

SK TELECOM CO., LTD. AND SUBSIDIARIES

Condensed Consolidated Interim Financial Statements

(Unaudited)

March 31, 2018 and 2017

(With Independent Auditors' Review Report Thereon)

Contents

	Page
Independent Auditors' Review Report	1
Condensed Consolidated Statements of Financial Position	3
Condensed Consolidated Statements of Income	5
Condensed Consolidated Statements of Comprehensive Income	6
Condensed Consolidated Statements of Changes in Equity	7
Condensed Consolidated Statements of Cash Flows	8
Notes to the Condensed Consolidated Interim Financial Statements	10

Independent Auditors' Review Report

Based on a report originally issued in Korean

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

Reviewed financial statements

We have reviewed the accompanying condensed consolidated interim financial statements of SK Telecom Co., Ltd. and its subsidiaries (the "Group"), which comprise the condensed consolidated statement of financial position as of March 31, 2018, the related condensed consolidated 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 consolidated interim financial statements in accordance with Korean International Financial Reporting Standards ("K-IFRS") No.1034, *Interim Financial Reporting*, and for such internal controls as management determines necessary to enable the preparation of condensed consolidated interim financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

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

Conclusion

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

Emphasis of matter

As a matter that does not have an impact on our review conclusion, we highlight the attention of the users of the above-mentioned financial statements of the Group for the following matter described in Note 3 to the condensed consolidated financial statements. The Group has initially adopted K-IFRS No. 1109 and 1115 for the year beginning on January 1, 2018, and the Group has taken an exemption not to restate the condensed consolidated financial statements as of December 31, 2017 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 consolidated statement of financial position of the Group as of December 31, 2017, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, which are not accompanying this report, were audited by us in accordance with Korean Standards on Auditing and our report thereon, dated February 23, 2018, expressed an unqualified opinion. The accompanying condensed consolidated statement of financial position of the Group as of December 31, 2017, presented for comparative purposes, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

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

KPMG Samjong Accounting Corp.
Seoul, Korea
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 consolidated interim financial statements and notes thereto. Accordingly, the readers of the review report should understand that the above review report has not been updated to reflect the impact of such subsequent events or circumstances, if any.</p>

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

As of March 31, 2018 and December 31, 2017

<i>(In millions of won)</i>	<u>Note</u>	<u>March 31, 2018</u>	<u>December 31, 2017</u>
Assets			
Current Assets:			
Cash and cash equivalents	3,27,28	₩ 1,885,744	1,457,735
Short-term financial instruments	3,27,28,30	566,504	616,780
Short-term investment securities	3,9,27,28	77,407	144,386
Accounts receivable – trade, net	3,5,27,28,29	2,090,501	2,126,007
Short-term loans, net	3,5,27,28,29	78,892	62,830
Accounts receivable – other, net	3,5,27,28,29,30	1,510,693	1,260,835
Prepaid expenses	3,6	1,850,764	197,046
Contract assets	3,7	98,524	-
Inventories, net	8	254,483	272,403
Advance payments and other	3,5,6,27,28,29	57,786	63,777
Total Current Assets		8,471,298	6,201,799
Non-Current Assets:			
Long-term financial instruments	3,27,28	1,222	1,222
Long-term investment securities	3,9,27,28	1,096,656	887,007
Investments in associates and joint ventures	11	10,064,015	9,538,438
Property and equipment, net	12,29,30	9,648,556	10,144,882
Goodwill		1,917,813	1,915,017
Intangible assets, net	13	3,452,451	3,586,965
Long-term contract assets	3,7	26,638	-
Long-term loans, net	3,5,27,28,29	49,812	50,874
Long-term accounts receivable - other	3,5,27,28,30	130,932	287,048
Long-term prepaid expenses	3,6	823,925	90,834
Guarantee deposits	3,5,27,28,29	288,211	292,590
Long-term derivative financial assets	3,27,28	12,512	253,213
Defined benefit assets	17	22,999	45,952
Deferred tax assets	3,25	81,814	88,132
Other non-current assets	5,27,28	45,534	44,696
Total Non-Current Assets		27,663,090	27,226,870
Total Assets		₩ 36,134,388	33,428,669

See accompanying notes to the condensed consolidated interim financial statements.

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

As of March 31, 2018 and December 31, 2017

<i>(In millions of won)</i>	<u>Note</u>	<u>March 31, 2018</u>	<u>December 31, 2017</u>
Liabilities and Shareholders' Equity			
Current Liabilities:			
Accounts payable - trade	27,28,29	243,520	351,711
Accounts payable - other	27,28,29	1,825,389	1,867,074
Short-term borrowings	14,27,28 ₩	30,000	130,000
Current installments of long-term debt, net	14,27,28	1,389,367	1,530,948
Current installments of long-term payables - other	15,27,28	298,251	302,703
Receipts in advance	3	-	161,266
Withholdings	3,27,28,29	1,410,854	961,501
Contract liabilities	3,7	117,932	-
Accrued expenses	27,28	1,171,060	1,327,906
Income tax payable	25	310,372	219,791
Unearned revenue	3	-	175,732
Derivative financial liabilities	27,28	33,899	28,406
Provisions	3,16	53,055	52,057
Other current liabilities		13	28
Total Current Liabilities		<u>6,883,712</u>	<u>7,109,123</u>
Non-Current Liabilities:			
Debentures, excluding current installments, net	14,27,28	6,171,892	5,596,570
Long-term borrowings, excluding current installments, net	14,27,28	161,021	211,486
Long-term payables - other, excluding current installments, net	15,27,28	1,054,139	1,346,763
Long-term unearned revenue	3	-	7,052
Long-term contract liabilities	3,7	18,401	-
Defined benefit liabilities	17	83,540	61,960
Long-term derivative financial liabilities	27,28	11,035	11,064
Long-term provisions	16	32,409	32,669
Deferred tax liabilities	3,25	1,685,042	978,693
Other non-current liabilities	3,27,28	45,374	44,094
Total Non-Current Liabilities		<u>9,262,853</u>	<u>8,290,351</u>
Total Liabilities		<u>16,146,565</u>	<u>15,399,474</u>
Shareholders' Equity			
Share capital	1,18	44,639	44,639
Capital surplus and others	10,18,19	196,821	196,281
Retained earnings	3,20	19,842,372	17,835,946
Reserves	3,21	(292,770)	(234,727)
Equity attributable to owners of the Parent Company		<u>19,791,062</u>	<u>17,842,139</u>
Non-controlling interests		<u>196,761</u>	<u>187,056</u>
Total Shareholders' Equity		<u>19,987,823</u>	<u>18,029,195</u>
Total Liabilities and Shareholders' Equity	₩	<u>36,134,388</u>	<u>33,428,669</u>

See accompanying notes to the condensed consolidated interim financial statements.

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

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

<i>(In millions of won except for per share data)</i>	Note	March 31, 2018	March 31, 2017
Operating revenue:	3,4,29		
Revenue		₩ 4,181,537	4,234,365
Operating expenses:	3,29		
Labor	3	549,971	462,841
Commissions	3	1,262,099	1,363,336
Depreciation and amortization	4	785,979	761,716
Network interconnection		214,960	221,080
Leased line		80,661	87,816
Advertising	3	100,117	85,428
Rent		131,613	133,071
Cost of goods that have been resold		410,859	402,162
Others	22	319,802	306,413
		<u>3,856,061</u>	<u>3,823,863</u>
Operating profit	3,4	325,476	410,502
Finance income	4,24	49,797	52,541
Finance costs	4,24	(84,879)	(91,314)
Gains related to investments in associates and joint ventures, net	4,11	626,643	379,961
Other non-operating income	4,23	16,920	8,784
Other non-operating expenses	4,23	(26,967)	(36,254)
Profit before income tax	3,4	906,990	724,220
Income tax expense	3,25	213,618	140,739
Profit for the period	3	₩ 693,372	583,481
Attributable to :			
Owners of the Parent Company		₩ 694,959	589,134
Non-controlling interests	3	(1,587)	(5,653)
Earnings per share:	26		
Basic and diluted earnings per share (in won)		<u>₩ 9,842</u>	<u>8,344</u>

See accompanying notes to the condensed consolidated interim financial statements.

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

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

(In millions of won)

	Note	March 31, 2018	March 31, 2017
Profit for the period		₩ 693,372	583,481
Other comprehensive income (loss):			
Items that will never be reclassified to profit or loss, net of taxes:			
Remeasurement of defined benefit liabilities	17	(13,150)	(11,287)
Valuation loss on financial assets at fair value through other comprehensive income	21	(19,921)	-
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	21	-	49,205
Net change in accumulated other comprehensive income of investments in associates and joint ventures	11,21	38,561	(102,367)
Net change in unrealized fair value of derivatives	21	(9,678)	(8,770)
Foreign currency translations differences for foreign operations	21	2,100	(36,864)
Other comprehensive loss for the period, net of taxes		₩ (2,088)	(110,083)
Total comprehensive income		₩ <u>691,284</u>	<u>473,398</u>
Total comprehensive income (loss) attributable to:			
Owners of the Parent Company		692,594	479,680
Non-controlling interests		(1,310)	(6,282)

See accompanying notes to the condensed consolidated interim financial statements.

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

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

(In millions of won)

	Note	Controlling Interest				Total	Non-controlling interests	Total equity
		Share capital	Capital surplus and other capital adjustments	Retained earnings	Reserves			
Balance, January 1, 2017		₩ 44,639	199,779	15,953,164	(226,183)	15,971,399	145,031	16,116,430
Total comprehensive income:								
Profit for the period		-	-	589,134	-	589,134	(5,653)	583,481
Other comprehensive loss	17,21	-	-	(11,266)	(98,188)	(109,454)	(629)	(110,083)
		-	-	577,868	(98,188)	479,680	(6,282)	473,398
Transactions with owners:								
Annual dividends		-	-	(635,482)	-	(635,482)	(281)	(635,763)
Share option		-	12	-	-	12	-	12
Changes in ownership in subsidiaries		-	(7,999)	-	-	(7,999)	(33,567)	(41,566)
		-	(7,987)	(635,482)	-	(643,469)	(33,848)	(677,317)
Balance, March 31, 2017		₩ 44,639	191,792	15,895,550	(324,371)	15,807,610	104,901	15,912,511
Balance, December 31, 2017		44,639	196,281	17,835,946	(234,727)	17,842,139	187,056	18,029,195
Impact of adopting K-IFRS No. 1115	3	-	-	1,900,049	-	1,900,049	-	1,900,049
Impact of adopting K-IFRS No. 1109	3	-	-	60,026	(68,804)	(8,778)	-	(8,778)
Balance, January 1, 2018		₩ 44,639	196,281	19,796,021	(303,531)	19,733,410	187,056	19,920,466
Total comprehensive income:								
Profit for the period		-	-	694,959	-	694,959	(1,587)	693,372
Other comprehensive income (loss)		-	-	(13,126)	10,761	(2,365)	277	(2,088)
		-	-	681,833	10,761	692,594	(1,310)	691,284
Transactions with owners:								
Annual dividends		-	-	(635,482)	-	(635,482)	-	(635,482)
Share option		-	139	-	-	139	-	139
Changes in ownership in subsidiaries		-	401	-	-	401	11,015	11,416
		-	540	(635,482)	-	(634,942)	11,015	(623,927)
Balance, March 31, 2018		₩ 44,639	196,821	19,842,372	(292,770)	19,791,062	196,761	19,987,823

See accompanying notes to the condensed consolidated interim financial statements.

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

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

(In millions of won)

	Note	March 31, 2018	March 31, 2017
Cash flows from operating activities:			
Cash generated from operating activities:			
Profit for the period		₩ 693,372	583,481
Adjustments for income and expenses	31	495,601	642,191
Changes in assets and liabilities related to operating activities	31	<u>(138,405)</u>	<u>(188,479)</u>
Sub-total		1,050,568	1,037,193
Interest received		13,450	21,435
Dividends received		7,766	1,197
Interest paid		(67,192)	(55,422)
Income tax paid		<u>(17,338)</u>	<u>(74,045)</u>
Net cash provided by operating activities		<u>987,254</u>	<u>930,358</u>
Cash flows from investing activities:			
Cash inflows from investing activities:			
Decrease in short-term financial instruments, net		72,106	-
Decrease in short-term investment securities, net		47,185	60,025
Collection of short-term loans		53,886	48,953
Decrease in long-term financial instruments		-	1
Proceeds from disposal of long-term investment securities		3,051	10,848
Proceeds from disposal of investments in associates and joint ventures		73	3,941
Proceeds from disposal of property and equipment		2,283	8,572
Proceeds from disposal of intangible assets		6,978	986
Collection of long-term loans		259	968
Decrease in deposits		3,483	4,635
Proceeds from disposal of other non-current assets		70	185
Acquisitions of subsidiaries, net of cash acquired		<u>8,579</u>	-
Sub-total		197,953	139,114
Cash outflows for investing activities:			
Increase in short-term financial instruments, net		-	(51,945)
Increase in short-term loans		(67,000)	(55,577)
Increase in long-term loans		(2,370)	(1,532)
Increase in long-term financial instruments		(16)	(27)
Acquisition of long-term investment securities		(6,484)	(2,197)
Acquisition of investments in associates and joint ventures		(558)	(7)
Acquisition of property and equipment		(627,516)	(657,808)
Acquisition of intangible assets		(34,096)	(18,729)
Increase in deposits		(2,614)	(7,545)
Acquisition of other non-current assets		<u>(1,136)</u>	-
Sub-total		<u>(741,790)</u>	<u>(795,367)</u>
Net cash used in investing activities		<u>₩ (543,837)</u>	<u>(656,253)</u>

See accompanying notes to the condensed consolidated interim financial statements.

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

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

(In millions of won)

	<u>March 31, 2018</u>	<u>March 31, 2017</u>
Cash flows from financing activities:		
Cash inflows from financing activities:		
Proceeds from short-term borrowings, net	₩ -	33,467
Proceeds from issuance of debentures	647,290	149,347
Proceeds from long-term borrowings, net	-	70,000
Sub-total	<u>647,290</u>	<u>252,814</u>
Cash outflows for financing activities:		
Decrease in short-term borrowings, net	(100,000)	-
Repayments of long-term account payables-other	(304,112)	(303,511)
Repayments of debentures	(250,000)	(100,000)
Repayments of long-term borrowings	(7,862)	(5,300)
Acquisition of additional interests in subsidiaries	(1,155)	(41,550)
Sub-total	<u>(663,129)</u>	<u>(450,361)</u>
Net cash used in financing activities	<u>(15,839)</u>	<u>(197,547)</u>
Net increase in cash and cash equivalents	427,578	76,558
Cash and cash equivalents at beginning of the period	1,457,735	1,505,242
Effects of exchange rate changes on cash and cash equivalents	431	(5,822)
Cash and cash equivalents at end of the period	₩ <u>1,885,744</u>	<u>1,575,978</u>

See accompanying notes to the condensed consolidated interim financial statements.

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

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

1. Reporting Entity

(1) General

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

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

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

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

(2) List of subsidiaries

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

				<u>Ownership (%)(*1)</u>	
<u>Subsidiary</u>		<u>Location</u>	<u>Primary business</u>	<u>Mar. 31, 2018</u>	<u>Dec. 31, 2017</u>
Subsidiaries	SK Telink Co., Ltd.	Korea	Telecommunication and mobile virtual network operator service	100.0	100.0
owned by the					
Parent Company	SK Communications Co., Ltd.	Korea	Internet website services	100.0	100.0
	SK Broadband Co., Ltd.	Korea	Telecommunication services	100.0	100.0
	PS&Marketing Corporation	Korea	Communications device retail business	100.0	100.0
	SERVICEACE Co., Ltd.	Korea	Customer center management service	100.0	100.0
	SERVICE TOP Co., Ltd.	Korea	Customer center management service	100.0	100.0
	Network O&S Co., Ltd.	Korea	Base station maintenance service	100.0	100.0
	SK Planet Co., Ltd.	Korea	Telecommunication service	98.1	98.1
	IRIVER LIMITED (*2)	Korea	Manufacturing digital audio players and other portable media devices.	45.9	45.9
	SK Telecom China Holdings Co., Ltd.	China	Investment	100.0	100.0
	SK Global Healthcare Business Group, Ltd.	Hong Kong	Investment	100.0	100.0
	SKT Vietnam PTE. Ltd.	Singapore	Telecommunication service	73.3	73.3
	SKT Americas, Inc.	USA	Information gathering and consulting	100.0	100.0
	YTK Investment Ltd.	Cayman Islands	Investment association	100.0	100.0
	Atlas Investment	Cayman Islands	Investment association	100.0	100.0
	SK techx Co., Ltd.	Korea	System software development and supply	100.0	100.0
	One Store Co., Ltd.	Korea	Telecommunication services	65.5	65.5
	FSK L&S Co., Ltd.(*3)	Korea	Freight forwarding and logistics consulting	60.0	-
	SK Telecom Japan Inc.(*3)	Japan	Information gathering and consulting	100.0	-

1. Reporting Entity, Continued

(2) List of subsidiaries, Continued

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

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

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

	Subsidiary	Location	Primary business	Ownership (%)(*1)		
				Mar. 31, 2018	Dec. 31, 2017	
Subsidiaries owned by SK Planet Co., Ltd.	SK m&service Co.,Ltd.	Korea	Data base and internet website service	100.0	100.0	
	SK Planet Japan, K. K.	Japan	Digital contents sourcing service	79.5	79.5	
	SK Planet Global PTE. Ltd.	Singapore	Digital contents sourcing service	100.0	100.0	
	SKP GLOBAL HOLDINGS PTE. LTD.	Singapore	Investment	100.0	100.0	
	SKP America LLC.	USA	Digital contents sourcing service	100.0	100.0	
	shopkick Management Company, Inc.	USA	Investment	100.0	100.0	
	shopkick, Inc.	USA	Reward points-based in-store shopping application development	100.0	100.0	
	11street (Thailand) Co., Ltd.	Thailand	Electronic commerce	100.0	100.0	
	Hello Nature Ltd.	Korea	Retail of agro-fisheries and livestock	100.0	100.0	
	Subsidiaries owned by IRIVER LIMITED	iriver Enterprise Ltd.	Hong Kong	Management of Chinese subsidiary	100.0	100.0
iriver Inc.		USA	Marketing and sales in North America	100.0	100.0	
iriver China Co., Ltd.		China	Sale and manufacture of MP3 and 4	100.0	100.0	
Dongguan iriver Electronics Co., Ltd.		China	Sale and manufacture of e-book	100.0	100.0	
groovers Japan Co., Ltd.		Japan	Digital music contents sourcing and distribution service	100.0	100.0	
S.M. LIFE DESIGN COMPANY JAPAN INC.		Japan	Sales of goods in Japan	100.0	100.0	
S.M. Mobile Communications JAPAN Inc.		Japan	Digital contents service	100.0	100.0	
groovers Inc.(*3)		Korea	Sales of contents and mastering quality sound album	100.0	44.2	
Subsidiaries owned by SK Telink Co., Ltd.		NSOK Co., Ltd.	Korea	Security and maintenance services	100.0	100.0
		K-net Culture and Contents Venture Fund	Korea	Capital investment in start-ups	59.0	59.0
Subsidiaries owned by SK techx Co., Ltd.	Home & Service Co., Ltd.	Korea	Operation of information and communication facilities	100.0	100.0	
	SK stoa Co., Ltd.	Korea	Television commerce business	100.0	100.0	
Subsidiary owned by FSK L&S Co., Ltd.	FSK L&S(Shanghai) Co., Ltd.(*3)	China	Transportation services	66.0	-	
	Others(*4)	SK Telecom Innovation Fund, L.P	USA	Investment	100.0	100.0
SK Telecom China Fund I L.P.		Cayman Islands	Investment	100.0	100.0	

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

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

1. Reporting Entity, Continued

(2) List of subsidiaries, Continued

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

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

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

(*3) Details of changes in consolidation scope for the three-month period ended March 31, 2018 are presented and explained separately in Note 1-(4).

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

(3) Condensed financial information of subsidiaries

Condensed financial information of significant subsidiaries as of and for the three-month period ended March 31, 2018 is as follows:

(In millions of won)

Subsidiary	As of March 31, 2018			For the three-month period ended March 31, 2018	
	Total assets	liabilities	Total equity	Revenue	Profit (loss)
SK Telink Co., Ltd.	₩ 481,473	106,048	375,425	91,523	8,100
SK m&service Co.,Ltd.	98,083	46,753	51,330	49,031	123
SK Communications Co., Ltd.	88,918	28,244	60,674	11,022	(5,317)
SK Broadband Co., Ltd.	3,906,514	2,470,395	1,436,119	737,102	13,235
K-net Culture and Contents Venture Fund	250,828	35,980	214,848	-	1
PS&Marketing Corporation	425,671	210,420	215,251	409,879	(2,697)
SERVICEACE Co., Ltd.	69,111	36,784	32,327	50,338	1,941
SERVICE TOP Co., Ltd.	60,239	36,927	23,312	52,138	1,488
Network O&S Co., Ltd.	64,973	27,564	37,409	48,900	(4,182)
SK Planet Co., Ltd.	1,418,817	844,262	574,555	205,028	(37,655)
IRIVER LIMITED(*)	143,511	28,780	114,731	28,894	296
SKP America LLC.	410,333	-	410,333	-	(33)
SK techx Co., Ltd.	238,451	31,153	207,298	49,578	8,657
One Store Co., Ltd.	113,308	52,341	60,967	26,864	(4,035)
Home & Service Co., Ltd.	88,180	42,787	45,393	75,670	44
shopkick Management Company, Inc.	341,373	-	341,373	-	(37)
shopkick, Inc.	20,778	18,589	2,189	8,943	(7,061)

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

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

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

1. Reporting Entity, Continued

(3) Condensed financial information of subsidiaries, Continued

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

(In millions of won)

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

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

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

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

1. Reporting Entity, Continued

(4) Changes in subsidiaries

The list of subsidiaries that were newly included in consolidation during the three-month period ended March 31, 2018 is as follows:

Subsidiary	Reason
FSK L&S Co., Ltd.	Acquired by the Parent Company
FSK L&S(Shanghai) Co., Ltd.	Acquired by the Parent Company
SK Telecom Japan Inc.	Established by the Parent Company
groovers Inc.	Acquired additional ownership interests by IRIVER LIMITED

- (5) The financial information of significant non-controlling interests of the Group as of and for the three-month period ended March 31, 2018, and as of and for the year ended December 31, 2017 are as follows. There were no dividends paid during the three-month period ended March 31, 2018 and the year ended December 31, 2017 by subsidiaries of which non-controlling interests are significant.

(In millions of won)

	As of March 31, 2018		
	K-net Culture and Contents Venture Fund	IRIVER LIMITED	One Store Co., Ltd.
Ownership of non-controlling interests (%)	41.00	54.12	34.46
Current assets	₩ 706	68,708	87,217
Non-current assets	250,122	74,803	26,091
Current liabilities	(35,980)	(20,710)	(50,785)
Non-current liabilities	-	(8,070)	(1,556)
Net assets	214,848	114,731	60,967
Carrying amount of non-controlling interests	88,088	63,784	21,009
	For the three-month period ended March 31, 2018		
Revenue	₩ -	28,894	26,864
Gain (loss) for the period	1	296	(4,035)
Total comprehensive loss	1	1,057	(4,051)
Gain (loss) attributable to non-controlling interests	-	160	(1,390)
Net cash provided by (used in) operating activities	₩ 3	1,147	(2,193)
Net cash provided by (used in) investing activities	(20)	1,764	(2,688)
Net cash provided by financing activities	-	46	-
Net increase (decrease) in cash and cash equivalents	(17)	2,957	(4,881)

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

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

1. Reporting Entity, Continued

- (5) The financial information of significant non-controlling interests of the Group as of and for the three-month period ended March 31, 2018, and as of and for the year ended December 31, 2017 are as follows. There were no dividends paid during the three-month period ended March 31, 2018 and the year ended December 31, 2017 by subsidiaries of which non-controlling interests are significant, Continued.

(In millions of won)

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

2. Basis of Preparation

- (1) Statement of compliance

The condensed consolidated interim financial statements have been prepared in accordance with Korean International Financial Reporting Standards ("K-IFRS"), as prescribed in the Act on External Audits of Stock Companies.

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

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

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

2. Basis of Preparation, Continued

(2) Use of estimates and judgments

1) Critical judgments, assumptions and estimation uncertainties

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

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

2) Fair value measurement

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

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

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

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

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

Information about assumptions used for fair value measurements are included in Note 28.

SK TELECOM CO., LTD. and Subsidiaries

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

(1) Changes in accounting policies

The Group has initially adopted K-IFRS No. 1115, *Revenue from Contracts with Customers* and K-IFRS No. 1109, *Financial Instruments* from January 1, 2018. A number of other amended standards are effective from January 1, 2018 but they do not have a material effect on the Group's condensed consolidated 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 Group 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 Group 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) Identification of performance obligations in the contract

A substantial portion of the Group's revenue is generated from providing wireless telecommunications services. K-IFRS No. 1115 requires the Group to evaluate goods or services promised to customers to determine if there are performance obligations other than wireless telecommunications service that should be accounted for separately. In the case that the Group provides the wireless telecommunications service and sells a handset together to one customer, the Group allocates considerations from the customer between handset sale revenue and wireless telecommunications service revenue. The handset sales revenue is recognized when handset is delivered and the wireless telecommunications service revenue is recognized as revenue over the period of the contract term as stated in the subscription contract.

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated 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

ii) Allocate the transaction price to the separate performance obligations

In accordance with K-IFRS No. 1115, the Group allocates the transaction price to each performance obligation in a contract in proportion to their stand-alone selling price when the Group provides the wireless telecommunications service and sells a handset together to one customer. The Group used adjusted market assessment method for estimating the stand-alone selling price. However, in some circumstances, the Group used 'expected cost plus a margin' approach.

As a result of applying K-IFRS No. 1115, the Group recognized contract assets of ₩142,596 million which is the additional transaction price allocated to revenue from sales of handset as at January 1, 2018.

iii) Incremental costs to acquire a contract

The Group pays commissions to its direct retail stores and authorized dealers in connection with acquiring service contracts. The commissions paid to these agents historically constituted a significant portion of the Group's operating expenses. These commissions would not have been paid if there have been no binding contracts with subscribers. K-IFRS No. 1115 requires the Group to capitalize certain costs associated with commissions paid to 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 Group recognized ₩2,389,097 million of prepaid expenses as at January 1, 2018.

iv) Contract liability

Upon adoption of K-IFRS No. 1115, the Group reclassified the receipts in advance and unearned revenue amounting to ₩109,555 million that are related to prepaid rate plans and customer loyalty program, respectively, to contract liabilities as at January 1, 2018.

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

If K-IFRS No. 1018 were applied on the Group's condensed consolidated statements of financial position as of March 31, 2018, prepaid expenses, long-term prepaid expenses, contract assets and long-term contract assets would be decreased by ₩1,641,693 million, ₩732,493 million, ₩98,524 million, ₩26,638 million, respectively, while accounts receivable - trade would be increased by ₩4,270 million. As a result, total assets would be decreased by ₩2,495,078 million. In addition, total liabilities would be decreased by ₩606,095 million, with decrease of contract liabilities, long-term contract liabilities and deferred tax liabilities by ₩117,932 million, ₩18,401 million and ₩583,678 million, respectively, while other liabilities such as receipts in advance and unearned revenues would be increased by ₩113,916 million. In relation to these changes in assets and liabilities, retained earnings would be decreased by ₩1,888,983 million.

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

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

If K-IFRS No. 1018 were applied on the Group's condensed consolidated statements of income for the three-month period ended March 31, 2018, revenue and advertising expense would be increased by ₩39,114 million and ₩13,888 million, respectively, while commissions expense would be decreased by ₩9,528 million. Operating profit and profit before income tax would be increased by ₩34,008 million with an increase in operating expenses by ₩5,106 million. As a result, profit for the period would be increased by ₩23,228 million with an increase in income tax expense of ₩10,780 million.

When compared to K-IFRS No. 1018, the adoption of K-IFRS No. 1115 did not have material impact on the Group's condensed consolidated 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 standards replaces K-IFRS No. 1039 *Financial Instruments: Recognition and Measurement*. The Group adopted K-IFRS No. 1109, *Financial Instruments*, from January 1, 2018, and the Group has taken an exemption not to restate the financial statements for prior years 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")	₩ (5,336)	947
Reclassification of available-for-sale financial assets to financial assets measured at fair value through other comprehensive income ("FVOCI")	(84,881)	90,322
Recognition of loss allowances on accounts receivable – trade and others	-	(13,049)
Related tax	21,413	(18,194)
	<u>₩ (68,804)</u>	<u>60,026</u>

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

For the 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 Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income ("OCI"). This election is made on an investment-by-investment basis.

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

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

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

For the 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 polices 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 invysetment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

SK TELECOM CO., LTD. and Subsidiaries
Notes to the Condensed Consolidated 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 Group's financial assets as at January 1, 2018.

<i>(In millions of won)</i>	Original classification under K-IFRS No. 1039	New classification under K-IFRS No. 1109	Original carrying amount under K-IFRS No. 1039	New carrying amount under K-IFRS No. 1109	Difference
Short-term financial assets:					
Cash and cash equivalents	Amortized cost	Amortized cost	₩ 1,457,735	1,457,735	-
Short-term financial instruments	Amortized cost	Amortized cost	616,780	616,780	-
Short-term investment securities(*1)	Available-for-sale	FVTPL	47,383	47,383	-
Short-term investment securities	Designated as at FVTPL	FVTPL	97,003	97,003	-
Accounts receivable - trade	Amortized cost	Amortized cost	2,126,007	2,113,057	(12,950)
Short-term loans	Amortized cost	Amortized cost	62,830	62,830	-
Accounts receivable - other(*3)	Amortized cost	FVTPL	830,321	830,321	-
Accounts receivable - other	Amortized cost	Amortized cost	430,514	430,415	(99)
Accrued revenue	Amortized cost	Amortized cost	3,979	3,979	-
Guarantee deposits	Amortized cost	Amortized cost	3,927	3,927	-
			<u>5,676,479</u>	<u>5,663,430</u>	<u>(13,049)</u>
Long-term financial assets:					
Long-term financial instruments	Amortized cost	Amortized cost	1,222	1,222	-
Long-term investment securities(*1)	Available-for-sale	FVTPL	173,394	169,005	(4,389)
Long-term investment securities(*2)	Available-for-sale	FVOCI	713,613	719,054	5,441
Long-term accounts receivable - trade	Amortized cost	Amortized cost	12,748	12,748	-
Long-term loans	Amortized cost	Amortized cost	50,874	50,874	-
Long-term accounts receivable - other(*3)	Amortized cost	FVTPL	243,742	243,742	-
Long-term accounts receivable - other	Amortized cost	Amortized cost	43,306	43,306	-
Guarantee deposits	Amortized cost	Amortized cost	292,590	292,590	-
Derivative financial assets	Derivatives hedging instrument	Derivatives hedging instrument	21,902	21,902	-
Derivative financial assets(*1)	Designated as at FVTPL	FVTPL	231,311	9,054	(222,257)
Long-term investment securities	Designated as at FVTPL	FVTPL	-	222,257	222,257
			<u>1,784,702</u>	<u>1,785,754</u>	<u>1,052</u>
			<u>₩ 7,461,181</u>	<u>7,449,184</u>	<u>(11,997)</u>

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated 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 Group's financial assets as at January 1 2018, Continued.

(*1) As of January 1, 2018, available-for-sale financial assets such as beneficiary certificates and equity investments amounting to ₩205,435 million were reclassified to financial assets measured at FVTPL. In addition, as derivatives embedded in contracts where the host is a financial asset in the scope of K-IFRS No. 1109 are never separated, the available-for sale financial assets related to the redeemable convertible preferred shares of ₩15,342 million and derivative financial assets of ₩222,257 million were reclassified to financial assets measured at FVTPL. As the contractual terms of these assets do not give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, these assets were not designated as financial assets measured at amortized cost. As a result of this reclassification, as at January 1, 2018, accumulated OCI of ₩5,336 million was reclassified to retained earnings and, due to its 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 ₩8,112 million was recognized in profit before income tax during the three-month period ended March 31, 2018.

(*2) As of January 1, 2018, available-for-sale financial assets amounting to ₩713,613 million including marketable equity instruments were reclassified to equity investments at FVOCI and debt instrument at FVOCI of ₩713,399 million and ₩214 million, respectively. As a result of this reclassification, as at January 1, 2018, retained earnings of ₩ (-)90,322 million was reclassified to accumulated OCI and accumulated OCI was increased by ₩5,441 million due to the fair value measurement of financial assets which were stated at cost under K-IFRS No. 1039. The Group designated equity instruments that are not held for trading as FVOCI on initial application of K-IFRS No. 1109 with no recycling of amounts from OCI to profit and loss.

(*3) As of January 1, 2018, loans and receivables of ₩1,074,063 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 Group reclassified the debt instruments to financial instruments at FVTPL whose objectives of the business model are not achieved both by collecting contractual cash flows or selling financial assets. There was no material impact on retained earnings as at January 1, 2018 as the fair values of these debt instruments were not significantly different from the carrying amounts as of December 31, 2017.

ii) Impairment of financial assets

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

3. Significant Accounting Policies, Continued

(1) Changes in accounting policies, Continued

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

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

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

ii) Impairment of financial assets, Continued

ECLs are a probability-weighted estimate of credit losses. Credit 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 Group expects to receive).

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

As a result of applying K-IFRS No. 1109, as of January 1, 2018, the Group recognized the ₩13,049 million of 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 Group elected as its accounting policy to apply hedge accounting requirements under K-IFRS No. 1109. The Group designates derivatives such as currency swaps as hedging instruments to hedge the risk of variability in cash flows associated with the foreign currency debentures and borrowings. As the Group's hedging instruments as of January 1, 2018 satisfy the hedge requirements of retrospective testing (80~125%) under K-IFRS No. 1039, there is no material effect of applying K-IFRS No. 1109.

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

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

For the 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 Group has not early adopted the following new standard in preparing the accompanying condensed consolidated interim financial statements as of and for the three-month period ended March 31, 2018.

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

The Group currently plans to apply K-IFRS No.1116 in the period beginning on January 1, 2019 and to assess the financial impact on its consolidated 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 the financial impact assessment of adopting K-IFRS No. 1116 which was disclosed in the Group's consolidated financial statements as of and for the year ended December 31, 2017.

4. Operating Segments

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

(1) Segment information for the three-month period ended March 31, 2018 is as follows:

(In millions of won)

		For the three-month period ended March 31, 2018						
		Cellular	Fixed-line telecommu- nication	E-commerce	Others	Sub-total	Adjustments	Total
Total revenue	₩	3,549,792	922,330	205,028	206,169	4,883,319	(701,782)	4,181,537
Inter-segment revenue		387,766	230,658	9,061	74,297	701,782	(701,782)	-
External revenue		3,162,026	691,672	195,967	131,872	4,181,537	-	4,181,537
Depreciation and amortization		605,311	155,689	10,644	14,335	785,979	-	785,979
Operating profit (loss)		345,673	38,785	(44,532)	(14,450)	325,476	-	325,476
Finance income and costs, net								(35,082)
Gain relating to investments in subsidiaries, associates and joint ventures, net								626,643
Other non-operating income and expense, net								(10,047)
Profit before income tax								906,990

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

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

4. Operating Segments, Continued

(1) Segment information for the three-month period ended March 31, 2017 is as follows:

(In millions of won)

		For the three-month period ended March 31, 2017						
		Cellular	Fixed-line telecommu- nication	E-commerce	Others	Sub-total	Adjustments	Total
Total revenue	₩	3,621,063	822,248	254,667	180,598	4,878,576	(644,211)	4,234,365
Inter-segment revenue		394,921	164,778	11,667	72,845	644,211	(644,211)	-
External revenue		3,226,142	657,470	243,000	107,753	4,234,365	-	4,234,365
Depreciation and amortization		590,157	143,263	13,812	14,484	761,716	-	761,716
Operating profit (loss)		445,633	34,436	(49,971)	(19,596)	410,502	-	410,502
Finance income and costs, net								(38,773)
Gain relating to investments in subsidiaries, associates and joint ventures, net								379,961
Other non-operating income and expense, net								(27,470)
Profit before income tax								724,220

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

No single customer contributed 10% or more to the Group's total revenue for the three-month periods ended March 31, 2018 and 2017.

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

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

4. Operating Segments, Continued

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

(In millions of won)

		<u>March 31, 2018</u>	<u>March 31, 2017</u>
Goods transferred at a point in time:			
Cellular services revenue	Goods (*1)	₩ 309,516	250,846
Fixed-line telecommunication services revenue	Goods	16,987	24,634
Other revenue	Goods	24,530	15,150
	Goods	6,229	5,773
		<u>357,262</u>	<u>296,403</u>
Services transferred over time:			
Cellular services revenue	Wireless service(*2)	2,506,681	2,627,497
	Cellular interconnection	141,564	167,258
	Miscellaneous(*3)	204,265	180,541
Fixed-line telecommunication services revenue	Wireless service	73,841	79,474
	Cellular interconnection	27,479	30,383
	Internet Protocol Television*4)	266,040	235,727
	International calls	20,374	22,152
	Miscellaneous(*5)	286,951	265,100
E-commerce services revenue	E-commerce service	195,967	243,000
Other revenue	Miscellaneous(*6)	101,113	86,830
		<u>3,824,275</u>	<u>3,937,962</u>
		<u>₩ 4,181,537</u>	<u>4,234,365</u>

(*1) Revenue from considerations received from sale of handsets is included.

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

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

(*4) Revenue from IPTV related services is included.

(*5) Revenue from broadband internet service is included.

(*6) Revenue from considerations received for the development and maintenance of system software, and digital contents platform services is included.

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

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

5. 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	₩	2,352,126	(261,625)	2,090,501
Short-term loans		79,596	(704)	78,892
Accounts receivable - other(*)		1,584,405	(73,712)	1,510,693
Accrued income		6,369	-	6,369
Others		3,494	-	3,494
		<u>4,025,990</u>	<u>(336,041)</u>	<u>3,689,949</u>
Non-current assets:				
Long-term loans		96,529	(46,717)	49,812
Long-term accounts receivable - other(*)		130,932	-	130,932
Guarantee deposits		288,211	-	288,211
Long-term accounts receivable - trade		12,658	(203)	12,455
		<u>528,330</u>	<u>(46,920)</u>	<u>481,410</u>
	₩	<u>4,554,320</u>	<u>(382,961)</u>	<u>4,171,359</u>

(In millions of won)

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

(*) Gross and carrying amounts of accounts receivable - other as of March 31, 2018 include ₩1,014,124 million of financial instruments classified as FVTPL.

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

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

5. Trade and Other Receivables, Continued

- (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	Impair- ment	Write-offs	Collection of receivables previously written-off	March 31, 2018
Accounts receivable - trade	₩ 239,448	12,950	9,820	(4,054)	3,664	261,828
Accounts receivable - other	122,723	99	3,714	(6,235)	832	121,133
	₩ 362,171	13,049	13,534	(10,289)	4,496	382,961

(In millions of won)

	January 1, 2017	Impairment	Write-offs	Collection of receivables previously written-off	March 31, 2017
Accounts receivable - trade	₩ 241,828	6,511	(4,528)	4,376	248,187
Accounts receivable - other	127,504	2,706	(5,494)	5,621	130,337
	₩ 369,332	9,217	(10,022)	9,997	378,524

- (*) The Group 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.

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

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

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

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

6. Prepaid expenses

As discussed in Note 3, the Group 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	₩ 1,641,694	-
Others	<u>209,070</u>	<u>197,046</u>
	<u>1,850,764</u>	<u>197,046</u>
Non-current assets:		
Incremental costs of obtaining a contract	732,493	-
Others	<u>91,432</u>	<u>90,834</u>
	<u>823,925</u>	<u>90,834</u>
	<u>₩ 2,674,689</u>	<u>287,880</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	₩ 2,374,187
Commissions	580,650

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

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

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

7. Contract assets and liabilities

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

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

(In millions of won)

	March 31, 2018	January 1, 2018
Contract assets	₩ 125,162	143,053
Contract liabilities - wireless service contracts	16,579	16,624
Contract liabilities - customer loyalty programs	10,555	10,739
Contract liabilities - fixed-line service contracts	49,701	47,125
Contract liabilities - commerce service	6,286	6,779
Contract liabilities - others	53,212	52,117
	₩ 136,333	133,384

8. Inventories

Details of inventories as of March 31, 2018 and December 31, 2017 are as follows:

(In millions of won)

	March 31, 2018			December 31, 2017		
	Acquisition cost	Write-down	Carrying amount	Acquisition cost	Write-down	Carrying amount
Merchandise	₩ 240,536	(6,664)	233,872	251,463	(7,488)	243,975
Finished goods	1,201	(381)	820	1,889	(557)	1,332
Work in process	2,350	(956)	1,394	1,906	(956)	950
Raw materials and supplies	21,647	(3,250)	18,397	29,395	(3,249)	26,146
	₩ 265,734	(11,251)	254,483	284,653	(12,250)	272,403

9. 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)

	Category	March 31, 2018	December 31, 2017
Beneficiary certificates	Available-for-sale financial assets	₩ -	144,386
	FVTPL	77,407	-
		₩ 77,407	144,386

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

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

9. Investment Securities, Continued

(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	₩	-	867,079
	FVOCI(*)		698,057	-
			<u>698,057</u>	<u>867,079</u>
Debt instruments	Available-for-sale financial assets		-	19,928
	FVOCI		1,063	-
	FVTPL		397,536	-
			<u>398,599</u>	<u>19,928</u>
		₩	<u>1,096,656</u>	<u>887,007</u>

(*) Upon adoption of K-IFRS 1109, the Group designated ₩698,057 million of equity instruments that are not held for trading as financial assets at FVOCI.

10. Business Combinations under Common Control

During the three-month period ended March 31, 2018, the Parent Company acquired 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 Parent Company. As this transaction is a business combination under common control, the difference between the consideration paid and carrying amount of net assets recorded in the financial statements of SK Holdings Co., Ltd., which amounted to ₩240 million, was recognized as increase to capital surplus and others.

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

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

11. Investments in Associates and Joint Ventures

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

(In millions of won)

	Country	March 31, 2018		December 31, 2017	
		Ownership (%)	Carrying amount	Ownership (%)	Carrying amount
Investments in associates:					
SK China Company Ltd.	China	27.3	₩ 535,931	27.3	₩ 526,099
Korea IT Fund(*1)	Korea	63.3	264,653	63.3	257,003
KEB HanaCard Co., Ltd.(*2)	Korea	15.0	278,270	15.0	280,988
NanoEnTek, Inc.	Korea	27.1	37,307	28.5	38,718
SK Technology Innovation Company	Cayman Islands	49.0	42,434	49.0	42,511
HappyNarae Co., Ltd.	Korea	45.0	22,580	45.0	21,873
SK hynix Inc.	Korea	20.1	8,656,527	20.1	8,130,000
SK MENA Investment B.V.	Netherlands	32.1	13,784	32.1	13,853
S.M.Culture & Contents Co.,Ltd.	Korea	23.4	63,929	23.4	64,966
Xinan Tianlong Science and Technology Co., Ltd.	China	49.0	25,554	49.0	25,891
Daehan Kanggun BcN Co., Ltd. and others	-	-	84,743	-	96,479
Sub-total			<u>10,025,712</u>		<u>9,498,381</u>
Investments in joint ventures:					
Dogus Planet, Inc.(*3)	Turkey	50.0	14,092	50.0	13,991
Finnq Co., Ltd.(*4)	Korea	49.0	14,580	49.0	16,474
Celcom Planet and others	-	-	9,631	-	9,592
Sub-total			<u>38,303</u>		<u>40,057</u>
Total			<u>₩ 10,064,015</u>		<u>₩ 9,538,438</u>

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

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

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

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

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

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

11. Investments in Associates and Joint Ventures, Continued

(2) 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 price per share (In won)	Number of shares	Market price	Market price per share (In won)	Number of shares	Market price
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

(3) The financial information of significant associates as of and for the three-month period ended March 31, 2018 and as of and for the year ended December 31, 2017 is as follows:

(In millions of won)

	SK hynix Inc.	KEB HanaCard Co., Ltd.	Korea IT Fund	SK China Company Ltd.
	As of March 31, 2018			
Current assets	₩ 17,632,878	7,362,544	133,836	723,101
Non-current assets	31,492,245	231,264	284,037	1,077,832
Current liabilities	9,352,773	1,012,643	-	70,422
Non-current liabilities	3,393,864	5,083,123	-	79,103
	For the three-month period ended March 31, 2018			
Revenue	8,719,691	393,508	-	20,851
Profit (loss) for the period	3,121,329	25,392	(728)	3,008
Other comprehensive income (loss)	163,869	(221)	-	30,173
Total comprehensive income (loss)	3,285,198	25,171	(728)	33,181

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

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

11. Investments in Associates and Joint Ventures, Continued

- (3) The financial information of significant associates as of and for the three-month period ended March 31, 2018 and as of and for the year ended December 31, 2017 is as follows, Continued:

(In millions of won)

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

- (4) The condensed financial information of joint ventures as of and for the three-month period ended March 31, 2018 and as of and for the year ended December 31, 2017 is as follows:

(In millions of won)

	<u>Dogus Planet, Inc.</u>	<u>Finnq Co. Ltd.</u>
	As of March 31, 2018	
Current assets	₩ 44,670	25,492
Cash and cash equivalents	42,163	3,450
Non-current assets	20,020	17,146
Current liabilities	35,758	4,833
Accounts payable, other payables and provision	1,771	1,475
Non-current liabilities	749	8,935
	For the three-month period ended March 31, 2018	
Revenue	24,204	-
Depreciation and amortization	(1,395)	(785)
Interest income	227	-
Interest expense	-	(80)
Profit (loss) for the period	1,725	(3,955)
Total comprehensive income (loss)	1,725	(3,955)

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

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

11. Investments in Associates and Joint Ventures, Continued

- (4) The condensed financial information of joint ventures as of and for the year ended December 31, 2017 is as follows, Continued:

(In millions of won)

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

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

(In millions of won)

	<u>March 31, 2018</u>				
		<u>Ownership interests (%)</u>	<u>Net assets attributable to the ownership interests</u>	<u>Cost-book value differentials</u>	<u>Carrying amount</u>
Associates:	<u>Net assets</u>				
SK hynix Inc.(*1,2)	₩ 36,370,740	20.1	7,526,555	1,129,972	8,656,527
KEB HanaCard Co., Ltd.	1,498,042	15.0	224,706	53,564	278,270
Korea IT Fund	417,873	63.3	264,653	-	264,653
SK China Company Ltd.(*1)	1,649,552	27.3	449,853	86,078	535,931

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

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

11. Investments in Associates and Joint Ventures, Continued

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

(In millions of won)

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

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

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

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

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

11. Investments in Associates and Joint Ventures, Continued

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

(*) Dividends declared by the associates are deducted from their carrying amounts during the three-month period ended March 31, 2018.

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

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

11. Investments in Associates and Joint Ventures, Continued

(6) Details of the changes in investments in associates and joint ventures accounted for using the equity method for the 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 and Disposal	Share of profits (losses)	Other comprehensive loss	Other decrease	Ending balance
Investments in associates:							
SK China Company Ltd.	₩	46,354	-	(344)	(3,843)	-	42,167
Korea IT Fund		263,850	-	(9,397)	769	-	255,222
KEB HanaCard Co., Ltd.		265,798	-	7,387	(32)	-	273,153
NanoEnTek, Inc.		39,514	-	(911)	4	-	38,607
SK Industrial Development China Co., Ltd.		74,717	-	(301)	(5,333)	-	69,083
SK Technology Innovation Company		47,488	-	120	(3,634)	-	43,974
HappyNarae Co., Ltd.		17,236	-	(381)	-	-	16,855
SK hynix Inc.(*)		6,132,122	-	385,855	(70,612)	(87,660)	6,359,705
SK MENA Investment B.V.		15,451	-	25	1	-	15,477
SKY Property Mgmt. Ltd.		263,225	-	(696)	(12,079)	-	250,450
Xian Tianlong Science and Technology Co., Ltd.		25,880	-	(347)	-	-	25,533
Daehan Kanggun BeN Co., Ltd. and others		115,181	(3,934)	6,572	(3,772)	(3,158)	110,889
Sub-total		7,306,816	(3,934)	387,582	(98,531)	(90,818)	7,501,115
Investments in joint ventures:							
Dogus Planet, Inc.		20,081	-	120	(1,036)	-	19,165
PT XL Planet Digital		27,512	-	(3,730)	(2,040)	-	21,742
Finnq Co., Ltd.		24,174	-	(511)	-	-	23,663
Celcom Planet and others		25,740	-	(3,500)	(573)	-	21,667
Sub-total		97,507	-	(7,621)	(3,649)	-	86,237
Total	₩	7,404,323	(3,934)	379,961	(102,180)	(90,818)	7,587,352

(*) Dividends declared by the associates are deducted from their carrying amounts during the three-month period ended March 31, 2017.

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

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

11. Investments in Associates and Joint Ventures, Continued

- (7) The Group discontinued the application of equity method to the following investees due to their carrying amounts being reduced to zero. The details of cumulative unrecognized equity method losses as of March 31, 2018 are as follows:

(In millions of won)

		Unrecognized loss		Unrecognized change in equity	
		For the three-month period ended March 31, 2018	Cumulative loss	For the three-month period ended March 31, 2018	Cumulative loss
Wave City Development Co., Ltd.	₩	4,762	6,862	-	-
Daehan Kanggun BcN Co., Ltd. and others		2,720	8,036	-	365
	₩	<u>7,482</u>	<u>14,898</u>	<u>-</u>	<u>365</u>

12. Property and Equipment

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

(In millions of won)

		For the three-month period ended March 31, 2017						Ending balance
		Beginning balance	Acquisition	Disposal	Transfer	Depreciation	Impairment	
Land	₩	835,909	310	(3,529)	908	-	-	833,598
Buildings		899,972	83	(302)	3,411	(12,780)	-	890,384
Structures		358,955	1	(70)	80	(8,693)	-	350,273
Machinery		7,036,050	78,460	(8,473)	270,090	(551,463)	-	6,824,664
Other		563,034	58,886	(1,035)	(64,492)	(35,464)	(2,014)	518,915
Construction in progress		680,292	107,982	-	(277,213)	-	-	511,061
	₩	<u>10,374,212</u>	<u>245,722</u>	<u>(13,409)</u>	<u>(67,216)</u>	<u>(608,400)</u>	<u>(2,014)</u>	<u>9,928,895</u>

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

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

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

(In millions of won)

	For the three-month period ended March 31, 2017						
	Beginning balance	Acquisition	Disposal	Transfer	Amortization	Impairment	Ending balance
Frequency usage rights	₩ 2,580,828	-	-	-	(100,972)	-	2,479,856
Land usage rights	20,834	605	(86)	200	(2,074)	-	19,479
Industrial rights	121,200	1,217	-	(4,004)	(1,862)	-	116,551
Development costs	4,871	822	-	-	(818)	-	4,875
Facility usage rights	41,788	234	-	9	(2,138)	-	39,893
Customer relations	6,652	99	-	-	(904)	-	5,847
Club memberships	74,039	2,262	(205)	-	-	-	76,096
Other	926,142	10,691	(1,461)	77,395	(77,475)	(180)	935,112
₩	<u>3,776,354</u>	<u>15,930</u>	<u>(1,752)</u>	<u>73,600</u>	<u>(186,243)</u>	<u>(180)</u>	<u>3,677,709</u>

(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>			

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

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

14. Borrowings and Debentures

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

(In millions of won)

	Lender	Annual interest rate(%)		March 31, 2018	December 31, 2017
Short-term borrowings	Shinhan Bank	2.85	₩	30,000	30,000
	KEB Hana Bank	1.67		-	50,000
	KEB Hana Bank	3.17		-	30,000
	Shinhan Bank	3.38		-	20,000
			₩	<u>30,000</u>	<u>130,000</u>

(2) Changes in long-term borrowings for the three-month period ended March 31, 2018 are as follows:

(In millions of won)

	Lender	Annual interest rate(%)	Maturity	Book value
Current				₩ 41,331
Non-current				211,486
As of January 1, 2018				<u>252,817</u>
Repayments of long-term borrowings:				
	Kookmin Bank	1.95	Mar. 15, 2018	(717)
	Korea Development Bank	1.99	Jul. 30, 2019	(3,250)
	Korea Development Bank	1.99	Jul. 30, 2019	(833)
	Korea Development Bank	2.27	Dec. 20, 2021	(3,062)
Other changes(*)				<u>(151)</u>
Current				83,783
Non-current				161,021
As of March 31, 2018				₩ <u>244,804</u>

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

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

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

14. Borrowings and Debentures, Continued

(3) Changes in debentures for the three-month period ended March 31, 2018 are as follows:

(In millions of won, thousands of other currencies)

	<u>Purpose</u>	<u>Annual interest rate(%)</u>	<u>Maturity</u>		<u>Face value</u>	<u>Book value</u>
Current				₩	1,491,400	1,489,617
Non-current					5,615,816	5,596,570
As of January 1, 2018					<u>7,107,216</u>	<u>7,086,187</u>
Debentures newly issued:						
Unsecured corporate bonds	Refinancing	2.57	Feb. 20, 2021		110,000	109,507
		2.81	Feb. 20, 2023		100,000	99,576
		3.00	Feb. 20, 2028		200,000	199,228
		3.02	Feb. 20, 2038		90,000	89,664
Unsecured corporate bonds(*1)	Operating	2.59	Feb. 1, 2021		70,000	69,680
Unsecured corporate bonds(*1)	Operating	2.93	Feb. 1, 2023		80,000	79,635
Debentures repaid::						
Unsecured corporate bonds	Other	5.00	Mar. 3, 2018		(200,000)	(200,000)
Unsecured corporate bonds(*1)	Operating	2.23	Jan. 14, 2018		(50,000)	(50,000)
Other changes(*2):					<u>(8,041)</u>	<u>(6,001)</u>
Current					1,306,500	1,305,584
Non-current					6,192,675	6,171,892
As of March 31, 2018				₩	<u><u>7,499,175</u></u>	<u><u>7,477,476</u></u>

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

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

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

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

15. Long-term Payables - other

(1) Long-term payables - other as of March 31, 2018 and December 31, 2017 are as follows:

(In millions of won)

	March 31, 2018	December 31, 2017
Payables related to acquisition of frequency usage rights	₩ 1,036,400	1,328,630
Other(*)	17,739	18,133
	<u>₩ 1,054,139</u>	<u>1,346,763</u>

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

(2) 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 13):

(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>

(3) 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>

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

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

16. 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	Impact of adopting K-IFRS No. 1115	Increase	Utilization	Reversal	Other	Ending balance	Current	Non-current
Provision for installment of handset subsidy	₩ 3,874	-	-	(263)	-	-	3,611	3,611	-
Provision for restoration	73,267	-	935	(233)	(302)	52	73,719	41,310	32,409
Emission allowance	4,650	-	759	-	-	-	5,409	5,409	-
Other provisions	2,935	(215)	627	(644)	-	22	2,725	2,725	-
	₩ <u>84,726</u>	<u>(215)</u>	<u>2,321</u>	<u>(1,140)</u>	<u>(302)</u>	<u>74</u>	<u>85,464</u>	<u>53,055</u>	<u>32,409</u>

	For the three-month period ended March 31, 2017						As of March 31, 2017	
	Beginning balance	Increase	Utilization	Reversal	Other	Ending balance	Current	Non-current
Provision for installment of handset subsidy	₩ 24,710	-	(2,703)	-	-	22,007	20,445	1,562
Provision for restoration	64,679	904	(279)	(259)	(18)	65,027	38,241	26,786
Emission allowance	2,788	1,230	-	-	-	4,018	4,018	-
Other provisions	5,740	566	(146)	-	-	6,160	6,160	-
	₩ <u>97,917</u>	<u>2,700</u>	<u>(3,128)</u>	<u>(259)</u>	<u>(18)</u>	<u>97,212</u>	<u>68,864</u>	<u>28,348</u>

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

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

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

17. 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	₩ 718,172	679,625
Fair value of plan assets	(657,631)	(663,617)
Defined benefit assets(*)	(22,999)	(45,952)
Defined benefit liabilities	<u>83,540</u>	<u>61,960</u>

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

(2) Changes in defined benefit obligations for the 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	₩ 679,625	595,667
Current service cost	31,656	28,678
Interest cost	4,937	3,792
Remeasurement:		
- Adjustment based on experience	14,304	12,223
Benefit paid	(14,562)	(14,507)
Others	2,212	10,040
Ending balance	<u>₩ 718,172</u>	<u>635,893</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	₩ 663,617	555,175
Interest income	4,812	3,356
Remeasurement	(2,374)	(1,307)
Contribution	11,217	22,500
Benefit paid	(24,944)	(33,414)
Others	5,303	7,859
Ending balance	<u>₩ 657,631</u>	<u>554,169</u>

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

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

17. Defined Benefit Liabilities(Assets), Continued

(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)

	For the three-month period ended	
	March 31, 2018	March 31, 2017
Current service cost	₩ 31,656	28,678
Net interest cost	125	436
	₩ 31,781	29,114

18. Share Capital and Capital Surplus and Others

The Parent Company's outstanding share capital consists entirely of common stocks with a par value of ₩500. The number of authorized, issued and outstanding common stocks and the details of capital surplus and others as of 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:		
Additional paid-in capital	2,915,887	2,915,887
Treasury shares	(2,260,626)	(2,260,626)
Hybrid bonds	398,518	398,518
Share option(Note 19)	553	414
Others (*)	(857,511)	(857,912)
	₩ 196,821	196,281

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

18. 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:

(In shares)

	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

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

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

19. 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:

(In millions of won)

	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 Parent 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

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

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

20. Retained Earnings

Retained earnings 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>
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	5,967,614	4,571,188
	<u>₩ 19,842,372</u>	<u>17,835,946</u>

21. 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	₩ 79,486	-
Valuation gain on available-for-sale financial assets	-	168,211
Other comprehensive loss of investments in associates	(281,488)	(320,060)
Valuation loss on derivatives	(83,508)	(73,828)
Foreign currency translation differences for foreign operations	(7,260)	(9,050)
	<u>₩ (292,770)</u>	<u>(234,727)</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>Other comprehensive loss of investments in associates</u>	<u>Valuation loss on derivatives</u>	<u>Foreign currency translation differences for foreign operations</u>	<u>Total</u>
Balance at January 1, 2017	₩ -	12,534	(179,167)	(96,418)	36,868	(226,183)
Changes, net of taxes	-	49,183	(102,309)	(8,770)	(36,292)	(98,188)
Balance at March 31, 2017	-	61,717	(281,476)	(105,188)	576	(324,371)
Balance at December 31, 2017	-	168,211	(320,060)	(73,828)	(9,050)	(234,727)
Impact of adopting K-IFRS No.1109	99,407	(168,211)	-	-	-	(68,804)
Balance at January 1, 2018	99,407	-	(320,060)	(73,828)	(9,050)	(303,531)
Changes, net of taxes	(19,921)	-	38,572	(9,680)	1,790	10,761
Balance at March 31, 2018	₩ 79,486	-	(281,488)	(83,508)	(7,260)	(292,770)

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

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

22. 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)

	For the three-month period ended	
	March 31, 2018	March 31, 2017
Communication	₩ 8,172	7,134
Utilities	75,081	73,671
Taxes and dues	8,634	3,299
Repair	79,158	75,393
Research and development	89,425	94,617
Training	8,444	6,876
Bad debt for accounts receivable - trade	9,820	6,511
Travel	6,696	5,833
Supplies and other	34,372	33,079
	<u>₩ 319,802</u>	<u>306,413</u>

23. 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:		
Fees revenues	₩ 85	73
Gain on disposal of property and equipment and intangible assets	2,157	4,524
Others	14,678	4,187
	<u>₩ 16,920</u>	<u>8,784</u>
Other Non-operating Expenses:		
Loss on impairment of property and equipment and intangible assets	₩ 903	2,194
Loss on disposal of property and equipment and intangible assets	3,068	10,127
Donations	15,971	15,191
Bad debt for accounts receivable - other	3,714	2,706
Others	3,311	6,036
	<u>₩ 26,967</u>	<u>36,254</u>

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

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

24. 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	₩ 16,920	25,280
Gain on sale of accounts receivable - other	3,749	5,025
Dividends	15,142	10,151
Gain on foreign currency transactions	3,607	2,286
Gain on foreign currency translations	558	7,175
Gain on disposal of long-term investment securities	-	2,269
Gain on financial assets at FVTPL	9,502	-
Gain on valuation of derivatives	319	355
	<u>₩ 49,797</u>	<u>52,541</u>

(In millions of won)

	For the three-month period ended	
	March 31, 2018	March 31, 2017
Finance Costs:		
Interest expenses	₩ 75,115	74,420
Loss on sale of accounts receivable - other	2,458	2,518
Loss on foreign currency transactions	6,138	4,363
Loss on foreign currency translations	480	9,633
Loss on disposal of long-term investment securities	-	49
Loss on financial assets at FVTPL	400	-
Loss on financial liabilities at FVTPL	288	331
	<u>₩ 84,879</u>	<u>91,314</u>

(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	₩ 6,767	5,605
Interest income on installment receivables and others	10,153	19,675
	<u>₩ 16,920</u>	<u>25,280</u>

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

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

24. Finance Income and Costs, Continued

- (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	₩ 3,562	2,452
Interest expense on debentures	57,970	55,824
Others	13,583	16,144
	₩ 75,115	74,420

- (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	₩ 9,820	6,511
Other receivables	3,714	2,706
	₩ 13,534	9,217

25. Income Tax Expense

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

26. 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	₩ 694,959	589,134
Weighted average number of common shares outstanding	70,609,160	70,609,160
Basic earnings per share (in won)	₩ 9,842	8,344

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

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

26. Earnings per Share, Continued

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

	For the three-month period ended	
	March 31, 2018	March 31, 2017
(In shares)		
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	<u>70,609,160</u>	<u>70,609,160</u>

- (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.

27. 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					Total
	Financial assets at FVTPL	Equity instruments at FVOCI	Debt instruments at FVOCI	Financial assets at amortized cost	Derivatives hedging instrument	
Cash and cash equivalents	₩ -	-	-	1,885,744	-	1,885,744
Financial instruments	-	-	-	567,726	-	567,726
Short-term investment securities	77,407	-	-	-	-	77,407
Long-term investment securities(*)	397,536	698,057	1,063	-	-	1,096,656
Accounts receivable - trade	-	-	-	2,102,956	-	2,102,956
Loans and other receivables	1,014,124	-	-	1,054,279	-	2,068,403
Derivative financial assets	9,373	-	-	-	3,139	12,512
₩	<u>1,498,440</u>	<u>698,057</u>	<u>1,063</u>	<u>5,610,705</u>	<u>3,139</u>	<u>7,811,404</u>

- (*) The Group designated ₩ 698,057 million of equity instrument that is not held for trading as financial assets measured at FVOCI.

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

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

27. Categories of Financial Instruments

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

(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	₩	-	-	1,457,735	-	1,457,735
Financial instruments		-		618,002	-	618,002
Short-term investment securities		97,003	47,383	-	-	144,386
Long-term investment securities		-	887,007	-	-	887,007
Accounts receivable – trade		-	-	2,138,755	-	2,138,755
Loans and other receivables(*)		-	-	1,962,083	-	1,962,083
Derivative financial assets		231,311	-	-	21,902	253,213
	₩	<u>328,314</u>	<u>934,390</u>	<u>6,176,575</u>	<u>21,902</u>	<u>7,461,181</u>

(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
Accounts payable – trade	₩	-	243,520	-	243,520
Derivative financial liabilities		-	-	44,934	44,934
Borrowings		-	274,804	-	274,804
Debentures(*)		60,566	7,416,910	-	7,477,476
Accounts payable - other and others		-	5,215,232	-	5,215,232
	₩	<u>60,566</u>	<u>13,150,466</u>	<u>44,934</u>	<u>13,255,966</u>

(*) 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.

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

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

27. Categories of Financial Instruments, Continued

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

(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
Accounts payable – trade	₩ -	351,711	-	351,711
Derivative financial liabilities	-	-	39,470	39,470
Borrowings	-	382,817	-	382,817
Debentures(*)	60,278	7,025,909	-	7,086,187
Accounts payable - other and others	-	4,865,519	-	4,865,519
	<u>₩ 60,278</u>	<u>12,625,956</u>	<u>39,470</u>	<u>12,725,704</u>

(*) 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.

28. Financial Risk Management

(1) Financial risk management

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

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

1) Market risk

(i) Currency risk

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

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

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

28. Financial Risk Management, Continued

(1) Financial risk management, Continued

1) Market risk, Continued

(i) Currency risk, Continued

Monetary assets and liabilities denominated in foreign currencies as of 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	158,697	₩ 169,276	1,823,575	₩ 1,944,842
EUR	11,616	15,239	24	8
JPY	19,365	193	1,140	35
Others	-	10,201	-	6,306
		₩ 194,909		₩ 1,951,191

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

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

(In millions of won)

		If increased by 10%	If decreased by 10%
USD	₩	8,625	(8,625)
EUR		1,521	(1,521)
JPY		18	(18)
Others		389	(389)
	₩	10,553	(10,553)

(ii) Interest rate risk

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

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

As of March 31, 2018, the floating-rate borrowings and debentures of the Group are ₩220,438 million and ₩319,950 million, respectively, and the Group has entered into interest rate swap agreements for some of the floating-rate borrowings and debentures to hedge interest rate risk.

If the interest rate increases (decreases) 1%p with all other variables held constant, income before income taxes for the three-month period ended March 31 2018 would change by ₩700 million due to the interest expense on floating-rate borrowings that are exposed to interest rate risk.

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

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

28. Financial Risk Management, Continued

(1) Financial risk management, Continued

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	₩	1,884,812	1,457,416
Financial instruments		567,726	618,002
Investment securities		30,676	19,928
Accounts receivable – trade		2,102,956	2,138,755
Loans and other receivables		2,068,403	1,962,083
Derivative financial assets		12,512	30,956
	₩	<u>6,667,085</u>	<u>6,227,140</u>

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

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

The Group establishes an allowance for doubtful accounts 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 Group's credit risk can arise from transactions with financial institutions related to its cash and cash equivalents, financial instruments and derivatives. To minimize such risk, the Group has a policy to deal only with financial institutions with high credit ratings. The amount of maximum exposure to credit risk of the Group is the carrying amount of financial assets as of March 31, 2018.

3) Liquidity risk

The Group's approach to managing liquidity is to ensure that it will always maintain sufficient cash and cash equivalents balances and have enough liquidity through various committed credit lines. The Group maintains enough liquidity 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)

		<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Less than 1 year</u>	<u>1 - 5 years</u>	<u>More than 5 years</u>
Accounts payable - trade	₩	243,520	243,520	243,520	-	-
Borrowings(*)		274,804	288,955	120,631	168,324	-
Debentures(*)		7,477,476	8,727,161	1,513,994	4,009,054	3,204,113
Accounts payable - other and others		<u>5,215,232</u>	<u>5,353,959</u>	<u>4,168,900</u>	<u>872,323</u>	<u>312,736</u>
	₩	<u>13,211,032</u>	<u>14,613,595</u>	<u>6,047,045</u>	<u>5,049,701</u>	<u>3,516,849</u>

28. Financial Risk Management, Continued

(1) Financial risk management, Continued

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

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

3) Liquidity risk, Continued

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

(*) Includes interest payables.

As of 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	₩ 3,139	(4,454)	7,550	25,617	(37,621)
Liabilities	(44,934)	(45,618)	(30,423)	(15,195)	-
	<u>₩ (41,795)</u>	<u>(50,072)</u>	<u>(22,873)</u>	<u>10,422</u>	<u>(37,621)</u>

(2) Capital management

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

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

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

(In millions of won)

	March 31, 2018	December 31, 2017
Total liabilities	₩ 16,146,565	15,399,474
Total equity	19,987,823	18,029,195
Debt-equity ratios	80.78%	85.41%

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

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

28. Financial Risk Management, Continued

(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)

	March 31, 2018				
	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets that are measured at fair value					
FVTPL	₩ 1,498,440	-	1,100,904	397,536	1,498,440
Derivative financial assets	3,139	-	3,139	-	3,139
FVOCI	699,120	565,226	-	133,894	699,120
	₩ <u>2,200,699</u>	<u>565,226</u>	<u>1,104,043</u>	<u>531,430</u>	<u>2,200,699</u>
Financial liabilities that are measured at fair value					
FVTPL	₩ 60,566	-	60,566	-	60,566
Derivative financial liabilities	44,934	-	44,934	-	44,934
	₩ <u>105,500</u>	<u>-</u>	<u>105,500</u>	<u>-</u>	<u>105,500</u>
Financial liabilities that are not measured at fair value					
Borrowings	₩ 274,804	-	275,762	-	275,762
Debentures	7,416,910	-	7,656,964	-	7,656,964
Long-term payables - other	1,352,390	-	1,426,950	-	1,426,950
	₩ <u>9,044,104</u>	<u>-</u>	<u>9,359,676</u>	<u>-</u>	<u>9,359,676</u>

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

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

28. Financial Risk Management, Continued

(3) Fair value, Continued

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

(In millions of won)

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

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

Available-for-sale financial assets amounting to ₩199,903 million as of December 31, 2017 are measured at cost in accordance with K-IFRS 1039 since they are equity instruments which do not have quoted price in an active market for the identical instruments and for which fair value cannot be reliably measured using other valuation methods.

Fair value of the financial instruments that are traded in an active market (Financial assets at FVOCI) is measured based on the bid price at the end of the reporting date.

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

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

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

28. Financial Risk Management, Continued

(3) Fair value, Continued

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

	<u>Interest rate</u>
Derivative instruments	1.50 ~ 2.36%
Borrowings and debentures	2.56 ~ 2.63%
Long-term payables - other	2.34 ~ 2.69%

3) There have been no transfers between Level 2 to 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>Gain for the year</u>	<u>Other compre- hensive loss</u>	<u>Acquisition</u>	<u>Disposal</u>	<u>Balance at March 31, 2018</u>
Financial assets at fair value							
through profit or loss	₩ 222,257	(222,257)	-	-	-	-	-
Available-for-sale financial assets	97,902	(97,902)	-	-	-	-	-
FVTPL	-	391,515	8,184	(85)	90	(2,168)	397,536
FVOCI	-	129,455	-	(306)	6,478	(1,733)	133,894
	<u>₩ 320,159</u>	<u>200,811</u>	<u>8,184</u>	<u>(391)</u>	<u>6,568</u>	<u>(3,901)</u>	<u>531,430</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(*)	₩ 11,959	-	11,959	(11,959)	-
Accounts receivable – trade and others	90,633	(90,109)	524	-	524
	<u>₩ 102,592</u>	<u>(90,109)</u>	<u>12,483</u>	<u>(11,959)</u>	<u>524</u>
Financial liabilities:					
Derivatives(*)	₩ 25,405	-	25,405	(11,959)	13,446
Accounts payable - other and others	90,109	(90,109)	-	-	-
	<u>₩ 115,514</u>	<u>(90,109)</u>	<u>25,405</u>	<u>(11,959)</u>	<u>13,446</u>

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

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

28. 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(*)	₩ 26,645	-	26,645	(19,875)	6,770
Accounts receivable – trade and others	93,146	(92,409)	737	-	737
	<u>₩ 119,791</u>	<u>(92,409)</u>	<u>27,382</u>	<u>(19,875)</u>	<u>7,507</u>
Financial liabilities:					
Derivatives(*)	₩ 19,875	-	19,875	(19,875)	-
Accounts payable - other and others	92,409	(92,409)	-	-	-
	<u>₩ 112,284</u>	<u>(92,409)</u>	<u>19,875</u>	<u>(19,875)</u>	<u>-</u>

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

29. Transactions with Related Parties

(1) List of related parties

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

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

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

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

29. Transactions with Related Parties, Continued

(2) Compensation for the key management

The Parent 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.

(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)	₩ 5,546	282,162	3,628
Associates	F&U Credit information Co., Ltd.	672	13,647	-
	HappyNarae Co., Ltd.	134	3,825	5,684
	SK hynix Inc.(*2)	153,104	28	-
	KEB HanaCard Co., Ltd.	4,032	4,031	-
	Others	314	15,020	-
		158,256	36,551	5,684
Other	SK Engineering & Construction Co., Ltd.	797	221	-
	SK Innovation Co., Ltd	3,146	181	-
	SK Networks Co., Ltd.	3,887	284,667	-
	SK Networks Services Co., Ltd.	184	23,038	255
	SK Telesys Co., Ltd.	86	2,207	7,623
	SK TNS CO., LTD.	33	1,107	21,354
	Others	9,113	28,185	5,424
		17,246	339,606	34,656
		₩ 181,048	658,319	43,968

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

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

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

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

29. Transactions with Related Parties, 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)	₩ 5,626	277,276	58,552
Associates	F&U Credit information Co., Ltd.	673	14,257	-
	HappyNarae Co., Ltd.	2,606	7,420	2,931
	SK hynix Inc.(*2)	92,550	32	-
	KEB HanaCard Co., Ltd.	4,597	3,686	-
	Others	1,241	21,386	-
		101,667	46,781	2,931
Other	SK Engineering & Construction Co., Ltd.	895	219	-
	SK Networks Co., Ltd.	4,074	244,670	-
	SK Networks Services Co., Ltd.	45	22,779	1,234
	SK Telesys Co., Ltd.	101	6,723	18,080
	SK Energy Co., Ltd.	840	134	-
	SK Innovation Co., Ltd	10,994	181	-
	SK TNS CO., LTD.	32	297	24,378
	Others	6,194	29,491	8,702
		23,175	304,494	52,394
		₩ 130,468	628,551	113,877

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

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

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

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

29. Transactions with Related Parties, 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 Associates	Controlling	SK Holdings Co., Ltd.	₩ -	11,321	231,458		
		HappyNarae Co., Ltd.	-	383	3,429		
		F&U Credit information Co., Ltd.	-	88	1,099		
		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	10,059		
		S.M. Culture & Contents Co.,Ltd.	-	-	2,138		
		Xian Tianlong Science and Technology Co., Ltd.	7,032	-	-		
		Others	611	2,056	31		
			29,790	193,409	16,756		
		Other		SK Engineering & Construction Co., Ltd.	-	772	1
				SK Networks. Co., Ltd.	-	3,271	210,992
SK Networks Services Co., Ltd.	-			-	7,663		
SK Telesys Co., Ltd.	-			36	4,297		
SK TNS Co., Ltd.	-			8	19,796		
SK Innovation Co., Ltd.	-			2,383	496		
SK Energy Co., Ltd.	-			1,014	237		
SK Gas Co., Ltd.	-			1,587	9		
Others	-			9,765	16,465		
	-			18,836	259,956		
	₩ 29,790	223,566	508,170				

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

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

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

29. Transactions with Related Parties, Continued

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

(In millions of won)

		December 31, 2017			
		Loans	Accounts receivable	Accounts payable	
Scope	Company		Accounts receivable - trade and others	Accounts payable - other and others	
Ultimate Entity Associates	Controlling				
		SK Holdings Co., Ltd.	₩ -	2,068	148,066
		HappyNarae Co., Ltd.	-	15	6,865
		F&U Credit information Co., Ltd.	-	21	1,612
		SK hynix Inc.	-	2,803	94
		Wave City Development Co., Ltd.	-	38,412	-
		Daehan Kanggun BcN Co., Ltd.(*)	22,147	-	-
		KEB HanaCard Co., Ltd.	-	1,427	11,099
		S.M. Culture & Contents Co., Ltd.	-	448	8,963
		Xian Tianlong Science and Technology Co., Ltd.	7,032	-	-
		Others	611	2,272	1,164
			29,790	45,398	29,797
	Other				
			SK Engineering & Construction Co., Ltd.	-	2,033
		SK Networks. Co., Ltd.	-	3,050	267,297
		SK Networks Services Co., Ltd.	-	15	9,522
		SK Telesys Co., Ltd.	-	36	58,346
		SK TNS Co., Ltd.	-	3	140,311
		SK Innovation Co., Ltd.	-	4,112	599
		SK Energy Co., Ltd.	-	2,965	582
		SK Gas Co., Ltd.	-	1,941	9
	Others	-	2,998	27,318	
		-	17,153	504,053	
Total		₩ 29,790	64,619	681,916	

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

(5) SK m&service Co., Ltd., a subsidiary of the Parent Company, has entered into a service agreement with SK Energy Co., Ltd. and provided a blank note to SK Energy Co., Ltd., with regard to this transaction.

(6) As of March 31, 2018, the Group provides USD14,377,300 of payment guarantees in connection with the borrowings of Celcom Planet, a joint venture of the Group.

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

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

30. Commitments and Contingencies

(1) Collateral assets and commitments

SK Broadband Co., Ltd., a subsidiary of the Parent Company, has pledged its properties as collateral for leases of buildings to secure lease payments up to ₩4,144 million as of March 31, 2018.

SK Broadband Co., Ltd. has guaranteed the payment of employees' borrowings relating to employee stock ownership program and provided short-term financial instruments amounting to ₩263 million as collateral as of March 31, 2018.

(2) Legal claims and litigations

As of March 31, 2018, the Group is involved in various legal claims and litigation. Provision 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 Group has a present obligation, nor is it expected any of these claims or litigation will have a significant impact on the Group's financial position or operating results in the event an outflow of resources is ultimately necessary.

(3) Accounts receivables from sale of handsets

The dealers of the Parent Company sell handsets to the Parent Company's wireless subscribers on an installment basis. During the three-month period ended March 31, 2018, the Parent 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 Parent Company purchased according to the relevant comprehensive agreement are recognized as accounts receivable – other and long-term accounts receivable – other.

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

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

31. 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
Interest income	₩ (16,920)	(25,280)
Dividend	(15,142)	(10,151)
Gain on foreign currency translations	(558)	(7,175)
Gain on disposal of long-term investments securities	-	(2,269)
Gain on valuation of derivatives	(319)	(355)
Gain on sale of accounts receivable - other	(3,749)	(5,025)
Gain relating to investments in associates and joint ventures, net	(626,643)	(379,961)
Gain on disposal of property, equipment and intangible assets	(2,157)	(4,524)
Gain relating to financial assets at FVTPL	(9,502)	-
Other income	(204)	(20)
Interest expenses	75,115	74,420
Loss on foreign currency translations	480	9,633
Loss on disposal of long-term investments securities	-	49
Loss on sale of accounts receivable - other	2,458	2,518
Income tax expense	213,618	140,739
Expense related to defined benefit plan	31,781	29,114
Share option	139	12
Depreciation and amortization	823,908	794,643
Bad debt for accounts receivable - trade	9,820	6,511
Loss on disposal of property and equipment and intangible assets	3,068	10,127
Impairment loss on property and equipment and intangible assets	903	2,194
Bad debt for accounts receivable - other	3,714	2,706
Loss related to financial assets at FVTPL	400	-
Loss related to financial liabilities at FVTPL	288	331
Loss on impairment of investment assets	455	2,447
Other expenses	4,648	1,507
	<u>₩ 495,601</u>	<u>642,191</u>

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

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

31. 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	₩ 29,989	61,060
Accounts receivable – other	(89,187)	286,134
Accrued income	(677)	82
Advance payments	9,643	350
Prepaid expenses	3,261	(833)
Value-Added Tax refundable	5,667	3,396
Inventories	18,103	11,513
Long-term accounts receivable - other	154,185	80,062
Contract assets	17,891	-
Guarantee deposits	5,908	7,654
Accounts payable – trade	(112,866)	(92,671)
Accounts payable – other	(221,714)	(467,796)
Advanced receipts	-	(11,573)
Withholdings	181,981	86,558
Contract liabilities	3,042	-
Deposits received	(1,176)	(220)
Accrued expenses	(161,782)	(162,111)
Value-Added Tax payable	23,236	19,417
Unearned revenue	-	(3,282)
Provisions	(279)	926
Long-term provisions	724	(2,887)
Plan assets	13,727	10,914
Retirement benefit payment	(14,562)	(14,507)
Others	(3,519)	(665)
	₩ (138,405)	(188,479)

(3) Significant non-cash transactions 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
Decrease in accounts payable - other relating to the acquisition of property and equipment and intangible assets	(471,595)	(414,885)

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

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

32. Subsequent Events

On May 8, 2018, the Group 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 Group expects to own 55% ownership interests of Siren Holdings Korea Co., Ltd. and will obtain control over ADT Caps Co., Ltd. The acquisition transaction is subject to government's approval.