourcing service
shopkick Management Company, Inc.		100.0	Investment
shopkick, Inc.		100.0	Reward points-based in-store shopping app development
11street (Thailand) Co., Ltd.		100.0	Electronic commerce
Hello Nature Ltd.		100.0	Retail of agro-fisheries and livestock
Subsidiaries owned by IRIVER LIMITED		iriver Enterprise Ltd.	100.0
	iriver Inc.	100.0	Sales and marketing in North America
	iriver China Co., Ltd.	100.0	Sales and manufacturing of MP3 and 4 in China
	Dongguan iriver Electronics Co., Ltd.	100.0	Sales and Manufacturing of e-book in China
	groovers Japan Co., Ltd.	100.0	Digital music contents sourcing and distribution service
	S.M. LIFE DESIGN COMPANY JAPAN INC.	100.0	Selling of goods in Japan
	S.M. Mobile Communications JAPAN Inc.	100.0	Digital contents service
	groovers Inc.(*4)	100.0	Selling of contents and MQS album
Subsidiaries owned by SK Telink Co., Ltd.	NSOK Co., Ltd.	100.0	Security systems service
Subsidiaries owned by SK techx Co., Ltd.	K-net Culture and Contents Venture Fund	59.0	Capital investing in startups

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For the three-month periods ended March 31, 2018 and 2017

27. Related Parties and Others, Continued

(1) List of related parties, Continued

(*) As of March 31, 2018, subsidiaries of the Company are as follows, Continued:

	Company	Ownership percentage(%)(*1)	Types of business
Subsidiaries owned	Home & Service Co., Ltd.	100.0	Operation of information and communication facility
by SK Broadband	SK stoa Co., Ltd.	100.0	Other telecommunication retail business
Co., Ltd.			
Subsidiary	FSK L&S(Shanghai) Co., Ltd.	66.0	Transit
owned by FSK			
L&S Co., Ltd.			
Others(*5)	SK Telecom Innovation Fund, L.P.	100.0	Investment
	SK Telecom China Fund I L.P.	100.0	Investment

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

(*2) The Company acquired FSK L&S Co., Ltd. from SK Holdings Co., Ltd. during the three-month period ended March 31, 2018.

(*3) SK Telecom Japan Inc. was established during the three-month period ended March 31, 2018.

(*4) groovers Inc. became a subsidiary of IRIVER LIMITED as a result of the IRIVER LIMITED's acquisition of additional ownership interests during the three-month period ended March 31, 2018.

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

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

(2) Compensation for the key management

The Company considers registered directors who have substantial role and responsibility in planning, operations, and relevant controls of the business as key management. The compensation given to such key management for the three-month periods ended March 31, 2018 and 2017 are as follows:

(In millions of won)

	For the three-month period ended	
	March 31, 2018	March 31, 2017
Salaries	₩ 2,737	1,168
Defined benefits plan expenses	557	7
Share option	139	12
	₩ 3,433	1,187

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

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27. Related Parties and Others, Continued

(3) Transactions with related parties for the three-month periods ended March 31, 2018 and 2017 are as follows:

(In millions of won)

Scope	Company	For the three-month period ended March 31, 2018			
		Operating revenue and others	Operating expenses and others	Acquisition of property and equipment	
Ultimate Controlling Entity	SK Holdings Co.,Ltd. (*1)	₩ 2,898	259,282	1,526	
Subsidiaries	SK Broadband Co., Ltd. PS&Marketing Corporation(*2)	29,929	130,384	-	
	Network O&S Co., Ltd.	3,250	367,057	62	
	SK Planet Co., Ltd.	992	47,042	-	
	SK Telink Co., Ltd.	6,348	7,392	-	
	SK Telink Co., Ltd.	14,690	5,455	-	
	SERVICEACE Co., Ltd.	1,933	33,209	-	
	SERVICE TOP Co., Ltd.	2,144	39,806	-	
	SK techx Co., Ltd.	1,384	46,222	472	
	Others	6,265	11,779	1,844	
			<u>66,935</u>	<u>688,346</u>	<u>2,378</u>
	Associates	F&U Credit information Co., Ltd.	394	11,461	-
HappyNarae Co., Ltd.		23	2,724	4,122	
SK hynix Inc.(*3)		152,035	28	-	
KEB HanaCard Co., Ltd.		4,032	4,031	-	
Others		291	14,681	-	
		<u>156,775</u>	<u>32,925</u>	<u>4,122</u>	
Other	SK Engineering & Construction Co., Ltd.	549	-	-	
	SK Innovation Co., Ltd.	2,003	181	-	
	SK Networks Co., Ltd.	2,741	4,435	-	
	SK Networks Service Co., Ltd.	152	11,686	6	
	SK Telesys Co., Ltd.	48	207	6,265	
	SK TNS CO., LTD.	25	393	12,149	
	Others	3,582	10,115	544	
		<u>9,100</u>	<u>27,017</u>	<u>18,964</u>	
		<u>₩ 235,708</u>	<u>1,007,570</u>	<u>26,990</u>	

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

(*2) Operating expenses and others include ₩216,238 million paid to PS&Marketing Corporation relating to purchase of accounts receivables resulting from sale of handsets.

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

SK TELECOM CO., LTD.

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For the three-month periods ended March 31, 2018 and 2017

27. Related Parties and Others, Continued

(3) Transactions with related parties for the three-month periods ended March 31, 2018 and 2017 are as follows, Continued:

(In millions of won)

Scope	Company	For the three-month period ended March 31, 2017		
		Operating revenue and others	Operating expenses and others	Acquisition of property and equipment
Ultimate				
Controlling Entity	SK Holdings Co.,Ltd. (*1)	₩ 2,680	249,909	25,086
Subsidiaries	SK Broadband Co., Ltd. PS&Marketing Corporation(*2)	27,486	145,117	88
	Network O&S Co., Ltd.	4,050	337,204	-
	SK Planet Co., Ltd.	758	51,988	2,519
	SK Telink Co., Ltd.	7,119	5,761	-
	SK Telink Co., Ltd.	14,473	4,485	-
	SERVICEACE Co., Ltd.	1,976	32,695	-
	SERVICE TOP Co., Ltd.	2,129	34,326	-
	SK techx Co., Ltd.	783	47,762	-
	Others	6,771	11,763	54
		<u>65,545</u>	<u>671,101</u>	<u>2,661</u>
Associates	F&U Credit information Co., Ltd.	406	12,238	-
	HappyNarae Co., Ltd.	-	5,589	2,252
	SK hynix Inc.(*3)	91,520	32	-
	KEB HanaCard Co., Ltd.	4,597	3,686	-
	Others	287	21,069	-
		<u>96,810</u>	<u>42,614</u>	<u>2,252</u>
Other	SK Engineering & Construction Co., Ltd.	618	-	-
	SK Innovation Co., Ltd.	10,677	181	-
	SK Networks Co., Ltd.	2,786	4,114	-
	SK Networks Service Co., Ltd.	-	11,845	-
	SK Telesys Co., Ltd.	55	246	8,720
	SK TNS CO., LTD.	25	247	15,617
	Others	2,147	11,625	75
		<u>16,308</u>	<u>28,258</u>	<u>24,412</u>
		<u>₩ 181,343</u>	<u>991,882</u>	<u>54,411</u>

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

(*2) Operating expenses and others include ₩158,105 million paid to PS&Marketing Corporation relating to purchase of accounts receivables resulting from sale of handsets.

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

SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

For the three-month periods ended March 31, 2018 and 2017

27. Related Parties and Others, Continued

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

(In millions of won)

Scope		Company	March 31, 2018			
			Accounts receivable		Accounts payable	
			Loans	Accounts receivable-trade and others	Accounts payable - other and others	
Ultimate Entity	Controlling Subsidiaries	SK Holdings Co., Ltd.	₩	-	11,122	217,708
		SK Broadband Co., Ltd.		-	10,362	43,878
		PS&Marketing Corporation		-	265	102,011
		Network O&S Co., Ltd.		-	51	20,118
		SK Planet Co., Ltd.		-	4,474	11,432
		SK Telink Co., Ltd.		-	9,316	3,714
		SERVICE ACE Co., Ltd.		-	206	19,389
		SERVICE TOP Co., Ltd.		-	143	19,195
		SK techx Co., Ltd.		-	1,329	21,853
		One Store Co., Ltd.		-	1,135	23,720
		SK m&service Co.,Ltd.		-	3,071	5,106
		Others		-	768	14,420
						<u>31,120</u>
Associates		HappyNarae Co., Ltd.		-	-	1,662
		SK hynix Inc.		-	151,110	-
		Wave City Development Co., Ltd.		-	38,412	-
		Daehan Kanggun BcN Co., Ltd.(*)		22,147	-	-
		KEB HanaCard Co., Ltd.		-	1,360	10,040
		S.M. Culture & Contents Co.,Ltd.		-	-	2,138
		Others		611	2,123	1,068
			<u>22,758</u>	<u>193,005</u>	<u>14,908</u>	
Other		SK Engineering and Construction Co., Ltd.		-	187	-
		SK Networks Co., Ltd.		-	2,690	831
		SK Networks Services Co., Ltd.		-	-	7,527
		SK Telesys Co., Ltd.		-	26	1,340
		SK Innovation Co., Ltd.		-	2,296	173
		SK TNS Co., Ltd.		-	8	13,835
		Others		-	1,869	7,930
				-	<u>7,076</u>	<u>31,636</u>
Total		₩	<u>22,758</u>	<u>242,323</u>	<u>549,088</u>	

(*) As of March 31, 2018, the Company recognized full loan loss allowance for the balance of loans to Daehan Kanggun BcN Co., Ltd.

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Notes to the Condensed Separate Interim Financial Statements

For the three-month periods ended March 31, 2018 and 2017

27. Related Parties and Others, Continued

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

(In millions of won)

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

(*) As of December 31, 2017, the Company recognized full loan loss allowance for the balance of loans to Daehan Kanggun BcN Co., Ltd.

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Notes to the Condensed Separate Interim Financial Statements

For the three-month periods ended March 31, 2018 and 2017

28. Commitments and Contingencies

(1) Accounts receivables from sale of handsets

The dealers of the Company sell handsets to the Company's wireless subscribers on an installment basis. During the three-month period ended March 31, 2018, the Company entered into a comprehensive agreement to purchase the accounts receivables from handset sales with 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 ₩1,050,658 million as of March 31, 2018 which the Company purchased according to the relevant comprehensive agreement are recognized as accounts receivable – other and long-term accounts receivable – other.

(2) Legal claims and litigations

As of March 31, 2018, the Company is involved in various legal claims and litigation. Provisions recognized in relation to these claims and litigation is immaterial. In connection with these legal claims and litigation for which no provision was recognized, management does not believe the Company has a present obligation, nor is it expected any of these claims or litigation will have a significant impact on the Company's financial position or operating results in the event an outflow of resources is ultimately necessary.

SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

For the three-month periods ended March 31, 2018 and 2017

29. Statements of Cash Flows

(1) Adjustments for income and expenses from operating activities for the three-month periods ended March 31, 2018 and 2017 are as follows:

(In millions of won)

	For the three-month period ended	
	March 31, 2018	March 31, 2017
Gain on foreign currency translations	₩ (16)	(30)
Interest income	(11,594)	(20,308)
Dividends	(161,242)	(97,811)
Gain relating to financial assets at FVTPL	(992)	(1,069)
Gain on disposal of long-term investment securities	-	(2,267)
Gain on disposal of property and equipment and intangible assets	(114)	(4,012)
Gain on valuation of derivatives	(319)	(355)
Gain on sale of accounts receivable - other	(3,749)	(5,025)
Loss on foreign currency translations	64	1,767
Bad debt for accounts receivable - trade	4,486	1,245
Bad debt for accounts receivable - other	723	2,697
Loss on disposal of long-term investments securities	-	49
Loss relating to financial assets at FVTPL	200	-
Depreciation and amortization	636,161	613,853
Loss on disposal of property and equipment and intangible assets	390	1,760
Interest expenses	60,933	61,651
Loss relating to financial liabilities at FVTPL	288	331
Retirement benefit expenses	9,642	9,446
Share option	139	12
Income tax expense	113,049	101,427
Other expenses	2,685	1,203
	₩ 650,734	664,564

SK TELECOM CO., LTD.

Notes to the Condensed Separate Interim Financial Statements

For the three-month periods ended March 31, 2018 and 2017

29. Statements of Cash Flows, Continued

(2) Changes in assets and liabilities from operating activities for the three-month periods ended March 31, 2018 and 2017 are as follows:

(In millions of won)

	For the three-month period ended	
	March 31, 2018	March 31, 2017
Accounts receivable - trade	₩ (2,941)	60,787
Accounts receivable - other	(84,456)	176,749
Advance payments	2,424	3,883
Prepaid expenses	53,220	4,577
Inventories	8,287	7,572
Long-term accounts receivable - other	154,185	80,062
Long-term prepaid expenses	(26,220)	2,074
Guarantee deposits	2,901	2,605
Accounts payable - other	(186,630)	(347,018)
Advanced receipts	-	(3,387)
Withholdings	182,518	61,510
Deposits received	(753)	(2,986)
Accrued expenses	(140,102)	(99,079)
Unearned revenue	-	(231)
Provisions	(264)	506
Long-term provisions	748	(2,988)
Plan assets	5,731	2,521
Retirement benefit payment	(4,457)	(3,984)
Contract liabilities	11,994	-
Others	(3,346)	87
	₩ (27,161)	(56,740)

(3) Significant non-cash transactions for the three-month periods ended March 31, 2018 and 2017 are as follows:

(In millions of won)

	March 31, 2018	March 31, 2017
Decrease in accounts payable - other relating to the acquisition of property and equipment and intangible assets	(389,325)	(362,952)

30. Subsequent Events

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