

SK TELECOM CO., LTD. AND SUBSIDIARIES

Condensed Consolidated Interim Financial Statements

(Unaudited)

June 30, 2018 and 2017

(With Independent Auditors' Review Report Thereon)

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Independent Auditors' Review Report

Based on a report originally issued in Korean

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

Reviewed financial statements

We have reviewed the accompanying condensed consolidated interim financial statements of SK Telecom Co., Ltd. and its subsidiaries (the "Group"), which comprise the condensed consolidated statement of financial position as of June 30, 2018, the condensed consolidated statements of income and comprehensive income for the three and six-month periods ended June 30, 2018 and 2017, the condensed consolidated statements of changes in equity and cash flows for the six-month periods ended June 30, 2018 and 2017, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility

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

Auditors' responsibility

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

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

Conclusion

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

Emphasis of matter

As a matter that does not have an impact on our review conclusion, we draw the attention of the users of the above-mentioned financial statements of the Group to the matter described in Note 3 to the condensed consolidated financial statements. The Group has initially adopted K-IFRS Nos. 1109 and 1115 for the year beginning on January 1, 2018, and the Group has taken an exemption not to restate the condensed consolidated financial statements as of December 31, 2017 or for the three or six-month period ended June 30, 2017, presented for comparative purposes, in accordance with transition requirements of the standards. The financial impacts of applying K-IFRS Nos. 1109 and 1115 are discussed in Note 3.

Other matters

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

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

KPMG Samjong Accounting Corp.
Seoul, Korea
August 13, 2018

<p>This report is effective as of August 13, 2018, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying condensed consolidated interim financial statements and notes thereto. Accordingly, the readers of the review report should understand that the above review report has not been updated to reflect the impact of such subsequent events or circumstances, if any.</p>
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SK TELECOM CO., LTD. and Subsidiaries
Condensed Consolidated Statements of Financial Position

As of June 30, 2018 and December 31, 2017

<i>(In millions of won)</i>	Note	June 30, 2018	December 31, 2017
Assets			
Current Assets:			
Cash and cash equivalents	3,30,31	₩ 1,796,190	1,457,735
Short-term financial instruments	3,30,31,33	419,283	616,780
Short-term investment securities	3,9,30,31	119,547	144,386
Accounts receivable – trade, net	3,5,30,31,32	1,987,902	2,126,007
Short-term loans, net	3,5,30,31,32	74,904	62,830
Accounts receivable – other, net	3,5,30,31,32,33	1,097,106	1,260,835
Prepaid expenses	3,6	1,862,925	197,046
Contract assets	3,7	92,183	-
Inventories, net	8	259,298	272,403
Non-current assets held for sale	10	42,711	-
Derivative financial assets	19	15,547	-
Advance payments and other	3,5,30,31,32	46,732	63,777
Total Current Assets		7,814,328	6,201,799
Non-Current Assets:			
Long-term financial instruments	3,30,31	1,219	1,222
Long-term investment securities	3,9, 30,31	1,064,907	887,007
Investments in associates and joint ventures	12	11,004,762	9,538,438
Property and equipment, net	13,32,33	9,534,852	10,144,882
Goodwill	11	1,954,244	1,915,017
Intangible assets, net	14	3,341,694	3,586,965
Long-term contract assets	3,7	35,232	-
Long-term loans, net	3,5,30,31,32	47,846	50,874
Long-term accounts receivable - other	3,5,30,31,33	248,076	287,048
Long-term prepaid expenses	3,6	803,320	90,834
Guarantee deposits	3,5,30,31,32	300,362	292,590
Long-term derivative financial assets	3,19,30,31	52,018	253,213
Defined benefit assets	18	18,821	45,952
Deferred tax assets	3,28	81,513	88,132
Other non-current assets	5,30,31	33,563	44,696
Total Non-Current Assets		28,522,429	27,226,870
Total Assets		₩ 36,336,757	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 June 30, 2018 and December 31, 2017

<i>(In millions of won)</i>	Note	June 30, 2018	December 31, 2017
Liabilities and Shareholders' Equity			
Current Liabilities:			
Short-term borrowings	15,30,31	₩ 45,890	130,000
Current installments of long-term debt, net	15,30,31	973,273	1,530,948
Current installments of long-term payables - other	16,30,31	299,526	302,703
Accounts payable - trade	30,31,32	263,198	351,711
Accounts payable - other	30,31,32	1,319,324	1,867,074
Receipts in advance	3	-	161,266
Withholdings	3,30,31,32	1,243,248	961,501
Contract liabilities	3,7	113,841	-
Accrued expenses	30,31	1,230,984	1,327,906
Income tax payable	28	223,096	219,791
Unearned revenue	3	-	175,732
Derivative financial liabilities	19,30,31	-	28,406
Provisions	3,17	46,876	52,057
Other current liabilities		-	28
Total Current Liabilities		5,759,256	7,109,123
Non-Current Liabilities:			
Debentures, excluding current installments, net	15,30,31	6,457,385	5,596,570
Long-term borrowings, excluding current installments, net	15,30,31	146,643	211,486
Long-term payables - other	16,30,31	1,058,411	1,346,763
Long-term unearned revenue	3	-	7,052
Long-term contract liabilities	3,7	20,104	-
Defined benefit liabilities	18	94,520	61,960
Long-term derivative financial liabilities	19,30,31	1,532	11,064
Long-term provisions	17	32,421	32,669
Deferred tax liabilities	3,28	1,812,638	978,693
Other non-current liabilities	3,30,31	45,098	44,094
Total Non-Current Liabilities		9,668,752	8,290,351
Total Liabilities		15,428,008	15,399,474
Shareholders' Equity			
Share capital	1,20	44,639	44,639
Capital surplus and others	11,20,21,22	189,516	196,281
Retained earnings	3,23	20,754,708	17,835,946
Reserves	3,24	(283,876)	(234,727)
Equity attributable to owners of the Parent Company		20,704,987	17,842,139
Non-controlling interests		203,762	187,056
Total Shareholders' Equity		20,908,749	18,029,195
Total Liabilities and Shareholders' Equity	₩	36,336,757	33,428,669

See accompanying notes to the condensed consolidated interim financial statements.

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

For the three and six-month periods ended June 30, 2018 and 2017

(In millions of won except for per share data)

	<i>Note</i>	June 30, 2018		June 30, 2017	
		Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended
Operating revenue:	3,4,32				
Revenue		₩ 4,154,324	8,335,861	4,345,593	8,579,958
Operating expenses:	3,32				
Labor		535,556	1,085,527	465,087	927,928
Commissions	3	1,216,856	2,478,955	1,367,292	2,730,628
Depreciation and amortization	4	767,722	1,553,701	766,167	1,527,883
Network interconnection		218,829	433,789	213,024	434,104
Leased line		76,484	157,145	83,383	171,199
Advertising		110,475	210,592	123,448	208,876
Rent		131,144	262,757	132,414	265,485
Cost of products that have been resold		398,961	809,820	445,407	847,569
Others	25	351,403	671,205	326,105	632,518
		<u>3,807,430</u>	<u>7,663,491</u>	<u>3,922,327</u>	<u>7,746,190</u>
Operating profit	4	346,894	672,370	423,266	833,768
Finance income	4,27	34,563	84,360	27,254	75,130
Finance costs	4,27	(93,172)	(178,051)	(139,963)	(226,612)
Other non-operating income	4,26	5,425	22,345	7,167	15,436
Other non-operating expenses	4,26	(46,265)	(73,232)	(67,587)	(103,326)
Gain on investments in associates and joint ventures	4,12	915,597	1,542,240	498,289	878,250
Profit before income tax	4	1,163,042	2,070,032	748,426	1,472,646
Income tax expense	28	248,741	462,359	127,915	268,654
Profit for the period		₩ 914,301	1,607,673	620,511	1,203,992
Attributable to:					
Owners of the Parent Company		₩ 916,652	1,611,611	624,889	1,214,023
Non-controlling interests		(2,351)	(3,938)	(4,378)	(10,031)
Earnings per share:	29				
Basic and diluted earnings per share (in won)		<u>₩ 12,863</u>	<u>22,705</u>	<u>8,731</u>	<u>17,074</u>

See accompanying notes to the condensed consolidated interim financial statements.

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

For the three and six-month periods ended June 30, 2018 and 2017

(In millions of won)

	<i>Note</i>	June 30, 2018		June 30, 2017	
		Three-month period ended	Six-month period ended	Three-month period ended	Six-month period ended
Profit for the period	₩	914,301	1,607,673	620,511	1,203,992
Other comprehensive income (loss):					
Items that will never be reclassified to profit or loss, net of taxes:					
Remeasurement of defined benefit liabilities	18	(19,559)	(52,630)	1,409	(9,878)
Valuation loss on financial assets at fair value through other comprehensive income	24	2,412	(10,738)	1,409	(9,878)
		(21,971)	(41,892)	-	-
Items that are or may be reclassified subsequently to profit or loss, net of taxes:					
		32,547	63,530	148,600	49,804
Net change in unrealized fair value of available-for-sale financial assets	24	-	-	82,782	131,987
Net change in other comprehensive income of investments in associates and joint ventures	12,24	9,524	48,085	41,088	(61,279)
Net change in unrealized fair value of derivatives	19,24	717	(8,961)	14,694	5,924
Foreign currency translation differences for foreign operations	24	22,306	24,406	10,036	(26,828)
Other comprehensive income for the period, net of taxes		12,988	10,900	150,009	39,926
Total comprehensive income	₩	927,289	1,618,573	770,520	1,243,918
Total comprehensive income (loss) attributable to:					
Owners of the Parent Company	₩	929,650	1,622,244	774,020	1,253,700
Non-controlling interests		(2,361)	(3,671)	(3,500)	(9,782)

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 six-month periods ended June 30, 2018 and 2017

(In millions of won)

	Note	Controlling Interest					Non-controlling interests	Total equity
		Share capital	Capital surplus and other capital adjustments	Retained earnings	Reserves	Total		
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		-	-	1,214,023	-	1,214,023	(10,031)	1,203,992
Other comprehensive income (loss)	18,24	-	-	(9,881)	49,558	39,677	249	39,926
		-	-	1,204,142	49,558	1,253,700	(9,782)	1,243,918
Transactions with owners:								
Annual dividends		-	-	(635,482)	-	(635,482)	(281)	(635,763)
Interest on hybrid bonds		-	-	(8,420)	-	(8,420)	-	(8,420)
Share option		-	145	-	-	145	-	145
Changes in ownership in subsidiaries		-	(7,881)	-	-	(7,881)	(33,218)	(41,099)
		-	(7,736)	(643,902)	-	(651,638)	(33,499)	(685,137)
Balance, June 30, 2017		₩ 44,639	192,043	16,513,404	(176,625)	16,573,461	101,750	16,675,211
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		-	-	1,611,611	-	1,611,611	(3,938)	1,607,673
Other comprehensive income (loss)	18,24	-	-	(9,022)	19,655	10,633	267	10,900
		-	-	1,602,589	19,655	1,622,244	(3,671)	1,618,573
Transactions with owners:								
Annual dividends		-	-	(635,482)	-	(635,482)	-	(635,482)
Interest on hybrid bonds		-	-	(8,420)	-	(8,420)	-	(8,420)
Repayments of hybrid bonds	21	-	(400,000)	-	-	(400,000)	-	(400,000)
Proceeds from issuance of hybrid bonds	21	-	398,759	-	-	398,759	-	398,759
Share option		-	289	-	-	289	52	341
Changes in ownership in subsidiaries		-	(5,813)	-	-	(5,813)	20,325	14,512
		-	(6,765)	(643,902)	-	(650,667)	20,377	(630,290)
Balance, June 30, 2018		₩ 44,639	189,516	20,754,708	(283,876)	20,704,987	203,762	20,908,749

See accompanying notes to the condensed consolidated interim financial statements.

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

For the six-month periods ended June 30, 2018 and 2017

(In millions of won)

	Note	June 30, 2018	June 30, 2017
Cash flows from operating activities:			
Cash generated from operating activities:			
Profit for the period		₩ 1,607,673	1,203,992
Adjustments for income and expenses	34	760,145	1,233,560
Changes in assets and liabilities related to operating activities	34	(17,014)	(244,788)
Sub-total		2,350,804	2,192,764
Interest received		29,900	34,612
Dividends received		161,836	100,642
Interest paid		(129,003)	(118,581)
Income tax paid		(206,160)	(396,734)
Net cash provided by operating activities		2,207,377	1,812,703
Cash flows from investing activities:			
Cash inflows from investing activities:			
Decrease in short-term financial instruments, net		219,230	-
Decrease in short-term investment securities, net		5,208	60,025
Collection of short-term loans		106,727	100,456
Decrease in long-term financial instruments		3	1
Proceeds from disposal of long-term investment securities		6,162	125,413
Proceeds from disposal of investments in associates and joint ventures		2,491	3,941
Proceeds from disposal of property and equipment		8,615	14,484
Proceeds from disposal of intangible assets		7,958	4,113
Collection of long-term loans		567	1,551
Decrease in deposits		5,416	6,370
Proceeds from disposal of other non-current assets		486	315
Acquisitions of subsidiaries, net of cash acquired		11,107	-
		373,970	316,669
Cash outflows for investing activities:			
Increase in short-term financial instruments, net		-	(219,275)
Increase in short-term loans		(112,905)	(109,242)
Increase in long-term loans		(3,626)	(2,894)
Increase in long-term financial instruments		(16)	(2,030)
Acquisition of long-term investment securities		(8,815)	(9,225)
Acquisition of investments in associates and joint ventures		(31,318)	(7)
Acquisition of property and equipment		(1,084,202)	(1,103,160)
Acquisition of intangible assets		(46,570)	(55,761)
Increase in deposits		(3,805)	(9,459)
Acquisition of business, net of cash acquired		(4,452)	-
Acquisition of subsidiaries		(44,080)	-
Disposal of subsidiaries		(1,836)	-
		(1,341,625)	(1,511,053)
Net cash used in investing activities		₩ (967,655)	(1,194,384)

See accompanying notes to the condensed consolidated interim financial statements.

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

For the six-month periods ended June 30, 2018 and 2017

(In millions of won)

	June 30, 2018	June 30, 2017
Cash flows from financing activities:		
Cash inflows from financing activities:		
Proceeds from short-term borrowings, net	₩ -	27,386
Proceeds from issuance of debentures	1,176,857	517,804
Proceeds from long-term borrowings, net	-	70,000
Proceeds from issuance of hybrid bonds	398,759	-
	<u>1,575,616</u>	<u>615,190</u>
Cash outflows for financing activities:		
Decrease in short-term borrowings, net	(85,610)	-
Repayments of long-term account payables-other	(304,112)	(304,160)
Repayments of debentures	(996,550)	(469,119)
Repayments of long-term borrowings	(21,208)	(16,507)
Cash outflows from settlement of derivatives	(27,213)	(22,883)
Payments of cash dividends	(635,482)	(635,482)
Payments of interest on hybrid bonds	(8,420)	(8,420)
Repayments of hybrid bonds	(400,000)	-
Transactions with the non-controlling shareholders	(1,198)	(41,368)
	<u>(2,479,793)</u>	<u>(1,497,939)</u>
Net cash used in financing activities	<u>(904,177)</u>	<u>(882,749)</u>
Net increase (decrease) in cash and cash equivalents	335,545	(264,430)
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	2,910	(3,183)
Cash and cash equivalents at end of the period	₩ <u>1,796,190</u>	<u>1,237,629</u>

See accompanying notes to the condensed consolidated interim financial statements.

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

For the six-month periods ended June 30, 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 June 30, 2018, the Parent Company’s total issued shares are held by the following shareholders:

	Number of shares	Percentage of total shares issued (%)
SK Holdings Co., Ltd.	20,363,452	25.22
National Pension Service, institutional investors and other shareholders	50,245,708	62.23
Treasury shares	10,136,551	12.55
	<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 individually as “Group entities”). SK Holdings Co., Ltd. is the ultimate controlling entity of the Parent Company.

(2) List of subsidiaries

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

				Ownership (%)(*1)	
Subsidiary		Location	Primary business	June 30, 2018	Dec. 31, 2017
Subsidiaries owned by the Parent Company	SK Telink Co., Ltd.	Korea	Telecommunication and MVNO service	100.0	100.0
	SK Communications Co., Ltd.	Korea	Internet website services	100.0	100.0
	SK Broadband Co., Ltd.	Korea	Telecommunication services	100.0	100.0
	PS&Marketing Corporation	Korea	Communications device retail business	100.0	100.0
	SERVICEACE Co., Ltd.	Korea	Call center management service	100.0	100.0
	SERVICE TOP Co., Ltd.	Korea	Call center management service	100.0	100.0
	Network O&S Co., Ltd.	Korea	Base station maintenance service	100.0	100.0
	SK Planet Co., Ltd.	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	-
	id Quantique SA(*3)	Switzerland	Quantum information and communications service	58.1	-

1. Reporting Entity, Continued

(2) List of subsidiaries, Continued

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

For the six-month periods ended June 30, 2018 and 2017

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

				Ownership (%)(*1)	
				June. 30, 2018	Dec. 31, 2017
	Subsidiary	Location	Primary business		
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
Subsidiaries owned by IRIVER LIMITED	11street (Thailand) Co., Ltd.(*3)	Thailand	Electronic commerce	-	100.0
	Hello Nature Ltd.(*3)	Korea	Retail of agro-fisheries and livestock	49.9	100.0
	iriver Enterprise Ltd.	Hong Kong	Management of Chinese subsidiaries	100.0	100.0
	iriver Inc.	USA	Marketing and sales in North America	100.0	100.0
	iriver China Co., Ltd.	China	Sales of and manufacturing MP3 and 4	100.0	100.0
	Dongguan iriver Electronics Co., Ltd.	China	Sales of and manufacturing e-book	100.0	100.0
	groovers Japan Co., Ltd.	Japan	Digital music contents sourcing and distribution service	100.0	100.0
	S.M. LIFE DESIGN COMPANY JAPAN INC.	Japan	Sale 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	Sale of contents and MQS album	100.0	44.2
Subsidiary 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 startups	59.0	59.0
Subsidiaries owned by SK techx Co., Ltd.	Home & Service Co., Ltd.	Korea	Operation of information and communications facility	100.0	100.0
	SK stoa Co., Ltd.	Korea	Other telecommunication retail business	100.0	100.0
Subsidiary owned by 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 six-month periods ended June 30, 2018 and 2017

1. Reporting Entity, Continued

(2) List of subsidiaries, Continued

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

- (*1) The ownership interest represents direct ownership interest in subsidiaries either by the Parent Company or subsidiaries of the Parent Company.
- (*2) 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 shareholder or organized group of shareholders, and the other shareholdings are widely dispersed.
- (*3) Details of changes in consolidation scope for the six-month period ended June 30, 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 six-month period ended June 30, 2018 is as follows:

(In millions of won)

Subsidiary	As of June 30, 2018			For the six-month period ended June 30, 2018	
	Total assets	Total liabilities	Total equity	Revenue	Profit (loss)
SK Telink Co., Ltd.	₩ 495,783	115,277	380,506	183,551	19,508
SK m&service Co., Ltd.	96,501	47,148	49,353	97,244	(246)
SK Communications Co., Ltd.	87,107	28,745	58,362	21,623	(7,625)
SK Broadband Co., Ltd.	4,015,789	2,560,730	1,455,059	1,497,852	29,594
K-net Culture and Contents Venture Fund	250,823	35,980	214,843	-	(4)
PS&Marketing Corporation	432,397	218,160	214,237	791,376	(3,684)
SERVICEACE Co., Ltd.	74,072	41,542	32,530	98,761	2,427
SERVICE TOP Co., Ltd.	63,653	36,332	27,321	103,206	5,018
Network O&S Co., Ltd.	73,044	33,616	39,428	115,920	(2,016)
SK Planet Co., Ltd.	1,330,570	804,301	526,269	413,328	(85,941)
IRIVER LIMITED(*)	142,544	27,505	115,039	59,431	1,082
SKP America LLC.	437,176	-	437,176	-	(37)
SK techx Co., Ltd.	237,197	25,423	211,774	93,103	13,134
One Store Co., Ltd.	106,226	49,668	56,558	52,374	(8,488)
Home & Service Co., Ltd.	95,474	53,033	42,441	154,600	(2,908)
shopkick Management Company, Inc.	364,581	-	364,581	-	(104)
shopkick, Inc.	34,826	29,960	4,866	21,564	(10,540)

- (*) 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 six-month periods ended June 30, 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 six-month periods ended June 30, 2018 and 2017

1. Reporting Entity, Continued

(4) Changes in subsidiaries

1) The list of subsidiaries that were newly included in consolidation during the six-month period ended June 30, 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
id Quantique SA	Acquired by the Parent Company
SK Telecom Japan Inc.	Established by the Parent Company
groovers Inc.	Acquired additional ownership interests by IRIVER LIMITED

2) The list of subsidiaries that were excluded in consolidation during the six-month period ended June 30, 2018 is as follows:

Subsidiary	Reason
11street (Thailand) Co., Ltd.	Disposed by SK Planet Co., Ltd.
Hello Nature Ltd.	Loss of control due to third parties' investments

(5) The financial information of the subsidiaries with significant non-controlling interests as of and for the six-month period ended June 30, 2018, and as of and for the year ended December 31, 2017 are as follows. There were no dividends paid during the six-month period ended June 30, 2018 and the year ended December 31, 2017 by subsidiaries of which non-controlling interests are significant.

(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 June 30, 2018		
Current assets	₩ 700	66,803	80,824
Non-current assets	250,123	75,741	25,402
Current liabilities	(35,980)	(19,222)	(47,822)
Non-current liabilities	-	(8,283)	(1,846)
Net assets	214,843	115,039	56,558
Carrying amount of non-controlling interests	88,086	64,013	19,490
	For the six-month period ended June 30, 2018		
Revenue	₩ -	59,431	52,374
Profit (Loss) for the period	(4)	1,082	(8,488)
Total comprehensive income (loss)	-	1,295	(8,511)
Profit (Loss) attributable to non-controlling interests	(1)	586	(2,925)
Net cash provided by (used in) operating activities	₩ (1)	623	(550)
Net cash provided by (used in) investing activities	600	29	(3,891)
Net cash provided by (used in) financing activities	-	(1,107)	4
Net increase (decrease) in cash and cash equivalents	599	(455)	(4,437)

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

For the six-month periods ended June 30, 2018 and 2017

1. Reporting Entity, Continued

- (5) The financial information of significant non-controlling interests of the Group as of and for the six-month period ended June 30, 2018, and as of and for the year ended December 31, 2017 are as follows. There were no dividends paid during the six-month period ended June 30, 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	gk28,081
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
For the year ended December 31, 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 six-month periods ended June 30, 2018 and 2017

2. Basis of Preparation, Continued

(2) Use of estimates and judgments

1) Critical judgments, assumptions and estimation uncertainties

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

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

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

For the six-month periods ended June 30, 2018 and 2017

3. Significant Accounting Policies

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

(1) Changes in accounting policies

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

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

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

The Group has 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 a wireless telecommunications service and sells a handset together to one customer, the Group allocates considerations from the customer between handset sale revenue and wireless telecommunications service revenue. The handset sales revenue is recognized when handset is delivered and the wireless telecommunications service revenue is recognized as revenue over the period of the contract term as stated in the subscription contract.

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

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

For the six-month periods ended June 30, 2018 and 2017

3. Significant Accounting Policies, Continued

(1) Changes in accounting policies, Continued

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

ii) Allocate the transaction price to each performance obligations

In accordance with K-IFRS No. 1115, the Group allocates the considerations from contracts to each performance obligation in a contract in proportion to their stand-alone selling prices when the Group provides a 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 ₩142,596 million of considerations allocated to handset sale revenue as contract assets at January 1, 2018.

iii) Incremental costs to acquire a contract

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

iv) Contract liability

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

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

If K-IFRS No. 1018 were applied on the Group's condensed consolidated statement of financial position as of June 30, 2018, prepaid expenses and long-term prepaid expenses would be decreased by ₩1,658,170 million and ₩708,413 million, respectively, and contract assets and long-term contract assets each would be decreased by ₩92,183 million and ₩35,232 million, respectively, while accounts receivable - trade would be increased by ₩4,072 million. As a result, total assets would be decreased by ₩2,489,926 million. In addition, contract liabilities, long-term contract liabilities and deferred tax liabilities would be decreased by ₩113,841 million, ₩20,104 million and ₩589,189 million, respectively, while other liabilities such as receipts in advance and unearned revenue would be increased by ₩108,421 million. As a result, total liabilities would be decreased by ₩614,713 million. In relation to these changes in assets and liabilities, retained earnings would be decreased by ₩1,875,213 million.

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

For the six-month periods ended June 30, 2018 and 2017

3. Significant Accounting Policies, Continued

(1) Changes in accounting policies, Continued

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

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 statement of income for the six-month period ended June 30, 2018, revenues and advertising would be increased by ₩56,730 million and ₩26,306 million, respectively, while commission expenses would be decreased by ₩9,702 million. Operating profit and profit before income tax would be increased by ₩39,791 million with increase in operating expenses by ₩16,939 million. As a result, profit for the period would be increased by ₩24,807 million with increase in income tax expense of ₩14,984 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 six-month period ended June 30, 2018.

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

K-IFRS No. 1109 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This 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 with respects to transition requirements.

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

(In millions of won)

	<u>Reserves</u>	<u>Retained earnings</u>
Reclassification of available-for-sale financial assets to financial assets at fair value through profit or loss("FVTPL")	₩ (5,336)	947
Reclassification of available-for-sale financial assets to financial assets measured at fair value through other comprehensive income ("FVOCI")	(84,881)	90,322
Recognition of loss allowances on accounts receivable – trade and others	-	(13,049)
Related income tax	21,413	(18,194)
	<u>₩ (68,804)</u>	<u>60,026</u>

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

For the six-month periods ended June 30, 2018 and 2017

3. Significant Accounting Policies, Continued

(1) Changes in accounting policies, Continued

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

i) Classification of financial assets and financial liabilities

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

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

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

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

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

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

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

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

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

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

For the six-month periods ended June 30, 2018 and 2017

3. Significant Accounting Policies, Continued

(1) Changes in accounting policies, Continued

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

i) Classification of financial assets and financial liabilities, Continued

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

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

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

For the six-month periods ended June 30, 2018 and 2017

3. Significant Accounting Policies, Continued

(1) Changes in accounting policies, Continued

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

i) Classification of financial assets and financial liabilities, Continued

The following 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:

(In millions of won)

	Original classification under K-IFRS No. 1039	New classification under K-IFRS No. 1109	Original carrying amount under K-IFRS No. 1039	New carrying amount under K-IFRS No. 1109	Difference
Short-term financial assets:					
Cash and cash equivalents	Amortized cost	Amortized cost	₩ 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	-
			5,676,479	5,663,430	(13,049)
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(*1)	Designated as at FVTPL	FVTPL	-	222,257	222,257
			1,784,702	1,785,754	1,052
			₩ 7,461,181	7,449,184	(11,997)

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3. Significant Accounting Policies, Continued

(1) Changes in accounting policies, Continued

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

i) Classification of financial assets and financial liabilities, Continued

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

(*1) As of January 1, 2018, available-for-sale financial assets such as beneficiary certificates and equity investments amounting to ₩205,435 million were reclassified to financial assets measured at FVTPL. In addition, as derivatives embedded in contracts where the host is a financial asset in the scope of K-IFRS No. 1109 are never separated, the available-for-sale financial assets related to the redeemable convertible preferred shares of ₩15,342 million and the related derivative financial assets of ₩222,257 million were reclassified to financial assets measured at FVTPL. As the contractual terms of these assets do not give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, these assets were not designated as financial assets measured at amortized cost. As a result of this reclassification, as at January 1, 2018, accumulated OCI of ₩5,336 million was reclassified to retained earnings, and due to its reclassification to financial assets measured at FVTPL, retained earnings was decreased by ₩4,389 million. In addition, change in the fair value of these financial assets of ₩7,443 million was recognized in profit before income tax during the six-month period ended June 30, 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 subsequent recycling of amounts from OCI to profit and loss.

(*3) As of January 1, 2018, accounts receivable – other of ₩1,074,063 million were reclassified to financial assets at FVTPL. Upon the initial application of K-IFRS No. 1109, the Group reclassified the debt instruments to financial assets at FVTPL whose objectives of the business model are not achieved both by collecting contractual cash flows 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

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

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ii) Impairment of financial assets, Continued

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

At each reporting date, the Group assesses whether financial assets carried at amortized cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. As a result of applying K-IFRS No. 1109, as of January 1, 2018, the Group recognizes the impairment loss on debt instruments at an amount equal to the lifetime expected credit losses.

Loss allowance on financial assets measured at amortized cost is deducted from the carrying amount of the respective assets, while loss allowance on debt instruments at FVOCI is recognized in OCI, instead of reducing the carrying amount of the assets.

iii) Hedge accounting

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

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3. Significant Accounting Policies, Continued

(1) Changes in accounting policies, Continued

3) The following table explains the impacts of adopting K-IFRS Nos. 1115 and 1109 on the Group's statement of financial position as of January 1, 2018.

(In millions of won)

	December 31, 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

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3. Significant Accounting Policies, Continued

(2) Standards issued but not yet effective

The following new standard is effective for annual periods beginning after January 1, 2018 and earlier application is permitted; however, the Group has not early adopted the following new standard in preparing the accompanying condensed consolidated interim financial statements as of and for the six-month period ended June 30, 2018.

K-IFRS No. 1116, *Leases*

The Group currently plans to apply K-IFRS No.1116 in the period beginning on January 1, 2019 and to assess the financial impact on its 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 June 30, 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 six-month periods ended June 30, 2018 and 2017 are as follows:

(In millions of won)

		For the six-month period ended June 30, 2018						
		Cellular	Fixed-line telecommu- nication	E-commerce Services	Others	Sub-total	Adjustments	Total
Total revenue	₩	7,039,636	1,880,222	413,328	421,254	9,754,440	(1,418,579)	8,335,861
Inter-segment revenue		790,793	472,430	17,469	137,887	1,418,579	(1,418,579)	-
External revenue		6,248,843	1,407,792	395,859	283,367	8,335,861	-	8,335,861
Depreciation and amortization		1,190,388	313,280	20,803	29,230	1,553,701	-	1,553,701
Operating profit (loss)		713,895	72,351	(80,993)	(32,883)	672,370	-	672,370
Finance income and costs, net								(93,691)
Gain relating to investments in associates and joint ventures, net								1,542,240
Other non-operating income and expense, net								(50,887)
Profit before income tax								2,070,032

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4. Operating Segments, Continued

(1) Segment information for the six-month periods ended June 30, 2018 and 2017 are as follows, Continued

(In millions of won)

		For the six-month period ended June 30, 2017						
		Cellular	Fixed-line telecommu- nication	E-commerce Services	Others	Sub-total	Adjustments	Total
Total revenue	₩	7,303,708	1,649,960	528,624	367,599	9,849,891	(1,269,933)	8,579,958
Inter-segment revenue		791,083	319,947	19,340	139,563	1,269,933	(1,269,933)	-
External revenue		6,512,625	1,330,013	509,284	228,036	8,579,958	-	8,579,958
Depreciation and amortization		1,181,795	289,282	27,682	29,124	1,527,883	-	1,527,883
Operating profit (loss)		915,836	79,218	(121,577)	(39,709)	833,768	-	833,768
Finance income and costs, net								(151,482)
Gain relating to investments in associates and joint ventures, net								878,250
Other non-operating income and expense, net								(87,890)
Profit before income tax								1,472,646

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 six-month periods ended June 30, 2018 and 2017.

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4. Operating Segments, Continued

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

(In millions of won)

			June 30, 2018	June 30, 2017
Products transferred at a point in time:				
Cellular revenue	Goods (*1)	₩	595,040	535,523
Fixed-line telecommunication revenue	Goods		41,427	42,381
Other revenue	Goods		46,360	35,956
	Goods		15,522	12,834
			698,349	626,694
Services transferred over time:				
Cellular revenue	Wireless service(*2)		4,943,327	5,291,856
	Cellular interconnection		289,355	304,561
	Miscellaneous(*3)		421,121	380,685
Fixed-line telecommunication revenue	Wireless service		147,429	156,515
	Cellular interconnection		54,299	59,463
	Internet Protocol Television(*4)		543,232	480,903
	International calls		40,820	45,862
	Internet service and miscellaneous(*5)		580,585	544,889
E-commerce services revenue	E-commerce service		395,859	509,284
Other revenue	Miscellaneous(*6)		221,485	179,246
			7,637,512	7,953,264
		₩	8,335,861	8,579,958

(*1) Merchandise cellular services revenue includes revenue from considerations received from sales of handsets.

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

(*3) Miscellaneous cellular service revenue includes revenue from IoT solutions as well as other miscellaneous cellular services.

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

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

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

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5. Trade and Other Receivables

(1) Details of trade and other receivables as of June 30, 2018 and December 31, 2017 are as follows:

(In millions of won)

		June 30, 2018		
		Gross amount	Loss allowance	Carrying amount
Current assets:				
Accounts receivable - trade	₩	2,247,128	(259,226)	1,987,902
Short-term loans		75,564	(660)	74,904
Accounts receivable - other(*)		1,167,893	(70,787)	1,097,106
Accrued income		5,584	-	5,584
Others		3,674	-	3,674
		3,499,843	(330,673)	3,169,170
Non-current assets:				
Long-term loans		95,039	(47,193)	47,846
Long-term accounts receivable - other(*)		248,076	-	248,076
Guarantee deposits		300,362	-	300,362
Long-term accounts receivable - trade		12,102	(117)	11,985
		655,579	(47,310)	608,269
	₩	4,155,422	(377,983)	3,777,439

(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
		3,772,803	(315,225)	3,457,578
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
		690,206	(46,946)	643,260
	₩	4,463,009	(362,171)	4,100,838

(*) Gross and carrying amounts of accounts receivable - other as of June 30, 2018 include ₩ 899,794 million of financial instruments classified as FVTPL.

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5. Trade and Other Receivables, Continued

- (2) Changes in the loss allowance on trade and other receivables measured at amortized costs during the six-month periods ended June 30, 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	June 30, 2018
Accounts receivable - trade	₩ 239,448	12,950	20,211	(20,098)	6,832	259,343
Accounts receivable - other	122,723	99	4,546	(12,012)	3,284	118,640
	<u>₩ 362,171</u>	<u>13,049</u>	<u>24,757</u>	<u>(32,110)</u>	<u>10,116</u>	<u>377,983</u>

(In millions of won)

	January 1, 2017	Impairment	Write-offs(*)	Collection of receivables previously written-off	June 30, 2017
Accounts receivable - trade	₩ 241,828	18,430	(25,810)	8,076	242,524
Accounts receivable - other	127,504	2,191	(12,072)	6,562	124,185
	<u>₩ 369,332</u>	<u>20,621</u>	<u>(37,882)</u>	<u>14,638</u>	<u>366,709</u>

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

- (3) The Group applies the simplified approach that allows the Group to estimate the loss allowance for accounts receivables - trade at an amount equal to the lifetime expected credit losses. The expected credit losses include the forward-looking information. To make that assessment, the Group uses its historical credit loss experience and classifies the accounts receivable - trade by their credit risk characteristics and days overdue.

As the Group is 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.

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6. Prepaid expenses

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

(1) Details of prepaid expenses as of June 30, 2018 and December 31, 2017 are as follows:

(In millions of won)

	<u>June 30, 2018</u>	<u>December 31, 2017</u>
Current assets:		
Incremental costs of obtaining contracts	₩ 1,658,170	-
Others	204,755	197,046
	<u>1,862,925</u>	<u>197,046</u>
Non-current assets:		
Incremental costs of obtaining contracts	708,413	-
Others	94,907	90,834
	<u>₩ 803,320</u>	<u>90,834</u>

(2) Incremental costs of obtaining contracts

Incremental costs of obtaining contracts that are capitalized as assets as of June 30, 2018 and the related depreciation recognized as commissions during the three and six-month periods ended June 30, 2018 are as follows:

(In millions of won)

	<u>2018</u>	
	<u>Three-month period ended June 30</u>	<u>Six-month period ended June 30</u>
Depreciation recognized as commission	₩ 503,050	1,019,727

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

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7. Contract assets and liabilities

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

Details of contract assets and liabilities as of June 30, 2018 and January 1, 2018 are as follows:

(In millions of won)

		<u>June 30, 2018</u>	<u>January 1, 2018</u>
Contract assets:			
allocation of performance obligations	₩	127,415	143,053
Contract liabilities:			
wireless service contracts		17,495	16,624
customer loyalty programs		13,681	10,739
fixed-line service contracts		49,782	47,125
commerce service		1,479	6,779
others		51,508	52,117
	₩	<u>133,945</u>	<u>133,384</u>

8. Inventories

Details of inventories as of June 30, 2018 and December 31, 2017 are as follows:

(In millions of won)

		<u>June 30, 2018</u>			<u>December 31, 2017</u>		
		<u>Acquisition cost</u>	<u>Write-down</u>	<u>Carrying amount</u>	<u>Acquisition cost</u>	<u>Write-down</u>	<u>Carrying amount</u>
Merchandise	₩	233,949	(6,022)	227,927	251,463	(7,488)	243,975
Finished goods		1,696	(190)	1,506	1,889	(557)	1,332
Work in process		3,752	(340)	3,412	1,906	(956)	950
Raw materials		9,833	(2,034)	7,799	10,426	(3,249)	7,177
Supplies		18,654	-	18,654	18,969	-	18,969
	₩	<u>267,884</u>	<u>(8,586)</u>	<u>259,298</u>	<u>284,653</u>	<u>(12,250)</u>	<u>272,403</u>

9. Investment Securities

(1) Details of short-term investment securities as of June 30, 2018 and December 31, 2017 are as follows:

(In millions of won)

	<u>Category</u>		<u>June 30, 2018</u>	<u>December 31, 2017</u>
Beneficiary certificates	Available-for-sale financial assets	₩	-	144,386
	FVTPL		119,547	-
		₩	<u>119,547</u>	<u>144,386</u>

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9. Investment Securities, Continued

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

(In millions of won)

	Category	June 30, 2018	December 31, 2017
Equity instruments	Available-for-sale financial assets	₩ -	867,079
	FVOCI(*)	667,368	-
		667,368	867,079
Debt instruments	Available-for-sale financial assets	-	19,928
	FVOCI	1,139	-
	FVTPL	396,400	-
		397,539	19,928
		₩ 1,064,907	887,007

(*) The Group designated ₩667,368 million of equity instruments that are not held for trading as financial assets at FVOCI.

10. Non-current assets held for sale

(1) Investments in associates

Details of the non-current assets held for sale as of June 30, 2018 are as follows:

(In millions of won)

	Amount
12CM GLOBAL PTE. LTD.(*)	₩ 7,217
Xian Tianlong Science and Technology Co., Ltd.(*)	25,554
	₩ 32,771

(*) During the six-month period ended June 30, 2018, the Group executed the sales agreement for the sale of the entire shares of 12CM GLOBAL PTE. LTD. and Xian Tianlong Science and Technology Co., Ltd. and reclassified them to non-current assets held for sale. ₩835 million of accumulated foreign currency translation differences for foreign operations of these associates are included in reserves as of June 30, 2018.

(2) Property and equipment

During the six-month period ended June 30, 2018, the Group executed the disposal agreement for the sale of idle properties such as land and buildings to one of the related parties, SK D&D Co., Ltd., and reclassified ₩9,940 million of land and buildings to non-current assets held for sale.

Assets held for sale were measured at the lower of the fair value and the carrying amount.

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11. Business Combinations

(1) Business combination

1) Acquisition of id Quantique SA by the Parent Company

During the six-month period ended June 30, 2018, the Parent Company acquired additional 41,157,506 shares in exchange of ₩55,248 million in cash, which resulted in the Parent Company obtaining control over id Quantique with 44,157,506 shares and 58.1% ownership of the outstanding shares, in aggregate. Taking control of id Quantique will enable the Parent Company to increase its corporate value as the leading mobile telecommunication operator in Korea and to generate profit in overseas markets by utilizing quantum cryptographic security. id Quantique has recognized ₩1,294 million in revenue and ₩1,110 in net losses since the transfer of control. Meanwhile, the existing shares were reclassified into the investment in a subsidiary from the FVOCI equity instrument with the valuation gain on FVOCI equity instrument of ₩1,636 million reclassified into the retained earnings.

2) Summary of the acquiree

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

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

(In millions of won)

	<u>June 30, 2018</u>
I. Considerations paid:	
Cash and cash equivalents	₩ 55,248
Existing shares(financial assets at FVOCI) at fair value	3,965
	<u>59,213</u>
II. Assets and liabilities acquired:	
Cash and cash equivalent	1,538
Trade and other receivables	13,609
Inventories	2,003
Property and equipment	415
Intangible assets	7,566
Other assets	447
Trade and other payables	(1,569)
Deferred tax liabilities	(1,648)
Other liabilities	(1,232)
	<u>21,129</u>
III. Non-controlling interests:	9,291
IV. Goodwill(I -II+III)	₩ <u>47,375</u>

11. Business Combinations, Continued

(2) Business combination under common control

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

12. Investments in Associates and Joint Ventures

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

(In millions of won)

(In millions of won)	June 30, 2018			December 31, 2017		
	Country	Ownership (%)	Carrying amount	Ownership (%)	Carrying amount	
Investments in associates:						
SK China Company Ltd.	China	27.3	₩ 542,371	27.3	₩ 526,099	
Korea IT Fund(*1)	Korea	63.3	274,443	63.3	257,003	
KEB HanaCard Co., Ltd.(*2)	Korea	15.0	282,174	15.0	280,988	
NanoEnTek, Inc.	Korea	27.1	37,568	28.5	38,718	
SK Technology Innovation Company	Cayman Islands	49.0	44,542	49.0	42,511	
HappyNarae Co., Ltd.	Korea	45.0	22,710	45.0	21,873	
SK hynix Inc.	Korea	20.1	9,563,470	20.1	8,130,000	
SK MENA Investment B.V.	Netherlands	32.1	14,483	32.1	13,853	
S.M.Culture & Contents Co.,Ltd.	Korea	23.4	64,344	23.4	64,966	
Xian Tianlong Science and Technology Co., Ltd. (*3)	China	49.0	-	49.0	25,891	
Hello Nature Ltd. (*4,5)	Korea	49.9	29,880	-	-	
12CM Japan, Inc.	Japan	28.2	7,697	-	-	
MAKEUS Corp. (*2)	Korea	8.9	9,773	-	-	
Daehan Kanggun BeN Co., Ltd. and others	-	-	85,177	-	96,479	
			10,978,632		9,498,381	
Investments in joint ventures:						
Dogus Planet, Inc.(*5)	Turkey	50.0	13,802	50.0	13,991	
Finnq Co., Ltd.(*6)	Korea	49.0	12,328	49.0	16,474	
12CM GLOBAL PTE. LTD.(*7)	Singapore	47.7	-	62.7	9,592	
Celcom Planet and others(*5,8)	Malaysia	49.5	-	49.5	-	
			26,130		40,057	
			₩ 11,004,762		₩ 9,538,438	

SK TELECOM CO., LTD. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

For the six-month periods ended June 30, 2018 and 2017

12. Investments in Associates and Joint Ventures, Continued

- (1) Investments in associates and joint ventures accounted for using the equity method as of June 30, 2018 and December 31, 2017 are as follows, Continued
- (*1) Investment in Korea IT Fund was classified as investment in associates as the Group does not have control over Korea IT Fund under the contractual agreement.
- (*2) These investments were classified as investments in associates as the Group can exercise significant influence through its right to appoint the members of board of directors even though the Group has less than 20% of equity interests.
- (*3) During the six-month period ended June 30, 2018, the Group executed the agreement for the sale of the entire shares, which was classified as non-current assets held for sale.
- (*4) During the six-month period ended June 30, 2018, Hello Nature Ltd. increased capital by allocation to third parties, which decreased the Parent Company's ownership to 49.9% and was reclassified into the associate from the subsidiary due to the Parent Company's loss of the control. In addition, the Group has obligation for additional investments up to ₩20,000 million according to the agreement with the shareholders.
- (*5) The ownership interest is owned by SK Planet Co., Ltd.
- (*6) These investments were classified as investment in joint ventures as the Company has a joint control pursuant to the agreement with the other shareholders.
- (*7) During the six-month period ended June 30, 2018, 12CM GLOBAL PTE. LTD. is reclassified into non-current assets held for sale as the Group sold 241,055 shares and agreed to sell the remaining shares.
- (*8) During the six-month period ended June 30, 2018, the Group invested ₩12,932 million by purchasing newly issued stocks, and the entire amount of this investment was recognized as equity losses.
- (2) The market price of investments in listed associates as of June 30, 2018 and December 31, 2017 are as follows:

(In millions of won, except for share data)

	June 30, 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.	₩ 5,670	6,960,445	39,466	5,950	6,960,445	41,415
SK hynix Inc.	85,700	146,100,000	12,520,770	76,500	146,100,000	11,176,650
S.M.Culture & Contents Co.,Ltd.	2,665	22,033,898	58,720	2,700	22,033,898	59,492

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For the six-month periods ended June 30, 2018 and 2017

12. Investments in Associates and Joint Ventures, Continued

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

(In millions of won)

	SK hynix Inc.	KEB HanaCard Co., Ltd.	Korea IT Fund	SK China Company Ltd.
	As of June 30, 2018			
Current assets	₩ 15,695,714	7,419,583	136,201	757,460
Non-current assets	37,561,366	222,090	297,130	1,067,410
Current liabilities	8,727,425	1,011,834	-	64,912
Non-current liabilities	3,751,979	5,105,768	-	83,754
	For the six-month period ended June 30, 2018			
Revenue	19,090,197	796,637	35,365	45,410
Profit for the period	7,449,871	51,565	26,633	7,163
Other comprehensive income (loss)	240,556	(431)	(9,597)	(32,008)
Total comprehensive income (loss)	7,690,427	51,134	17,036	(24,845)

(In millions of won)

	SK hynix Inc.	KEB HanaCard Co., Ltd.	Korea IT Fund	SK China Company Ltd.
	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
	For the year ended December 31, 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

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

For the six-month periods ended June 30, 2018 and 2017

12. Investments in Associates and Joint Ventures, Continued

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

(In millions of won)

	Dogus Planet, Inc.	Finnq Co. Ltd.
	As of June 30, 2018	
Current assets	₩ 40,158	19,597
Cash and cash equivalents	38,373	1,896
Non-current assets	21,024	17,825
Current liabilities	32,159	4,686
Accounts payable, other payables and provision	1,949	885
Non-current liabilities	1,419	8,460

	For the six-month period ended June 30, 2018	
Revenue	48,471	46
Depreciation and amortization	(2,814)	(1,633)
Interest income	421	3
Interest expense	-	(156)
Profit (Loss) for the period	2,251	(8,550)
Total comprehensive income (loss)	2,251	(8,550)

(In millions of won)

	Dogus Planet, Inc.	Finnq Co., Ltd.
	As of December 31, 2017	
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

	For the year ended December 31, 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)

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

For the six-month periods ended June 30, 2018 and 2017

12. Investments in Associates and Joint Ventures, Continued

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

(In millions of won)

		June 30, 2018				
			Ownership	Net assets	Cost-book	
		Net assets	interests	attributable to	value	Carrying
			(%)	the ownership	differentials	amount
				interests		
Associates:						
SK hynix Inc.(*1,2)	₩	40,770,317	20.1	8,437,002	1,126,468	9,563,470
KEB HanaCard Co., Ltd.		1,524,071	15.0	228,610	53,564	282,174
Korea IT Fund		433,331	63.3	274,443	-	274,443
SK China Company Ltd.(*1)		1,673,765	27.3	456,456	85,915	542,371

(In millions of won)

		December 31, 2017				
			Ownership	Net assets	Cost-book	
			interests	attributable to	value	Carrying
		Net assets	(%)	the ownership	differentials	amount
				interests		
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
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For the six-month periods ended June 30, 2018 and 2017

12. Investments in Associates and Joint Ventures, Continued

(6) Details of the changes in investments in associates and joint ventures accounted for using the equity method for the six-month periods ended June 30, 2018 and 2017 are as follows:

(In millions of won)

(In millions of won)		For the six-month period ended June 30, 2018					
		Beginning balance	Acquisition and Disposal	Share of profits (losses)	Other compre- hensive income (loss)	Other increase (decrease)	Ending balance
Investments in associates:							
SK China Company Ltd.	₩	526,099	-	1,627	14,645	-	542,371
Korea IT Fund (*)		257,003	-	26,396	(7,496)	(1,460)	274,443
KEB HanaCard Co., Ltd.		280,988	-	7,735	(6,549)	-	282,174
NanoEnTek, Inc.		38,718	-	(541)	(609)	-	37,568
SK Technology Innovation Company		42,511	-	18	2,013	-	44,542
HappyNarae Co., Ltd.		21,873	-	837	-	-	22,710
SK hynix Inc.(*)		8,130,000	-	1,534,928	44,642	(146,100)	9,563,470
SK MENA Investment B.V.		13,853	-	(7)	637	-	14,483
S.M.Culture & Contents Co., Ltd.		64,966	-	(572)	(50)	-	64,344
Xian Tianlong Science and Technology Co., Ltd.		25,891	-	(337)	-	(25,554)	-
Hello Nature Ltd.		-	-	-	-	29,880	29,880
12CM Japan, Inc.		-	7,697	-	-	-	7,697
MAKEUS Corp.		-	9,773	-	-	-	9,773
Daehan Kanggun BcN Co., Ltd. and others (*)		96,479	148	(3,591)	643	(8,502)	85,177
Sub-total		9,498,381	17,618	1,566,493	47,876	(151,736)	10,978,632
Investments in joint ventures:							
Dogus Planet, Inc.		13,991	(76)	1,126	(1,239)	-	13,802
Finnq Co. Ltd.		16,474	-	(4,100)	(46)	-	12,328
12CM GLOBAL PTE. LTD.		9,592	(2,414)	42	(3)	(7,217)	-
Celcom Planet.		-	12,932	(12,932)	-	-	-
Sub-total		40,057	10,442	(15,864)	(1,288)	(7,217)	26,130
	₩	9,538,438	28,060	1,550,629	46,588	(158,953)	11,004,762

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

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

12. Investments in Associates and Joint Ventures, Continued

(6) Details of the changes in investments in associates and joint ventures accounted for using the equity method for the six-month periods ended June 30, 2018 and 2017 are as follows, Continued:

(In millions of won)

(In millions of won)

		For the six-month period ended June 30, 2017					
		Beginning balance	Acquisition and Disposal	Share of profits (losses)	Other compre-hensive income (loss)	Other decrease	Ending balance
Investments in associates:							
SK China Company Ltd. (*)	₩	46,354	-	(596)	(2,206)	(1,094)	42,458
Korea IT Fund (*)		263,850	-	(8,767)	3,371	(1,403)	257,051
KEB HanaCard Co., Ltd.		265,798	-	11,143	(55)	-	276,886
NanoEnTek, Inc.		39,514	-	(784)	5	-	38,735
SK Industrial Development China Co., Ltd.		74,717	-	(610)	(2,621)	-	71,486
SK Technology Innovation Company		47,488	-	222	(2,707)	-	45,003
HappyNarae Co., Ltd.		17,236	-	(803)	(1)	-	16,432
SK hynix Inc.(*)		6,132,122	-	887,183	(44,538)	(87,660)	6,887,107
SK MENA Investment B.V.		15,451	-	68	4	-	15,523
SKY Property Mgmt. Ltd.		263,225	-	756	(5,114)	-	258,867
Xian Tianlong Science and Technology Co., Ltd.		25,880	-	(737)	-	-	25,143
Daehan Kanggun BcN Co., Ltd. and others (*)		115,181	(2,840)	4,731	(2,711)	(2,645)	111,716
Sub-total		7,306,816	(2,840)	891,806	(56,573)	(92,802)	8,046,407
Investments in joint ventures:							
Dogus Planet, Inc.		20,081	-	(575)	(635)	-	18,871
PT XL Planet Digital		27,512	-	(7,536)	(2,982)	-	16,994
Finnq Co., Ltd.		24,174	-	(1,287)	-	-	22,887
Celcom Planet and others		25,740	-	(4,158)	(431)	-	21,151
Sub-total		97,507	-	(13,556)	(4,048)	-	79,903
Total	₩	7,404,323	(2,840)	878,250	(60,621)	(92,802)	8,126,310

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

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For the six-month periods ended June 30, 2018 and 2017

12. 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 June 30, 2018 are as follows:

(In millions of won)

		Unrecognized loss		Unrecognized change in equity	
		For the six-month period ended June 30, 2018	Cumulative loss	For the six-month period ended June 30, 2018	Cumulative loss
Wave City Development Co., Ltd.	₩	4,335	6,435	-	-
Daehan Kanggun BcN Co., Ltd. and others		5,229	10,545	-	365
	₩	<u>9,564</u>	<u>16,980</u>	<u>-</u>	<u>365</u>

13. Property and Equipment

Changes in property and equipment for the six-month periods ended June 30, 2018 and 2017 are as follows:

(In millions of won)

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

(In millions of won)

For the six-month period ended June 30, 2017							
	Beginning balance	Acquisition	Disposal	Transfer	Depreciation	Impairment	Ending balance
Land	₩ 835,909	2,293	(3,625)	16,673	-	-	851,250
Buildings	899,972	129	(302)	23,227	(25,737)	-	897,289
Structures	358,955	2,115	(70)	415	(17,402)	-	344,013
Machinery	7,036,050	185,030	(10,829)	557,999	(1,098,812)	(5)	6,669,433
Other	563,034	218,536	(2,903)	(196,783)	(71,065)	(2,213)	508,606
Construction in progress	680,292	335,066	(1,811)	(710,434)	-	-	303,113
	₩ <u>10,374,212</u>	<u>743,169</u>	<u>(19,540)</u>	<u>(308,903)</u>	<u>(1,213,016)</u>	<u>(2,218)</u>	<u>9,573,704</u>

SK TELECOM CO., LTD. and Subsidiaries
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14. Intangible Assets

(1) Details of the changes in intangible assets for the six-month periods ended June 30, 2018 and 2017 are as follows:

(In millions of won)

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

(In millions of won)

For the six-month period ended June 30, 2017							
	Beginning balance	Acquisition	Disposal	Transfer	Amortiza- tion	Impairment	Ending balance
Frequency usage rights	₩ 2,580,828	-	-	-	(201,944)	-	2,378,884
Land usage rights	20,834	1,369	(475)	200	(4,063)	-	17,865
Industrial rights	121,200	2,215	-	(2,433)	(3,688)	-	117,294
Development costs	4,871	1,420	-	-	(1,659)	-	4,632
Facility usage rights	41,788	651	(30)	118	(4,264)	-	38,263
Customer relations	6,652	295	-	-	(1,806)	-	5,141
Club memberships	74,039	4,114	(790)	-	-	-	77,363
Other	926,142	42,533	(2,960)	323,436	(168,336)	(233)	1,120,582
₩	<u>3,776,354</u>	<u>52,597</u>	<u>(4,255)</u>	<u>321,321</u>	<u>(385,760)</u>	<u>(233)</u>	<u>3,760,024</u>

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

(In millions of won)

	Amount	Description	Commencement of amortization	Completion of amortization
800MHz license	₩ 121,632	Frequency usage rights relating to CDMA and LTE service	Jul. 2011	Jun. 2021
1.8GHz license	439,670	Frequency usage rights relating to LTE service	Sept. 2013	Dec. 2021
WiBro license	1,783	WiBro service	Mar. 2012	Mar. 2019
2.6GHz license	1,032,060	Frequency usage rights relating to LTE service	Sept. 2016	Dec. 2026
2.1GHz license	379,851	Frequency usage rights relating to W-CDMA and LTE service	Dec. 2016	Dec. 2021
₩	<u>1,974,996</u>			

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

14. Intangible Assets, Continued

(2) Details of frequency usage rights as of June 30, 2018 are as follows, Continued

The Group participated in the frequency license allocation auction hosted by Ministry of Science and Information and Communication Technology (ICT) and was selected for the 3.5GHz and 28GHz license allocation during the six-month period ended June 30, 2018. The considerations payable for the bands of frequency are ₩1,218,500 million and ₩207,300 million, respectively. These bands of frequency are to be allocated in December 2018 as the Group pays the initial lump sum during November 2018, and then the annual payments in installment of the remaining balance will be made for the next ten and five years, respectively. The Group will recognize these frequency licenses at the initial lump sum as intangible assets and will amortize when the bands of frequency are in the condition necessary for them to be capable of operating in the manner intended by management.

15. Borrowings and Debentures

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

(In millions of won)

	Lender	Annual interest rate(%)	June 30, 2018	December 31, 2017
Short-term borrowings	Shinhan Bank	2.85	₩ 30,000	30,000
	KEB Hana Bank	3.90	5,000	-
	KEB Hana Bank	3.85	3,020	-
	KEB Hana Bank	3.85	7,230	-
	KEB Hana Bank	3.88	640	-
Commercial paper	KEB Hana Bank	1.67	-	50,000
Bank overdraft	KEB Hana Bank	3.17	-	30,000
	Shinhan Bank	3.38	-	20,000
			₩ 45,890	130,000

(2) Changes in long-term borrowings for the six-month period ended June 30, 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				252,817
Repayments of long-term borrowings:				
	Kookmin Bank	1.95	Mar. 15, 2018	(717)
	Korea Development Bank	1.99	Jul. 30, 2019	(6,500)
	Korea Development Bank	1.99	Jul. 30, 2019	(1,666)
	Korea Development Bank	2.27	Dec. 20, 2021	(6,125)
	Export Kreditnamnden	1.70	Apr. 29, 2022	(6,200)
Other changes(*)				2,499
Current				87,465
Non-current				146,643
As of June 30, 2018				₩ 234,108

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

15. Borrowings and Debentures, Continued

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

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

For the six-month periods ended June 30, 2018 and 2017

(In millions of won, thousands of other currencies)

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					7,107,216	7,086,187
Debtures newly issued:						
Unsecured corporate bonds	Refinancing fund	2.57	Feb. 20, 2021		110,000	109,507
		2.81	Feb. 20, 2023		100,000	99,576
		3.00	Feb. 20, 2028		200,000	199,228
		3.02	Feb. 20, 2038		90,000	89,664
Unsecured corporate bonds(*1)	Operating fund	2.59	Feb. 1, 2021		70,000	69,680
		2.93	Feb. 1, 2023		80,000	79,636
Global unsecured corporate bonds	Operating fund	3.75	Apr. 16, 2023		535,000	529,566
					USD 500,000	USD 500,000
Debtures repaid:						
Unsecured corporate bonds	Other fund	5.00	Mar. 3, 2018		(200,000)	(200,000)
Unsecured corporate bonds(*1)	Operating fund	2.23	Jan. 14, 2018		(50,000)	(50,000)
Global unsecured corporate bonds	Operating fund	2.13	May. 1, 2018		(746,550)	(746,550)
					(USD 700,000)	(USD 700,000)
Other changes(*2)					73,421	76,699
Current					886,509	885,808
Non-current					6,482,578	6,457,385
As of June 30, 2018				₩	7,369,087	7,343,193

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

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

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16. Long-term Payables - other

(1) Long-term payables - other as of June 30, 2018 and December 31, 2017 are as follows:

(In millions of won)

	June 30, 2018	December 31, 2017
Payables related to acquisition of frequency usage rights	₩ 1,040,761	1,328,630
Other(*)	17,650	18,133
	<u>₩ 1,058,411</u>	<u>1,346,763</u>

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

(2) As of June 30, 2018 and December 31, 2017, details of long-term payables - other which related to the acquisition of frequency usage rights are as follows (See Note 14):

(In millions of won)

	June 30, 2018	December 31, 2017
Long-term payables - other	₩ 1,407,388	1,710,255
Present value discount on long-term payables - other	(67,514)	(79,874)
Current installments of long-term payables - other	(299,113)	(301,751)
Carrying amount at period end	<u>₩ 1,040,761</u>	<u>1,328,630</u>

(3) The Group repaid ₩302,867 million of the principal amount of long-term payables - other related to the acquisition of frequency usage rights during the six-month period ended June 30, 2018. The repayment schedule of the principal amount of long-term payables - other as of June 30, 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>

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17. Provisions

Changes in provisions for the six-month periods ended June 30, 2018 and 2017 are as follows:

(In millions of won)

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

(In millions of won)

	For the six-month period ended June 30, 2017						As of June 30, 2017	
	Beginning balance	Increase	Utilization	Reversal	Other	Ending balance	Current	Non-current
Provision for installment of handset subsidy	₩ 24,710	2	(4,902)	-	-	19,810	19,810	-
Provision for restoration	64,679	4,138	(758)	(233)	82	67,908	39,204	28,704
Emission allowance	2,788	2,401	(518)	(2,283)	-	2,388	2,388	-
Other provisions	5,740	1,988	(2,020)	-	-	5,708	5,708	-
	₩ 97,917	8,529	(8,198)	(2,516)	82	95,814	67,110	28,704

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18. Defined Benefit Liabilities (Assets)

(1) Details of defined benefit liabilities (assets) as of June 30, 2018 and December 31, 2017 are as follows:

(In millions of won)

	June 30, 2018	December 31, 2017
Present value of defined benefit obligations	₩ 743,957	679,625
Fair value of plan assets	(668,258)	(663,617)
Defined benefit assets(*)	(18,821)	(45,952)
Defined benefit liabilities	94,520	61,960

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

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

(In millions of won)

	For the six-month period ended	
	June 30, 2018	June 30, 2017
Beginning balance	₩ 679,625	595,667
Current service cost	67,045	57,937
Interest cost	10,117	7,755
Remeasurement:		
- Adjustment based on experience	10,284	11,597
Benefit paid	(25,166)	(26,201)
Others	2,052	13,438
Ending balance	₩ 743,957	660,193

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

(In millions of won)

	For the six-month period ended	
	June 30, 2018	June 30, 2017
Beginning balance	₩ 663,617	555,175
Interest income	9,631	6,814
Remeasurement	(3,971)	(1,868)
Contribution	26,790	29,764
Benefit paid	(33,696)	(42,661)
Others	5,887	10,448
Ending balance	₩ 668,258	557,672

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18. 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 six-month periods ended June 30, 2018 and 2017 are as follows:

(In millions of won)

	For the six-month period ended	
	June 30, 2018	June 30, 2017
Current service cost	₩ 67,045	57,937
Net interest cost	486	941
	₩ 67,531	58,878

19. Derivatives

Changes in derivative contracts for the six-month period ended June 30, 2018 are as follows:

(In thousands of other currencies)

		Hedged items		Hedging instruments		
	Date	Item	Risk type	Contract type	Counterparty	Contract term
Expired	Nov. 1, 2012	Fixed rate foreign currency bond (par value USD 700,000)	Currency risk	Currency swap contract	Standard Chartered and 8 others	Nov. 1, 2012 ~ May 1, 2018
New	Apr. 16, 2018	Fixed rate foreign currency bond (par value USD 500,000)	Currency risk	Currency swap contract	The Export-Import Bank of Korea and 3 others	Apr. 16, 2018 ~ Apr. 16, 2023

20. 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 June 30, 2018 and December 31, 2017 are as follows:

(In millions of won, except for share data)

	June 30, 2018	December 31, 2017
Number of authorized shares	220,000,000	220,000,000
Number of issued shares	80,745,711	80,745,711
Share capital:		
Common stock	₩ 44,639	44,639
Capital surplus and others:		
Paid-in capital surplus	2,915,887	2,915,887
Treasury shares	(2,260,626)	(2,260,626)
Hybrid bonds(Note 21)	398,759	398,518
Share option(Note 22)	703	414
Others (*)	(865,207)	(857,912)
	₩ 189,516	196,281

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

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20. Share Capital and Capital Surplus and Others, Continued

There were no changes in share capital for the six-month periods ended June 30, 2018 and 2017 and details of shares outstanding as of June 30, 2018 and 2017 are as follows:

<i>(In shares)</i>	June 30, 2018			June 30, 2017		
	Issued shares	Treasury stock	Outstanding shares	Issued shares	Treasury stock	Outstanding shares
Issued shares	80,745,711	10,136,551	70,609,160	80,745,711	10,136,551	70,609,160

21. Hybrid Bonds

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

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

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

(*1) The Group may extend the maturity without any notice or announcement.

(*2) The interest rate of the hybrid bonds is determined by applying additional interest on a five-year Korea national bond interest rate. In addition, according to 'Step-up' clause, 0.25%p adds on the rate of return after 10 years from the issuance and another 0.75%p after 25 years from the issue date

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22. Share option

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

	Series				One Store Co., Ltd
	1-1	1-2	1-3	2	
Grant date		March 24, 2017		February 20, 2018	April 27, 2018
Types of shares to be issued		Registered common shares			One Store Co., Ltd common shares
Grant method		Reissue of treasury shares			Issue of new shares
Number of shares	22,168	22,168	22,168	5,707	1,032,000
Exercise price (in won)	246,750	266,490	287,810	254,120	5,390
Exercise period	Mar. 25, 2019 ~ Mar. 24, 2022	Mar. 25, 2020 ~ Mar. 24, 2023	Mar. 25, 2021 ~ Mar. 24, 2024	Feb. 21, 2020 ~ Feb. 20, 2023	Apr. 28, 2020 ~ Apr. 27, 2024
Vesting conditions	2 years' service from the grant date	3 years' service from the grant date	4 years' service from the grant date	2 years' service from the grant date	2 years' service from the grant date

(2) 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 six-month period ended June 30, 2018	341
In subsequent periods	1,357
	₩ 2,112

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

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

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23. Retained Earnings

Retained earnings as of June 30, 2018 and December 31, 2017 are as follows:

(In millions of won)

	June 30, 2018	December 31, 2017
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
	13,874,758	13,264,758
Unappropriated	6,879,950	4,571,188
	₩ 20,754,708	17,835,946

24. Reserves

(1) Details of reserves, net of taxes, as of June 30, 2018 and December 31, 2017 are as follows:

(In millions of won)

	June 30, 2018	December 31, 2017
Valuation gain on financial assets at FVOCI	₩ 55,881	-
Valuation gain on available-for-sale financial assets	-	168,211
Other comprehensive loss of investments in associates	(271,955)	(320,060)
Valuation loss on derivatives	(82,776)	(73,828)
Foreign currency translation differences for foreign operations	14,974	(9,050)
	₩ (283,876)	(234,727)

(2) Changes in reserves for the six-month periods ended June 30, 2018 and 2017 are as follows:

(In millions of won)

	Valuation gain (loss) on financial assets at FVOCI	Valuation gain (loss) on available-for-sale financial assets	Other comprehensive income (loss) of investments in associates	Valuation gain (loss) on derivatives	Foreign currency translation differences for foreign operations	Total
Balance at January 1, 2017	₩ -	12,534	(179,167)	(96,418)	36,868	(226,183)
Changes, net of taxes	-	131,456	(61,210)	5,929	(26,617)	49,558
Balance at June 30, 2017	-	143,990	(240,377)	(90,489)	10,251	(176,625)
Balance at December 31, 2017	-	168,211	(320,060)	(73,828)	(9,050)	(234,727)
Impact of adopting K-IFRS No.1109	99,407	(168,211)	-	-	-	(68,804)
Balance at January 1, 2018	99,407	-	(320,060)	(73,828)	(9,050)	(303,531)
Changes, net of taxes	(43,526)	-	48,105	(8,948)	24,024	19,655
Balance at June 30, 2018	₩ 55,881	-	(271,955)	(82,776)	14,974	(283,876)

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25. Other Operating Expenses

Details of other operating expenses for the three and six-month periods ended June 30, 2018 and 2017 are as follows:

(In millions of won)

	2018		2017	
	Three-month period ended June 30	Six-month period ended June 30	Three-month period ended June 30	Six-month period ended June 30
Communication	₩ 8,451	16,623	6,863	13,997
Utilities	64,382	139,463	64,580	138,251
Taxes and dues	14,820	23,454	6,655	9,954
Repair	91,165	170,323	88,148	163,541
Research and development	98,273	187,698	94,848	189,465
Training	7,225	15,669	6,155	13,031
Bad debt for accounts receivable - trade	10,391	20,211	11,919	18,430
Traveling	6,633	13,329	5,789	11,622
Supplies and others	50,063	84,435	41,148	74,227
	₩ 351,403	671,205	326,105	632,518

26. Other Non-operating Income and Expenses

Details of other non-operating income and expenses for the three and six-month periods ended June 30, 2018 and 2017 are as follows:

(In millions of won)

	2018		2017	
	Three-month period ended June 30	Six-month period ended June 30	Three-month period ended June 30	Six-month period ended June 30
Other Non-operating Income:				
Fees revenues	₩ 459	544	113	186
Gain on disposal of property and equipment and intangible assets	1,383	3,540	3,452	7,976
Others	3,583	18,261	3,602	7,274
	₩ 5,425	22,345	7,167	15,436
Other Non-operating Expenses:				
Loss on impairment of property and equipment and intangible assets	₩ 174	1,077	257	2,451
Loss on disposal of property and equipment and intangible assets	16,689	19,756	3,047	13,174
Donations	16,028	31,999	22,314	37,505
Bad debt for accounts receivable - other	832	4,546	-	2,191
Loss on impairment of investment assets	2,279	2,734	3,969	6,416
Others	10,263	13,120	38,000	41,589
	₩ 46,265	73,232	67,587	103,326

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27. Finance Income and Costs

- (1) Details of finance income and costs for the three and six-month periods ended June 30, 2018 and 2017 are as follows:

(In millions of won)

	2018		2017	
	Three-month period ended June 30	Six-month period ended June 30	Three-month period ended June 30	Six-month period ended June 30
Finance Income:				
Interest income	₩ 18,300	35,220	14,688	39,968
Gain on sale of accounts receivable - trade	4,390	8,139	4,065	9,090
Dividends	-	15,142	433	10,584
Gain on foreign currency transactions	5,853	9,460	5,353	7,639
Gain on foreign currency translations	5,005	5,563	1,668	4,178
Gain on disposal of long-term investment securities	-	-	493	2,762
Gain on valuation of derivatives	578	897	554	909
Gain on financial assets at FVTPL	437	9,939	-	-
	<u>₩ 34,563</u>	<u>84,360</u>	<u>27,254</u>	<u>75,130</u>

(In millions of won)

	2018		2017	
	Three-month period ended June 30	Six-month period ended June 30	Three-month period ended June 30	Six-month period ended June 30
Finance Costs:				
Interest expenses	₩ 71,861	146,976	75,066	149,486
Loss on sale of accounts receivable - trade	1,922	4,380	2,437	4,955
Loss on foreign currency transactions	3,719	9,857	4,854	9,217
Loss on foreign currency translations	2,644	3,124	-	4,968
Loss on disposal of long-term investment securities	-	-	35,975	36,024
Loss on settlement of derivatives	12,156	12,156	8,910	8,910
Loss relating to financial liabilities at FVTPL	492	780	198	529
Loss relating to financial assets at FVTPL	378	778	-	-
Others	-	-	12,523	12,523
	<u>₩ 93,172</u>	<u>178,051</u>	<u>139,963</u>	<u>226,612</u>

- (2) Details of interest income included in finance income for the three and six-month periods ended June 30, 2018 and 2017 are as follows:

(In millions of won)

	2018		2017	
	Three-month period ended June 30	Six-month period ended June 30	Three-month period ended June 30	Six-month period ended June 30
Interest income on cash equivalents and short-term financial instruments	₩ 7,852	14,619	7,934	13,539
Interest income on installment receivables and others	10,448	20,601	6,754	26,429
	<u>₩ 18,300</u>	<u>35,220</u>	<u>14,688</u>	<u>39,968</u>

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27. Finance Income and Costs, Continued

- (3) Details of interest expenses included in finance costs for the three and six-month periods ended June 30, 2018 and 2017 are as follows:

(In millions of won)

	2018		2017	
	Three-month period ended June 30	Six-month period ended June 30	Three-month period ended June 30	Six-month period ended June 30
Interest expenses on borrowings	₩ 2,770	6,332	3,687	6,139
Interest expenses on debentures	57,614	115,584	57,495	113,319
Others	11,477	25,060	13,884	30,028
	₩ 71,861	146,976	75,066	149,486

- (4) Details of impairment losses on financial assets for the three and six-month periods ended June 30, 2018 and 2017 are as follows:

(In millions of won)

	2018		2017	
	Three-month period ended June 30	Six-month period ended June 30	Three-month period ended June 30	Six-month period ended June 30
Accounts receivable - trade	₩ 10,391	20,211	11,919	18,430
Other receivables	832	4,546	-	2,191
Available-for-sale financial assets	-	-	12,523	12,523
	₩ 11,223	24,757	24,442	33,144

28. Income Tax Expense

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

29. Earnings per Share

- (1) Basic earnings per share

- 1) Basic earnings per share for the three and six-month periods ended June 30, 2018 and 2017 are calculated as follows:

(In millions of won, except for share data)

	2018		2017	
	Three-month period ended June 30	Six-month period ended June 30	Three-month period ended June 30	Six-month period ended June 30
Basic earnings per share:				
Profit attributable to owners of the Parent Company on common shares	₩ 916,652	1,611,611	624,889	1,214,023
Interest on hybrid bonds	(8,420)	(8,420)	(8,420)	(8,420)
Profit for the period available for common shares	908,232	1,603,191	616,469	1,205,603
Weighted average number of common shares outstanding	70,609,160	70,609,160	70,609,160	70,609,160
Basic earnings per share (in won)	₩ 12,863	22,705	8,731	17,074

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29. Earnings per Share, Continued

(1) Basic earnings per share, Continued

2) The weighted average number of common shares outstanding for the three and six-month periods ended June 30, 2018 and 2017 are calculated as follows:

<i>(In shares)</i>	Number of shares	Weighted number of shares	
		Three-month period ended June 30	Six-month period ended June 30
Issued common shares at January 1, 2018	80,745,711	80,745,711	80,745,711
Effect of treasury shares	(10,136,551)	(10,136,551)	(10,136,551)
Weighted average number of common shares outstanding at June 30, 2018	<u>70,609,160</u>	<u>70,609,160</u>	<u>70,609,160</u>

<i>(In shares)</i>	Number of shares	Weighted number of shares	
		Three-month period ended June 30	Six-month period ended June 30
Issued common shares at January 1, 2017	80,745,711	80,745,711	80,745,711
Effect of treasury shares	(10,136,551)	(10,136,551)	(10,136,551)
Weighted average number of common shares outstanding at June 30, 2017	<u>70,609,160</u>	<u>70,609,160</u>	<u>70,609,160</u>

(2) Diluted earnings per share

For the six-month periods ended June 30, 2018 and 2017, diluted earnings per share are the same as basic earnings per share as there are no dilutive potential common shares.

30. Categories of Financial Instruments

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

(In millions of won)

	June 30, 2018					Total
	Financial assets at FVTPL	Equity instruments at FVOCI	Debt instruments at FVOCI	Financial assets at amortized cost	Derivatives hedging instrument	
Cash and cash equivalents	₩ -	-	-	1,796,190	-	1,796,190
Financial instruments	-	-	-	420,502	-	420,502
Short-term investment securities	119,547	-	-	-	-	119,547
Long-term investment securities(*)	396,400	667,368	1,139	-	-	1,064,907
Accounts receivable - trade	-	-	-	1,999,887	-	1,999,887
Loans and other receivables	899,794	-	-	877,758	-	1,777,552
Derivative financial assets	9,950	-	-	-	57,615	67,565
	<u>₩ 1,425,691</u>	<u>667,368</u>	<u>1,139</u>	<u>5,094,337</u>	<u>57,615</u>	<u>7,246,150</u>

(*) The group designated ₩ 667,368 million of equity instrument that is not held for trading as financial assets measured at FVOCI.

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30. Categories of Financial Instruments, Continued

(1) Financial assets by category as of June 30, 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	-
Financial instruments		-	-	618,002	-
Short-term investment securities		97,003	47,383	-	-
Long-term investment securities		-	887,007	-	-
Accounts receivable – trade		-	-	2,138,755	-
Loans and other receivables		-	-	1,962,083	-
Derivative financial assets		231,311	-	-	21,902
	₩	<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 June 30, 2018 and December 31, 2017 are as follows:

(In millions of won)

		June 30, 2018		
		Financial liabilities at FVTPL	Financial liabilities at amortized cost	Derivatives hedging instrument
				Total
Accounts payable – trade	₩	-	263,198	-
Derivative financial liabilities		-	-	1,532
Borrowings		-	279,998	-
Debentures(*)		61,058	7,282,135	-
Accounts payable - other and others		-	4,904,298	-
	₩	<u>61,058</u>	<u>12,729,629</u>	<u>1,532</u>
				<u>12,792,219</u>

(*) Debentures classified as financial liabilities at FVTPL as of June 30, 2018 are structured bonds and they were designated as financial liabilities at FVTPL in order to eliminate a measurement inconsistency with the related derivatives.

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

For the six-month periods ended June 30, 2018 and 2017

30. Categories of Financial Instruments, Continued

(2) Financial liabilities by category as of June 30, 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
	₩ 60,278	12,625,956	39,470	12,725,704

(*) 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.

31. Financial Risk Management

(1) Financial risk management

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

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

1) Market risk

(i) Currency risk

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

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

For the six-month periods ended June 30, 2018 and 2017

31. Financial Risk Management, Continued

(1) Financial risk management, Continued

1) Market risk, Continued

(i) Currency risk, Continued

Monetary assets and liabilities denominated in foreign currencies as of June 30, 2018 are as follows:

(In millions of won, thousands of foreign currencies)

	Assets		Liabilities	
	Foreign currencies	Won translation	Foreign currencies	Won translation
USD	200,705	₩ 225,129	1,619,878	₩ 1,817,018
EUR	9,973	12,935	50	65
JPY	553,676	5,619	203,116	2,061
Others		10,397		6,931
		₩ 254,080		₩ 1,826,075

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

As of June 30, 2018, a hypothetical change in exchange rates by 10% would have increased (reduced) the Group's income before income taxes as follows:

(In millions of won)

	If increased by 10%	If decreased by 10%
USD	₩ 13,043	(13,043)
EUR	1,287	(1,287)
JPY	356	(356)
Others	347	(347)
	₩ 15,033	(15,033)

(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 June 30, 2018, the floating-rate borrowings and debentures of the Group are ₩229,182 million and ₩336,510 million, respectively, and the Group has entered into interest rate swap agreements for some of floating-rate borrowings and debentures to hedge interest rate risk.

If the interest rate increases (decreases) 1%p with all other variables held constant, income before income taxes for the six-month period ended June 30, 2018 would change by ₩858 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 six-month periods ended June 30, 2018 and 2017

31. Financial Risk Management, Continued

(1) Financial risk management, Continued

2) Credit risk

The maximum credit exposure as of June 30, 2018 and December 31, 2017 are as follows:

(In millions of won)

	June 30, 2018	December 31, 2017
Cash and cash equivalents	₩ 1,789,085	1,457,416
Financial instruments	420,502	618,002
Investment securities	20,874	19,928
Accounts receivable – trade	1,999,887	2,138,755
Loans and other receivables	1,777,552	1,962,083
Derivative financial assets	67,565	30,956
	<u>₩ 6,075,465</u>	<u>6,227,140</u>

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. To manage credit risk, the Group evaluates the credit worthiness of each customer or counterparty considering the party's financial information, its own trading records and other factors. Based on such information, the Group establishes credit limits for each customer or counterparty.

The Group establishes an allowance for doubtful accounts on its estimated losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures and a collective loss component established for groups of similar assets in respect of losses that have been expected to occur. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets. Also, the Group's credit risk can arise from transactions with financial institutions related to its cash and cash equivalents, financial instruments and derivatives. To minimize such risk, the Group has a policy to deal only with financial institutions with high credit ratings. The amount of maximum exposure to credit risk of the Group is the carrying amount of financial assets as of June 30, 2018.

3) Liquidity risk

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

Contractual maturities of financial liabilities as of June 30, 2018 are as follows:

(In millions of won)

	Carrying amount	Contractual cash flows	Less than 1 year	1 - 5 years	More than 5 years
Accounts payable - trade	₩ 263,198	263,198	263,198	-	-
Borrowings(*)	279,998	292,295	139,636	152,659	-
Debentures(*)	7,343,193	8,784,269	1,105,723	4,572,521	3,106,025
Accounts payable - other and others	4,904,298	5,037,387	3,828,346	896,220	312,821
	<u>₩ 12,790,687</u>	<u>14,377,149</u>	<u>5,336,903</u>	<u>5,621,400</u>	<u>3,418,846</u>

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

For the six-month periods ended June 30, 2018 and 2017

31. Financial Risk Management, Continued

(1) Financial risk management, Continued

3) Liquidity risk, Continued

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

(*) Includes interest payables.

As of June 30, 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	₩ 57,615	52,815	35,086	49,285	(31,556)
Liabilities	(1,532)	(1,605)	(94)	(1,511)	-
	₩ 56,083	51,210	34,992	47,774	(31,556)

(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 June 30, 2018 and December 31, 2017 are as follows:

(In millions of won)

	June 30, 2018	December 31, 2017
Total liabilities	₩ 15,428,008	15,399,474
Total equity	20,908,749	18,029,195
Debt-equity ratios	73.79%	85.41%

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

For the six-month periods ended June 30, 2018 and 2017

31. Financial Risk Management, Continued

(3) Fair value

1) Fair value and carrying amount of financial assets and liabilities including fair value hierarchy as of June 30, 2018 are as follows:

(In millions of won)

(In millions of won)		June 30, 2018			
	Carrying amount	Level 1	Level 2	Level 3	Total
Financial assets that are measured at fair value:					
FVTPL	₩ 1,425,691	-	1,029,291	396,400	1,425,691
Derivative financial assets	57,615	-	57,615	-	57,615
FVOCI	668,507	533,466	-	135,041	668,507
	₩ 2,151,813	533,466	1,086,906	531,441	2,151,813
Financial liabilities that are measured at fair value:					
FVTPL	₩ 61,058	-	61,058	-	61,058
Derivative financial liabilities	1,532	-	1,532	-	1,532
	₩ 62,590	-	62,590	-	62,590
Financial liabilities that are not measured at fair value:					
Borrowings	₩ 279,998	-	280,868	-	280,868
Debentures	7,282,135	-	7,596,342	-	7,596,342
Long-term payables - other	1,357,937	-	1,425,552	-	1,425,552
	₩ 8,920,070	-	9,302,762	-	9,302,762

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

For the six-month periods ended June 30, 2018 and 2017

31. Financial Risk Management, Continued

(3) Fair value, Continued

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

(In millions of won)

		December 31, 2017			
	Carrying amount	Level 1	Level 2	Level 3	Total
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 assets and liabilities of which fair values have not been measured as carrying amounts are reasonable approximation of fair values.

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

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

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

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

For the six-month periods ended June 30, 2018 and 2017

31. Financial Risk Management, Continued

(3) Fair value, Continued

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

	<u>Interest rate</u>
Derivative instruments	1.47 ~ 2.83%
Borrowings and debentures	2.49 ~ 2.53%
Long-term payables - other	2.23 ~ 2.58%

3) There have been no transfers between Level 2 to Level 1 for the six-month period ended June 30, 2018. The changes of financial assets classified as Level 3 for the six-month period ended June 30, 2018 are as follows:

(In millions of won)

	<u>Balance at January 1, 2018</u>	<u>Impact of adopting K-IFRS No. 1109</u>	<u>Gain or loss for the year</u>	<u>Other compre- hensive income</u>	<u>Acquisition</u>	<u>Disposal</u>	<u>Balance at June 30, 2018</u>
Financial assets at fair value through profit or loss	₩ 222,257	(222,257)	-	-	-	-	-
Available-for-sale financial assets	97,902	(97,902)	-	-	-	-	-
FVTPL	-	391,515	6,915	854	1,679	(4,563)	396,400
FVOCI	-	129,455	-	2,513	7,136	(4,063)	135,041
	<u>₩ 320,159</u>	<u>200,811</u>	<u>6,915</u>	<u>3,367</u>	<u>8,815</u>	<u>(8,626)</u>	<u>531,441</u>

(4) Enforceable master netting agreement or similar agreement

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

(In millions of won)

	<u>June 30, 2018</u>				
	<u>Gross financial instruments recognized</u>	<u>Amount offset</u>	<u>Net financial instruments presented on the statement of financial position</u>	<u>Relevant financial instruments not offset</u>	<u>Net amount</u>
Financial assets:					
Derivatives(*)	₩ 67,565	-	67,565	(1,400)	66,165
Accounts receivable – trade and others	97,088	(96,512)	576	-	576
	<u>₩ 164,653</u>	<u>(96,512)</u>	<u>68,141</u>	<u>(1,400)</u>	<u>66,741</u>
Financial liabilities:					
Derivatives(*)	₩ 1,400	-	1,400	(1,400)	-
Accounts payable - other and others	96,512	(96,512)	-	-	-
	<u>₩ 97,912</u>	<u>(96,512)</u>	<u>1,400</u>	<u>(1,400)</u>	<u>-</u>

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

For the six-month periods ended June 30, 2018 and 2017

31. Financial Risk Management, Continued

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

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

(In millions of won)

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

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

32. Transactions with Related Parties

(1) List of related parties

Relationship	Company
Ultimate Controlling Entity	SK Holdings Co., Ltd.
Joint ventures	Dogus Planet, Inc. and 2 others
Associates	SK hynix Inc. and 38 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

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For the six-month periods ended June 30, 2018 and 2017

32. Transactions with Related Parties, Continued

(2) Compensation for the key management personnel

The Parent Company considers registered directors (3 inside and 5 outside directors) who have substantial role and responsibility in planning, operations, and relevant controls of the business as key management personnel. The compensation given to such key management personnel for the three and six-month periods ended June 30, 2018 and 2017 are as follows:

(In millions of won)

(In millions of won)		2018		2017	
		For the period ended June 30			
		Three-month	Six-month	Three-month	Six-month
Salaries	₩	479	3,216	331	1,499
Defined benefits plan expenses		121	678	85	92
Share option		137	271	133	145
	₩	737	4,165	549	1,736

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

(3) Transactions with related parties for the three and six-month periods ended June 30, 2018 and 2017 are as follows:

(In millions of won)

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

32. Transactions with Related Parties, Continued

SK TELECOM CO., LTD. and Subsidiaries

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For the six-month periods ended June 30, 2018 and 2017

(3) Transactions with related parties for the three and six-month periods ended June 30, 2018 and 2017 are as follows, Continued

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

(*2) Operating revenue and others include ₩147,100 million of dividends declared by the associates which was deducted from the investment in associates.

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

(In millions of won)

(In millions of won)

Scope	Company	2017						
		Operating revenue and others		Operating expense and others		Acquisition of property and equipment		
		Three-month period ended June 30	Six-month period ended June 30	Three-month period ended June 30	Six-month period ended June 30	Three-month period ended June 30	Six-month period ended June 30	
Ultimate Controlling Entity Associates	SK Holdings Co., Ltd.(*1)	₩	5,254	10,880	102,046	379,322	78,087	136,639
	F&U Credit information Co., Ltd.		697	1,370	12,880	27,137	37	37
	HappyNarae Co., Ltd.		165	2,771	5,612	13,032	12,430	15,361
	SK hynix Inc.(*2)		10,115	102,665	317	349	-	-
	KEB HanaCard Co., Ltd.		4,577	9,174	3,714	7,400	43	43
	Others(*3)		1,971	3,212	5,086	26,472	151	151
			17,525	119,192	27,609	74,390	12,661	15,592
Other	SK Engineering & Construction Co., Ltd.		2,190	3,085	357	576	-	-
	SK Networks Co., Ltd.		5,959	10,033	283,641	528,311	281	281
	SK Networks service Co., Ltd.		33	78	17,238	40,017	455	1,689
	SK Telesys Co., Ltd.		61	162	12,428	19,151	28,787	46,867
	SK Energy Co., Ltd.		1,493	2,333	286	420	-	-
	SK Innovation Co., Ltd.		1,807	3,659	309	490	-	-
	SK TNS Co., Ltd		35	67	7,201	7,498	70,348	94,726
	SK infosec Co., Ltd.		486	503	13,070	27,199	3,094	4,656
	Others		8,103	14,280	20,998	36,360	13,718	20,858
			20,167	34,200	355,528	660,022	116,683	169,077
		₩	42,946	164,272	485,183	1,113,734	207,431	321,308

(*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.

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

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

32. Transactions with Related Parties, Continued

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

(In millions of won)

		June 30, 2018		
Scope	Company	Accounts receivable		Accounts payable
		Loans	Accounts receivable - trade and others	Accounts payable - other and others
Ultimate Controlling Entity Associates	SK Holdings Co., Ltd.	₩ -	1,883	50,648
	HappyNarae Co., Ltd.	-	384	3,023
	F&U Credit information Co., Ltd.	-	75	1,297
	SK hynix Inc.	-	1,921	181
	Wave City Development Co., Ltd.	-	37,263	-
	Daehan Kanggun BcN Co., Ltd.(*)	22,147	-	-
	KEB HanaCard Co., Ltd.	-	3,475	13,617
	Xian Tianlong Science and Technology Co., Ltd.	7,032	-	-
	Others	611	3,459	1,349
		29,790	46,577	19,467
Other	SK Engineering & Construction Co., Ltd.	-	735	148
	SK Networks Co., Ltd.	-	3,935	161,917
	SK Networks Services Co., Ltd.	-	12	9,873
	SK Telesys Co., Ltd.	-	52	7,381
	SK TNS Co., Ltd.	-	10	43,814
	SK Innovation Co., Ltd.	-	2,395	491
	SK Energy Co., Ltd.	-	1,153	307
	SKC Infra Services Co., Ltd	-	9	5,274
	SK Infosec Co., Ltd	-	-	11,043
	Others	-	10,824	2,754
		-	19,125	243,002
		₩ 29,790	67,585	313,117

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

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Notes to the Condensed Consolidated Interim Financial Statements

For the six-month periods ended June 30, 2018 and 2017

32. Transactions with Related Parties, Continued

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

(In millions of won)

		December 31, 2017		
Scope	Company	Accounts receivable		Accounts payable
		Loans	Accounts receivable - trade and others	Accounts payable - other and others
Ultimate Controlling Entity Associates	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	69
	SK Networks Co., Ltd.	-	3,050	267,297
	SK Networks Services Co., Ltd.	-	15	9,522
	SK Telesys Co., Ltd.	-	36	58,346
	SK TNS Co., Ltd.	-	3	140,311
	SK Innovation Co., Ltd.	-	4,112	599
	SK Energy Co., Ltd.	-	2,965	582
	SK Gas Co., Ltd.	-	1,941	9
	Others	-	2,998	27,318
Total		₩ 29,790	64,619	681,916

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

- (5) SK m&service Co., Ltd., a subsidiary of the Parent Company, has entered into a performance agreement with SK Energy Co., Ltd. and provided a blank note to SK Energy Co., Ltd., with regard to this transaction.
- (6) During the six-month period ended June 30, 2018, there were additional investments in the associates (See note 12).

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33. Commitments and Contingencies

(1) Collateral assets and commitments

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

SK Broadband Co., Ltd. has guaranteed the payment of employees' borrowings relating to employee stock ownership program and provided short-term financial instruments amounting to ₩263 million as collateral as of June 30, 2018.

(2) Legal claims and litigations

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

As of June 30, 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 those legal claims and litigation for which no provision was recognized, management does not believe the Group has a present obligation, nor is it expected any of these claims or litigation will have a significant impact on the Group's financial position or operating results in the event an outflow of resources is ultimately necessary.

(3) Accounts receivables from sale of handsets

The sales agents of the Group sell handsets to the Group's subscribers on an installment basis. During the six-month period ended June 30, 2018, the Group entered into a comprehensive agreement to purchase the accounts receivables from handset sales with agents and to transfer the accounts receivables from handset sales to special purpose companies which were established with the purpose of liquidating receivables, respectively.

The accounts receivables from sale of handsets amounting to ₩935,773 million as of June 30, 2018 which the Group purchased according to the relevant comprehensive agreement are recognized as accounts receivable – other and long-term accounts receivable – other.

(4) Siren Holdings Korea Co., Ltd. stock purchase contract

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

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

34. Statements of Cash Flows

(1) Adjustments for income and expenses not involving cash flows for the six-month periods ended June 30, 2018 and 2017 are as follows:

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For the six-month periods ended June 30, 2018 and 2017

(In millions of won)

	For the six-month period ended	
	June 30, 2018	June 30, 2017
Interest income	₩ (35,220)	(39,968)
Dividends	(15,142)	(10,584)
Gain on foreign currency translation	(5,563)	(4,178)
Gain relating to financial assets at FVTPL	(9,939)	-
Gain on disposal of long-term investments securities	-	(2,762)
Gain on valuation of derivatives	(897)	(909)
Gain on sale of accounts receivable - trade	(8,139)	(9,090)
Gain relating to investments in associates and joint ventures, net	(1,542,240)	(878,250)
Gain on disposal of property, equipment and intangible assets	(3,540)	(7,976)
Other income	(282)	-
Interest expenses	146,976	149,486
Loss on foreign currency translation	3,124	4,968
Loss on disposal of long-term investments securities	-	36,024
Other finance costs	-	12,523
Loss on settlement of derivatives	12,156	8,910
Loss relating to financial assets at FVTPL	778	-
Loss relating to financial liabilities at FVTPL	780	529
Loss on sale of accounts receivable - trade	4,380	4,955
Bad debt for accounts receivable – trade	20,211	18,430
Income tax expense	462,359	268,654
Depreciation and amortization	1,630,495	1,598,776
Impairment loss on property and equipment and intangible assets	1,077	2,451
Loss on disposal of property and equipment and intangible assets	19,756	13,174
Retirement benefit expenses	67,531	58,878
Share option	341	145
Loss on impairment of investment assets	2,734	6,416
Bad debt for accounts receivable - other	4,546	2,191
Other expenses	3,863	767
	₩ <u>760,145</u>	<u>1,233,560</u>

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For the six-month periods ended June 30, 2018 and 2017

34. Statements of Cash Flows, Continued

- (2) Changes in assets and liabilities from operating activities for the six-month periods ended June 30, 2018 and 2017 are as follows:

(In millions of won)

	For the six-month period ended	
	June 30, 2018	June 30, 2017
Accounts receivable - trade	₩ 120,360	(1,159)
Accounts receivable - other	165,696	130,403
Accrued income	(528)	38
Advance payments	11,753	(1,401)
Prepaid expenses	15,077	(9,014)
Value-Added Tax refundable	8,135	2,824
Inventories	15,086	(3,008)
Long-term accounts receivable - other	37,042	42,280
Contract assets	15,571	-
Guarantee deposits	(6,271)	8,808
Accounts payable - trade	(97,991)	(105,055)
Accounts payable - other	(200,492)	(409,289)
Advanced receipts	-	(8,058)
Withholdings	42,728	131,065
Deposits received	(976)	(2,574)
Contract liabilities	(18,305)	-
Accrued expenses	(109,246)	(6,119)
Value-Added Tax payable	13,377	10,587
Unearned revenue	-	(6,453)
Provisions	(4,496)	(314)
Long-term provisions	2,101	(3,439)
Plan assets	6,906	12,897
Retirement benefit payment	(25,166)	(26,201)
Others	(7,375)	(1,606)
	₩ <u>(17,014)</u>	<u>(244,788)</u>

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

(In millions of won)

	For the six-month period ended	
	June 30, 2018	June 30, 2017
Decrease in accounts payable - other relating to the acquisition of property and equipment and intangible assets	(349,737)	(363,155)

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35. Interim dividends

The board of the directors of the Parent Company resolved to pay the interim dividend at the board meeting on July 26, 2018, and the details are as follows:

Interim dividend amount	₩1,000 per share (Total amount: ₩70,609 million)
Dividend rate	0.4%
Dividend date	June 30, 2018
Date of distribution	According to Article 464 Commercial Act 2-1, the company is to distribute dividends by August 26, 2018.